

# MERTHYR TYDFIL COUNTY BOROUGH COUNCIL



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

## MYNEGIAD CYFRIFON AM Y FLWYDDYN YN DIWEDDU 31 MAWRTH 2019

## STATEMENT OF ACCOUNTS FOR YEAR ENDED 31 MARCH 2019

**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 2019

<b>Contents</b>	<b>Page</b>
<i>Narrative Report</i>	1 - 17
<i>Statement of Responsibilities for the Statement of Accounts</i>	18 - 19
<i>The Core Financial Statements</i>	
Expenditure and Funding Analysis	20
Comprehensive Income and Expenditure Statement	21
Movement in Reserves Statement	22 - 23
Balance Sheet	24
Cash Flow Statement	25
<i>Notes to the Statement of Accounts</i>	26 – 94
<i>Glossary of Terms</i>	95 – 98
<i>Annual Governance Statement</i>	99 – 129
<i>Independent Auditor's Report</i>	130 - 132

## **NARRATIVE REPORT**

### **Introduction**

Located in the Heads of the Valleys, within the Cardiff Capital Region, Merthyr Tydfil County Borough is the smallest Welsh local authority, with a population of circa 59,000 and an area of approximately 11,000 hectares of which 2,300 hectares lies within the Brecon Beacons National Park.

Neighbouring Local Authorities are Rhondda Cynon Taf County Borough Council (west and south-west), Caerphilly County Borough Council (east and south-east) and Powys County Council (north). The A470 (north-south) and A465 (east-west) meet to the north-west of Merthyr Tydfil and are the County Borough's major roads.

The County Borough has rich geology and a mixture of quality habitats influenced by its industrial past. Having been the most productive centre of iron making in the world the County Borough has profound historic and cultural significance.

The main town of Merthyr Tydfil lies approximately 20 miles north of Cardiff and is the main retail and service centre in the Heads of the Valleys fulfilling a key strategic role.

### **Organisational Structure**

The Council consists of 33 Elected Members representing 11 electoral divisions with the political balance at 31<sup>st</sup> March 2019 being 19 Independent Members and 14 Labour Members. Full Council has responsibility for approving and adopting the Authority's Budget and policy framework, that is the plans, schemes and strategies.

The Cabinet is responsible for taking most of the major decisions but they must be in line with the Council's overall policies and Budget. The Cabinet consists of 5 Cabinet Members led by the Leader of the Council as non-portfolio Chair. The 5 Cabinet portfolios are as follows:

- Learning
- Social Services
- Neighbourhood Services, Planning and Countryside
- Regeneration and Public Protection
- Governance and Corporate Services

The services falling under the remit of the Cabinet Members for 'Learning' and 'Social Services' are included within the 'People and Performance' descriptor disclosed within the Comprehensive Income and Expenditure Statement.

The services falling under the remit of the Cabinet Members for 'Neighbourhood Services, Planning and Countryside', 'Regeneration and Public Protection' and 'Governance and Corporate Services' are included within the 'Place and Transformation' descriptor disclosed within the Comprehensive Income and Expenditure Statement.

Scrutiny Committees and Audit Committee provide a further degree of challenge and scrutiny. Elected Members are supported by the Council's Corporate Management Team led by the Chief Executive and Deputy Chief Executive and comprising of the following Chief Officers:

- Chief Officer for Learning – supporting the Cabinet Member for Learning and responsible for schools and education
- Chief Officer for Social Services – supporting the Cabinet Member for Social Services and responsible for children’s services, adult services, safeguarding and youth services
- Chief Officer for Neighbourhood Services – supporting the Cabinet Member for Neighbourhood Services, Planning and Countryside and responsible for refuse and waste, highways and engineering, corporate property, planning and countryside, bereavement services, grounds maintenance, street cleansing and fleet management
- Chief Officer for Community Regeneration – supporting the Cabinet Member for Regeneration and Public Protection and responsible for community regeneration, employability and worklessness and public protection

In addition the Cabinet Member for Governance and Corporate Services is supported by a number of senior officers who also attend Corporate Management Team, namely the Deputy Chief Executive, Chief Finance Officer, Head of Legal and Democratic Services, Head of Corporate Services, Head of Human Resources, Head of Business Change and Head of Corporate Communications.

### **Corporate Wellbeing Objectives**

The Council’s Medium Term Financial Plan 2019/20 to 2022/23 approved by Council on 4<sup>th</sup> March 2019 was determined having regard to the Well-being of Future Generations (Wales) Act 2015. The Act embraces seven wellbeing goals:

1. A prosperous Wales
2. A resilient Wales
3. A healthier Wales
4. A more equal Wales
5. A Wales of cohesive communities
6. A Wales of vibrant culture and thriving Welsh Language
7. A globally responsible Wales

In setting its Wellbeing Objectives the Council must demonstrate how it has applied the sustainable development principles in aligning with the 5 ways of working of involvement, collaboration, integration, prevention and long-term.

Council of 26<sup>th</sup> July 2017 approved the Wellbeing Objectives as set out in the plan, ‘Focus on the Future: Wellbeing in our community’. Council of 4<sup>th</sup> April 2018 further approved the streamlining of the Council’s Wellbeing Objectives from 9 to 4, to ensure a greater focus on delivery and improved accountability. The 4 Wellbeing Objectives are:

1. **Best Start to Life** – children and young people get the best start to life and are equipped with the skills they need to be successful learners and confident individuals
2. **Working Life** – people feel supported to develop the skills required to meet the needs of businesses, with a developing, safe infrastructure that establishes Merthyr Tydfil as an attractive destination
3. **Environmental Wellbeing** – communities protect, enhance and promote our environment and countryside
4. **Living Well** – people are empowered to live independently within their communities, where they are safe and enjoy good physical and mental health

Council of 17<sup>th</sup> April 2019 approved both the 'Statement of Wellbeing' and 'Focus on the Future: Wellbeing in our Community' documents.

### **Performance Against Wellbeing Objectives**

For 2017/18 the following judgements against wellbeing objectives were reported to Council:

- Best Start to Life – adequate
- Working Life – adequate
- Environmental Wellbeing – good
- Living Well – adequate

Based on the judgements identified in the four wellbeing themes the overall judgement was adequate with the Council's comparative position lower than the Wales median, with some rates of improvement and/or evidence of some positive impact on change to outcomes.

The Council's Annual Performance report for 2018/19 will be presented to full Council in October 2019. During 2018/19 however an update on performance for all four wellbeing themes was reported to the Governance and Performance Scrutiny Committee outlining the current position for each theme based on a set of key performance indicators and targets for improvement. Links to the reports are as follows.

#### Living Well

<http://democracy.merthyr.gov.uk/documents/s40883/Committee%20Report.pdf?LLL=0>

#### Environmental Wellbeing

<http://democracy.merthyr.gov.uk/documents/s42393/Committee%20Report.pdf?LLL=0>

#### Best Start to Life

<http://democracy.merthyr.gov.uk/documents/s43631/Committee%20Report.pdf?LLL=0>

#### Working Life

<http://democracy.merthyr.gov.uk/documents/s44103/Committee%20Report.pdf?LLL=0>

### **Core Financial Statements**

This document presents the Statement of Accounts for Merthyr Tydfil County Borough Council for the financial year ended 31<sup>st</sup> March 2019. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

The financial statements – accompanied by a Statement of Responsibilities and explanatory notes – are set out on pages 18 to 94, 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

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.

### 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.

## **Financial Performance 2018/19**

The Authority is structured in three Directorates:

- People and Performance
- Places and Transformation
- Corporate Costs

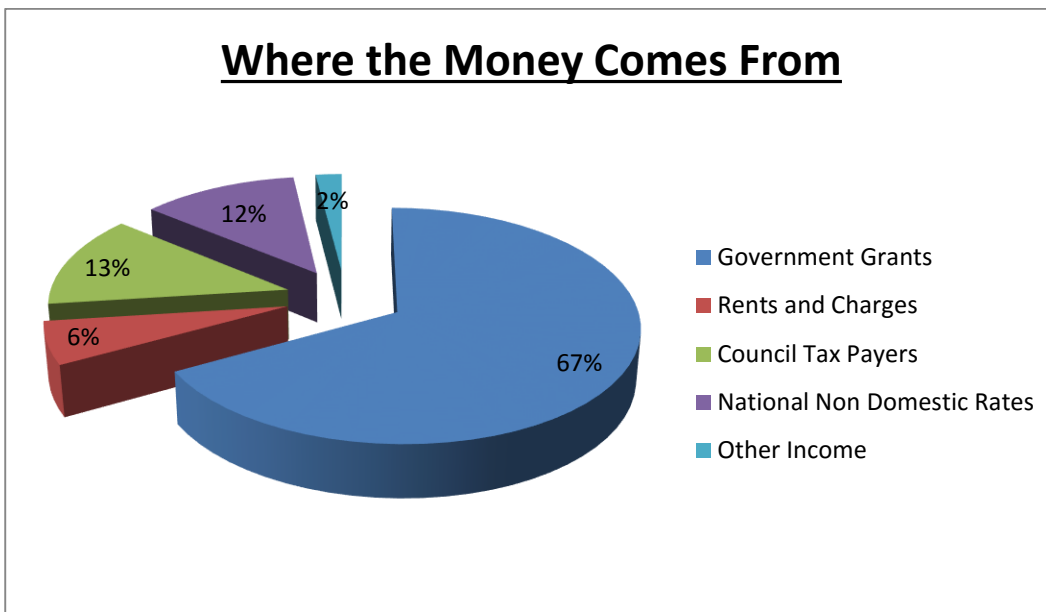
Services areas included within these Directorates can be seen in the Revenue Outturn to Budget Section of this Narrative Report.

The following illustrations show, in broad terms, the Authority's revenue activities for the financial year ended 31<sup>st</sup> March 2019, that is, where the money comes from and what it is spent on.

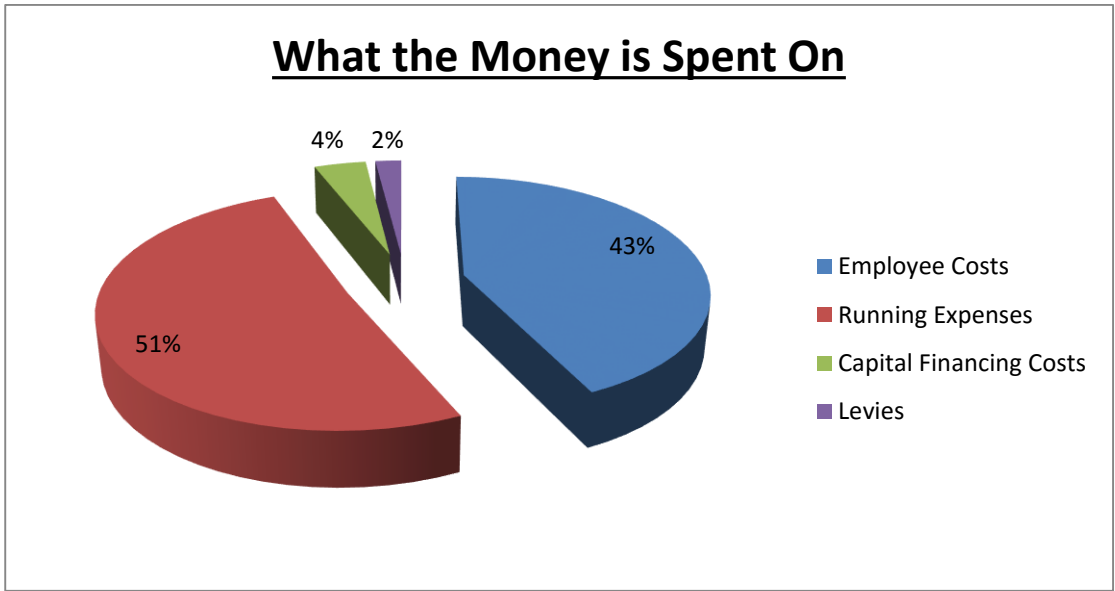
Where the Money Comes From

	<b>£'000</b>	<b>%</b>
Government Grants	111,670	67
Rents and Charges	10,371	6
Council Tax Payers	22,105	13
National Non Domestic Rates	18,914	12
Other Income	3,668	2
<b>Total</b>	<b>166,728</b>	<b>100</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 13% of the total income.

What the Money is Spent On

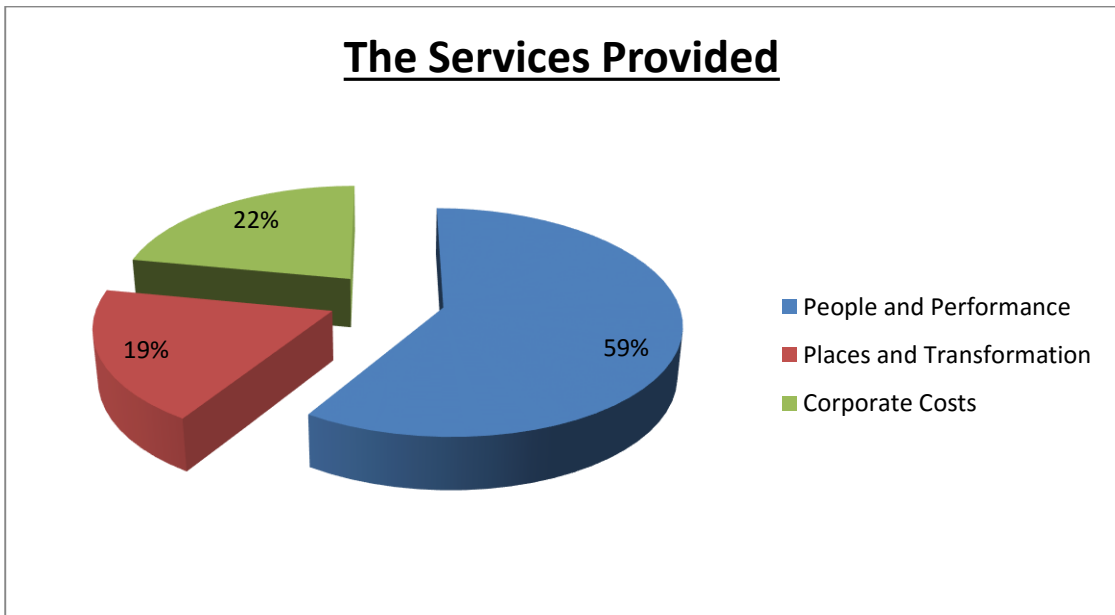
	<b>£'000</b>	<b>%</b>
Employee Costs	73,578	43
Running Expenses	88,064	51
Capital Financing Costs	7,720	4
Levies	2,962	2
<b>Total</b>	<b>172,324</b>	<b>100</b>



Running expenses such as maintaining buildings, operating vehicles and purchases of supplies and services comprises 51% of the total expenditure, whilst expenditure attributable to employees totals 43%.

The Services Provided

	<b>£'000</b>	<b>%</b>
People and Performance	101,820	59
Places and Transformation	31,851	19
Corporate Costs	38,653	22
<b>Total</b>	<b>172,324</b>	<b>100</b>





**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 21, but they exclude:

- the precept collected in Council Tax for South Wales Police (£4.226m for 2018/19, Note 11),
- the authority's share of joint committees (details are in Note 40 of the accounts),
- capital grants and transactions (we review our capital projects on page 10), and
- other non-cash entries required by accounting standards (particularly for pension liabilities, which we discuss on page 12).

The £5.596 m net revenue deficit (i.e. the difference between the income and expenditure figures shown above) reconciles to the £5.259 m outturn shown in the Expenditure and Funding Analysis on page 20, because we recognised an additional £0.337 m in the accounts from our share of joint committees.

**Revenue Outturn to Budget**

The General Fund Revenue outturn to budget for 2018/19 is as follows:

Summary	Revised Budget 2018/19 £'000	Outturn £'000	Variance	
			£'000	%
<b><u>People and Performance</u></b>				
Social Services	32,090	33,401	1,311	4.09
Learning	44,566	44,755	189	0.42
<b>Total</b>	<b>76,656</b>	<b>78,156</b>	<b>1,500</b>	<b>1.96</b>
<b><u>Place and Transformation</u></b>				
Deputy Chief Executive Services	2,273	2,207	-66	-2.90
Community Regeneration	3,495	3,322	-173	-4.95
Neighbourhood Services	10,503	10,702	199	1.89
Corporate Services	4,013	4,077	64	1.59
Finance	1,070	1,011	-59	-5.51
Legal	1,736	1,664	-72	-4.15
Human Resources & Organisational Development	673	616	-57	-8.47
<b>Total</b>	<b>23,763</b>	<b>23,599</b>	<b>-164</b>	<b>-0.69</b>
<b><u>Corporate Costs</u></b>				
Corporate Management - Executive	1,581	1,549	-32	-2.02
Corporate Authority	17,711	17,704	-7	-0.04
<b>Total</b>	<b>19,292</b>	<b>19,253</b>	<b>-39</b>	<b>-0.20</b>
<b><u>Contributions / Recharges</u></b>				
Collection Fund Surplus	-820	-915	-95	11.59
Corporate Vacancy Factor	42	0	-42	-100.00
Contribution from Budget Reserve	-1,469	-2,029	-560	-38.12
Contribution from Living Wage Reserve	-275	-275	0	0.00
Contribution from Corporate Investment Fund	-184	-184	0	0.00
Employee Severance Costs	1,056	1,002	-54	-5.11
Capitalisation of Severance costs	-600	-546	54	9.00
Release from Provisions	0	-600	-600	n/a
<b>Total</b>	<b>-2,250</b>	<b>-3,547</b>	<b>-1,297</b>	<b>-57.64</b>
<b>Net Expenditure</b>	<b>117,461</b>	<b>117,461</b>	<b>0</b>	<b>0.00</b>

The figures included within the table above are net expenditure figures, the figures included within the financial performance section of this narrative report are gross figures.

For 2018/19 the Council is reporting a revenue deficit of £560,000, funded by a further contribution from the earmarked Budget Reserve. The deficit position results from financial pressures within the Social Services budget and in particular within the Children Looked After budgets.

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

#### People and Performance

Looked After Children – net budget deficit of £1.125 million owing to additional residential placements, additional independent fostering agencies placements, additional costs associated with in-house fostering provision and increased costs in respect of court, legal and professional fees

Independent External Care Provision – net budget deficit of £217,000 mainly in respect of supported placements resulting from changes in current packages of care and increases in service demand

Intake and Family Support Services – net budget deficit of £146,000 mainly in respect of the child and family team resulting from additional use of agency social workers

Individual Schools Budget – net budget surplus of £182,000 resulting from additional grant received from Welsh Government to offset pay award pressures

Special Educational Needs – net budget deficit of £360,000 resulting from additional learning needs within schools

#### Place and Transformation

Community Regeneration – net budget surplus of £173,000 resulting from increased conference income and reduced agency costs within the Orbit Business Centre and the receipt of a Welsh Government grant for rights of way

Neighbourhood Services – net budget deficit of £199,000 mainly within sustainable waste resulting from a reduction in sustainable waste management grant, increased costs on repair and maintenance of collection vehicles and increased costs in respect of agency staff

#### Contributions and Recharges

Collection Fund Surplus – budget surplus of £95,000 resulting from increased council tax income

Contribution from Budget Reserve – additional contribution of £560,000 required to finance the corporate net budget deficit for 2018/19

Release from Provisions – relates to the release of £600,000 from provisions following contract negotiation in respect of land clearance of contaminated waste

**Capital Outturn to Budget**

The Capital Outturn to Budget for 2018/19 is as follows:

Summary	Revised Budget £'000	Outturn 2018/19 £'000	Variance	
			£'000	%
<b>Expenditure:</b>				
21st Century Schools Programme	422	428	6	1.42
Education Other	618	550	-68	-11.00
Physical Regeneration Programme	700	689	-11	-1.57
Riverside	294	267	-27	-9.18
Engineering & Transport Infrastructure	1,787	1,797	10	0.56
Housing & Corporate	6,640	5,725	-915	-13.78
<b>Totals</b>	<b>10,461</b>	<b>9,456</b>	<b>-1,005</b>	<b>-9.61</b>
<b>Financed by:</b>				
Borrowing	3,579	3,210	-369	-10.31
Capital Grants & Contributions	5,674	5,045	-629	-11.09
Own Resources	1,208	1,201	-7	-0.58
<b>Totals</b>	<b>10,461</b>	<b>9,456</b>	<b>-1,005</b>	<b>-9.61</b>

In 2018/19, the Authority spent £9.4 million on capital projects compared to the planned Capital Programme of £10.5 million. Although not all the planned capital funding was utilised, where appropriate no funding is lost as the monies are carried over into the 2019/20 financial year.

It should also be noted that the Council has incurred a further £485,000 capital expenditure as a contribution to the Cardiff Capital Region City Deal Programme, to be financed through borrowing (details are included on page 17).

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

A budget underspend of £125,000 for Disabled Facilities Grants resulting from lower than expected number of referrals.

An under spend of £186,000 in the costs of supporting capital projects representing a shortfall in the direct recharge of internal employee costs applied to capital schemes.

External funding of £554,000 for the Collaborative Change Programme received from the Welsh Government is to be carried forward to the 2019/20 financial year owing to project re-profile.

## **Financial Health**

At 31<sup>st</sup> March 2019 the Authority's general balances and reserves not earmarked for any specific purpose totals £4.7 million (31<sup>st</sup> March 2018 - £4.7 million), equating to 3.91% of the Council's Budgeted Net Revenue Expenditure for 2019/20. As per the Terms of Reference of the Council's 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

In addition the Council holds further usable reserves at 31<sup>st</sup> March 2019 in respect of the Insurance Fund (£2.169 million), Schools Balances (£1.762 million) and Earmarked Reserves (£6.896 million), with corresponding balances at 31<sup>st</sup> March 2018 of £2.169 million, £1.846 million and £12.405 million respectively.

For the 2019/20 financial year, the Authority budgeted for an increase in net revenue expenditure of 2.18% from the 2018/19 budget (adjusted for Welsh Government net transfers in to the Local Government Settlement) resulting from increased Welsh Government Funding of 0.81% and Council Tax increase of 5.99%. In addition the Council has budgeted to utilise £1.779 million of earmarked reserves and £483,000 of General Reserves for 2019/20. This leaves the General Reserves balance at 3.51% of net revenue budget.

The Authority's Medium Term Financial Plan 2019/20 to 2022/23 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 2018/19 Statement of Accounts, borrowing to support capital expenditure fell within authorised borrowing limits approved by a full Council meetings of elected members on 7<sup>th</sup> March 2018.

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 2018/19 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).

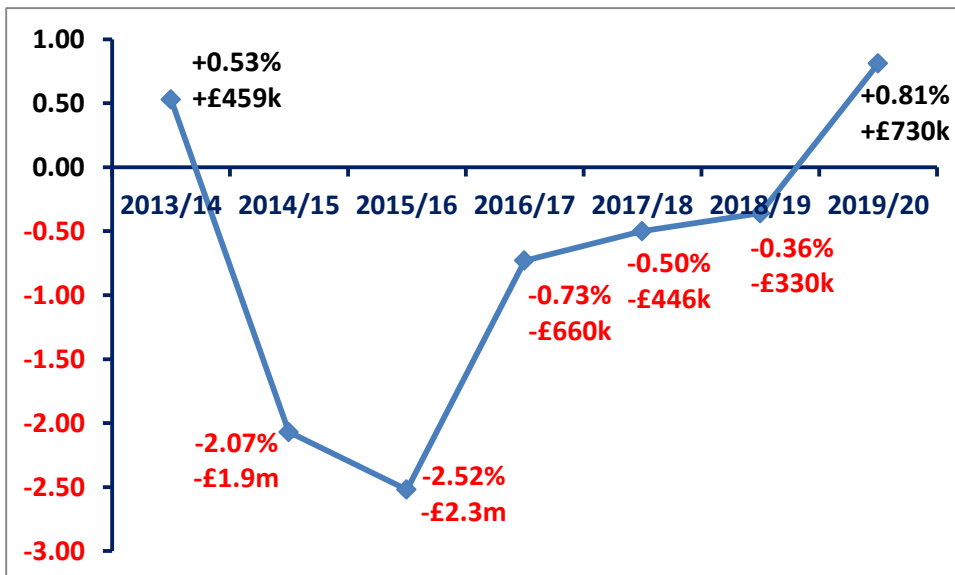
Under IAS 19 the Authority is required to disclose its pension liability representing the deficit position on the pension fund. The liability at the end of the year amounted to £190.23 million (£189.32 million as at 31<sup>st</sup> March 2018). The Authority is being charged stepped employer contributions in order to redress the deficit of the pension fund.

Further details are included in Notes 24, 36 and 37 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 2013/14 to 2019/20 are outlined below. It should be noted that the Council Tax Reduction Scheme grant impact is excluded for 2013/14 to enable a more meaningful funding comparison.



It is evident that the Council has faced significant financial challenges for the period 2013/14 to 2019/20, experiencing 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) 2019/20 to 2022/23 currently states that the Council is faced with identifying and delivering £8.175 million budget reductions for 2020/21 and £15 million for the period 2020/21 to 2022/23.

The Council has budgeted for funding reductions of 1% per annum and a Council Tax increase of 5.99% over the term of the MTFP and is in the process of identifying proposals to address the projected budget deficits. It is clear the Council is faced with a challenging financial position.

The Provisional Local Government Settlement for 2020/21 is scheduled to be announced during October 2019 and is anticipated will have a significant bearing on the currently projected budget reduction requirements over the medium term.

The Capital Programme for 2019/20 to 2022/23 indicates a core funded Capital Programme of £14.317 million for 2019/20 and £43.458 million for the 4 year period, with the 2019/20 capital expenditure financed from Capital Grants (£1.753 million), Borrowing (£11.964 million) and from the Council's own resources (£600,000).

**Corporate Risks**

The Authority has a Corporate Risk Register to manage the Councils Corporate Risks that could impact on delivering the Council's Wellbeing Objectives and wider Council Priorities, and to ensure that the risk exposure to the Council is reduced over time. The following is the Authorities Provisional Risk Register as at 31<sup>st</sup> March 2019.

1	2	3	4	5	6	7	8
Risk No.	Description of Risk	Risk Score for 2018-19	Latest Risk Score	Progress on Actions to Manage Risk (RAG Status)	Assurance Statement on the Management of Corporate Risks and if any Further Actions are Required	Lead Corporate Management Team Officer	Lead Councillor/ Cabinet Member
1	<b>Finance</b> The risk that the Council does not balance the budget and is not financially sustainable. <b>* Please see further note below for this Corporate Risk.</b>	20	15	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Chief Finance Officer	Councillor Andrew Barry
2	<b>Reputation</b> The risk that the Council fails to maintain and protect its reputation.	20	20	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Corporate Communications, Consultation & Engagement Manager	Cabinet
3	<b>Cyber Attack</b> The risk that the Council is exposed to a cyber attack that could cause a catastrophic failure.	20	20	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Deputy Chief Executive	Councillor Andrew Barry
4	<b>School Attainment</b> The risk that all learners do not perform at expected levels.	20	20	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Chief Officer (Learning)	Councillor Lisa Mytton
5	<b>Capacity</b> The risk that the Council loses staff with the skills and capacity to deliver on key outcomes and targets.	16	16	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Head of HR	Councillor Andrew Barry



1	2	3	4	5	6	7
Risk No.	Description of Risk	Risk Score for 2018-19	Latest Risk Score	Progress on Actions to Manage Risk (RAG Status)	Assurance Statement on the Management of Corporate Risks and if any Further Actions are Required	Lead Corporate Management Team Officer
6	<b>Governance</b> The risk that the Council does not meet statutory requirements, laws and regulations.	16	16	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Monitoring Officer
7	<b>Brexit</b> The risk that Brexit will have an adverse economic impact at the national and local level that will in turn have a negative financial, strategic and legislative impact on the Council, and subsequently the delivery of public services.  <b>New Corporate Risk identified for 2018/19.</b>	16	16	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Chief Officer (Community Regeneration)
8	<b>Safeguarding</b> The risk that the Council does not fulfil its statutory obligations and the Council's safeguarding arrangements fail to safeguard children, adults and Council staff.	15	15	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Chief Officer - Social Services (Statutory Director of Social Services)
9	<b>Performance</b> The risk that the Council's statutory regulators issue a formal recommendation to the Council for improvement.	12	12	Green	Controls and further actions assessed as adequate/effective and in proportion to the Corporate Risk.	Head of Corporate Services and relevant Chief Officer

\* Further Note for Corporate Risk No. 1 (Finance)

The Risk Score for this Corporate Risk was 20 the beginning of the financial year 2018-2019 (Impact 5 – Catastrophic / Likelihood 4 – Probable).

The Risk Score for this Risk has been reduced to 15 for year end as at 31st March 2019 (Impact 5 – Catastrophic / Likelihood 3 – Possible). The Likelihood Score for this Risk has increased to a Risk Score of 20 looking forward for 2019-2020.

**RISK GROUPING**  
**CATEGORISED BY RISK SCORE**

Colour Coding	Risk	Risk Score
<b>Black</b>	<b>Catastrophic</b>	<b>20 - 25</b>
<b>Red</b>	<b>Critical</b>	<b>12 - 16</b>
<b>Amber</b>	<b>High</b>	<b>8 - 10</b>
<b>Yellow</b>	<b>Medium</b>	<b>4 - 6</b>
<b>Green</b>	<b>Low</b>	<b>1 - 3</b>

## **Brexit**

There continues to be a high degree of uncertainty about the impact of the decision for Britain to leave the European Union. The Authority continues to monitor and assess the potential risks and impact on the services the Authority provides through a Brexit Working Group.

## **City Deal**

The Joint Working Agreement, in relation to the delivery of the Cardiff Capital Region City Deal encompassing 10 constituent Local Authorities in South East Wales, was signed and Regional Cabinet established on 1<sup>st</sup> March 2017.

The City Deal provides funding to support schemes which will stimulate the economic growth of the region. The agreement with the UK Government and Welsh Government provides £1.2 billion of which £734 million is allocated to the Metro, with the balance of £495 million being made available as the Wider Investment Fund.

The Wider Investment Fund is made up of:

- £375 million grant from the UK Government paid over 20 years with years 1 to 5 being £50 million revenue grant, followed by years 6 to 20 being £325 million capital grant
- £120 million Local Authority Partnership capital contribution to be drawn down as required

The Regional Cabinet has stated that the high level aims of the Wider Investment Fund are the creation of 25,000 new jobs and £4 billion of private sector investment. The first investment has been made in the compound semi-conductor project, providing a loan of £38.5 million, to be repaid, which has the potential to generate 2,000 jobs and over £380 million of private sector investment.

The Joint Working Agreement Business Plan was approved by all 10 constituent Councils in March 2018, with Merthyr Tydfil approving at a Council meeting on 7<sup>th</sup> March 2018. Merthyr Tydfil's contribution to the first investment in 2017/18 was £0.954 million with a further £0.485 million paid in 2018/19.

## **Annual Governance Statement**

The Council is required to produce an Annual Governance Statement, a formal statement that covers all significant corporate systems, processes and controls. It is scrutinised by the Audit Committee before approval by Council.

## **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 on the Authority's Website and within the Authority's Civic Centre.

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

**The Chief Finance Officer's Responsibilities**

The Chief Finance 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 Finance 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 Finance 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**  
**Chief Finance Officer**

Date **11<sup>th</sup> September 2019**

**Chief Finance Officer's Certificate**

I hereby certify that the statement of accounts on pages 20 to 94 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 2019.

Signed

**D S Jones  
Chief Finance Officer**

Date

**11<sup>th</sup> September 2019****Council Chairman's Certificate**

I hereby certify that the Council approves the statement of accounts on pages 20 to 94 for the year ended 31<sup>st</sup> March 2019.

Signed

**Councillor Howard Barrett  
Mayor**

Date

**11<sup>th</sup> September 2019**

## 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.

<b>Restated 2017/18</b>			<b>2018/19</b>			
<b>Net expenditure in the</b>			<b>Net expenditure in the</b>			
<b>Net Expenditure Chargeable to the General Fund Balances</b>	<b>Adjustments between the funding and Accounting basis (Note 7)</b>	<b>Comprehensive Income and Expenditure Statement</b>	<b>Description</b>	<b>Net Expenditure Chargeable to the General Fund Balances</b>	<b>Adjustments between the funding and Accounting basis (Note 7)</b>	<b>Comprehensive Income and Expenditure Statement</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
72,272	2,747	75,019	People and Performance	78,554	6,062	84,616
22,865	6,547	29,412	Place and Transformation	24,665	9,017	33,682
4,318	5,678	9,996	Corporate Costs	3,700	3,155	6,855
<b>99,455</b>	<b>14,972</b>	<b>114,427</b>	<b>Net Cost of Services</b>	<b>106,919</b>	<b>18,234</b>	<b>125,153</b>
<b>(99,189)</b>	<b>(3,868)</b>	<b>(103,057)</b>	<b>Other Income and Expenditure</b>	<b>(101,660)</b>	<b>(2,750)</b>	<b>(104,410)</b>
<b>266</b>	<b>11,104</b>	<b>11,370</b>	<b>(Surplus)/Deficit</b>	<b>5,259</b>	<b>15,484</b>	<b>20,743</b>
22,183			Opening General Fund Balance	21,926		
9			Opening Adjustment for Cardiff Capital Region City Deal	76		
<b>(266)</b>			Plus Surplus/Deficit on General Fund Balance in Year	<b>(5,259)</b>		
21,926			<b>Closing General Fund Balance at 31st March</b>	16,743		

## 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.

<b>Restated 2017/18</b>				<b>2018/19</b>		
<b>Gross Expenditure</b>	<b>Gross Income</b>	<b>Net expenditure</b>	<b>Description</b>	<b>Gross Expenditure</b>	<b>Gross Income</b>	<b>Net expenditure</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
97,327	(22,308)	75,019	People and Performance	106,122	(21,506)	84,616
42,464	(13,052)	29,412	Place and Transformation	45,945	(12,263)	33,682
32,351	(22,355)	9,996	Corporate Costs	27,999	(21,144)	6,855
<b>172,142</b>	<b>(57,715)</b>	<b>114,427</b>	<b>Cost of Services</b>	<b>180,066</b>	<b>(54,913)</b>	<b>125,153</b>
		6,248	Other operating expenditure (Note 11)			6,754
		9,100	Financing and Investment income and expenditure (Note 12)			9,213
		(118,405)	Taxation and non-specific grant income and expenditure (Note 13)			(120,377)
		<b>11,370</b>	<b>(Surplus) or Deficit on the Provision of Services</b>			<b>20,743</b>
		(3,569)	(Surplus) or deficit on revaluation of property, plant and equipment assets			(1,036)
		6,163	Remeasurement of the net defined benefit liability/(asset)			(10,123)
		<b>2,594</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(11,159)</b>
		<b>13,964</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>9,584</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.

**2018/19**

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 2018</b>	<b>21,926</b>	<b>238</b>	<b>2,048</b>	<b>24,212</b>	<b>(33,715)</b>	<b>(9,503)</b>
<b>Movement in reserves during 2018/19</b>						
Total Comprehensive Income and Expenditure	(20,743)			(20,743)	11,159	(9,584)
Adjustments between accounting basis and funding basis under regulations (Note 9)	15,484	(238)	(1,283)	13,963	(13,963)	0
<b>Increase or Decrease in 2018/19</b>	<b>(5,259)</b>	<b>(238)</b>	<b>(1,283)</b>	<b>(6,780)</b>	<b>(2,804)</b>	<b>(9,584)</b>
*Opening Cardiff Capital Region City Deal adjustment	76			76	15	91
<b>Balance at 31st March 2019 carried forward</b>	<b>16,743</b>	<b>0</b>	<b>765</b>	<b>17,508</b>	<b>(36,504)</b>	<b>(18,996)</b>



2017/18

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 2017</b>	<b>22,183</b>	<b>0</b>	<b>0</b>	<b>22,183</b>	<b>(17,731)</b>	<b>4,452</b>
<b>Movement in reserves during 2017/18</b>						
Total Comprehensive Income and Expenditure	(11,370)	0	0	(11,370)	(2,594)	(13,964)
Adjustments between accounting basis and funding basis under regulations (Note 9)	11,104	238	2,048	13,390	(13,390)	0
<b>Increase or Decrease in 2017/18</b>	<b>(266)</b>	<b>238</b>	<b>2,048</b>	<b>2,020</b>	<b>(15,984)</b>	<b>(13,964)</b>
*Opening Cardiff Capital Region City Deal adjustment	9	0	0	9	0	9
<b>Balance at 31st March 2018 carried forward</b>	<b>21,926</b>	<b>238</b>	<b>2,048</b>	<b>24,212</b>	<b>(33,715)</b>	<b>(9,503)</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.'

<b>31 March 2018</b>	<b>Notes</b>	<b>31 March 2019</b>
<b>£'000</b>		<b>£'000</b>
253,635 Property, Plant and Equipment	14	252,862
7,358 Heritage Assets	15	7,418
354 Investment Property*		0
10 Long Term Investments	16	10
643 Long Term Debtors	16	860
<b>262,000 Long-term Assets</b>		<b>261,150</b>
13,521 Short-term Investments	16	10,033
306 Assets Held for Sale	20	301
88 Inventories		126
17,957 Short-term Debtors	17	20,870
2,793 Cash and Cash Equivalents	19	3,718
<b>34,665 Current Assets</b>		<b>35,048</b>
(35,999) Short-term Borrowing	16	(45,026)
(14,633) Short-term Creditors	21	(15,485)
(1,483) Short-term Provisions	22	(685)
(41) Other Current Liabilities	16	(50)
<b>(52,156) Current Liabilities</b>		<b>(61,246)</b>
0 Long-term Creditors	16	(919)
(1,782) Provisions	22	(1,487)
(62,168) Long-term Borrowing	16	(59,979)
(189,315) Defined Benefit Pension Scheme Liability	24	(190,233)
(747) Other Long-term Liabilities	16	(1,330)
<b>(254,012) Long-term Liabilities</b>		<b>(253,948)</b>
<b>(9,503) Net Assets</b>		<b>(18,996)</b>
<b>24,212 Usable Reserves</b>	23	<b>17,508</b>
<b>(33,715) Unusable Reserves</b>	24	<b>(36,504)</b>
<b>(9,503) Total Reserves</b>		<b>(18,996)</b>

\* Investment Properties have been re classified to Land and Buildings during 2018/19.

## 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>2017/18</u>	<u>2018/19</u>
<u>£'000</u>	<u>£'000</u>
179,171 Cash Inflows Generated from Operating Activities	177,544
(173,571) Cash Outflows Generated from Operating Activities	(180,313)
5,600 Net Cash Flows from Operating Activities (Note 25)	(2,769)
(17,785) Net Cash Flows from Investing Activities (Note 26)	(2,596)
13,436 Net Cash Flows from Financing Activities (Note 27)	6,325
<b>1,251 Net increase or decrease in Cash and Cash equivalents</b>	<b>960</b>
Cash and Cash Equivalents at the Beginning of the	
<b>1,527</b> Reporting Period	<b>2,793</b>
0 Adjustment to opening balance Central South Consortium	<b>(45)</b>
Adjustment to opening balance Cardiff Capital Region City	
<b>15</b> Deal	<b>10</b>
<b>Cash and Cash Equivalents at the End of the Reporting</b>	
<b>2,793</b> Period (Note 19)	<b>3,718</b>

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

### **1.0 Accounting Policies**

#### **1.1 General**

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31<sup>st</sup> March 2019. 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 2018/19, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost modified by the revaluation of certain categories of non-current assets and financial instruments.

#### **1.2 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.

A prior period amendment has been made to the Expenditure and Funding Analysis and the Comprehensive Income and Expenditure Statement in order to reflect Services that have been transferred from Corporate Costs to Place and Transformation.

	Original Gross Expenditure	Original Gross Income	Original Net Expenditure	Restated Gross Expenditure	Restated Gross Income	Restated Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Expenditure and Funding Analysis</b>						
Place and Transformation			27,108			29,412
Corporate Costs			12,300			9,996
<b>Comprehensive Income and Expenditure Statement</b>						
Place and Transformation	39,781	(12,673)	27,108	42,464	(13,052)	29,412
Corporate Costs	35,034	(22,734)	12,300	32,351	(22,355)	9,996

### 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
  - Unlisted securities – current bid price
  - Property – market value

The change in the net pension's 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 pension’s details are included in Note 37.

## **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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

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

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### **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.

### **Community Infrastructure Levy**

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

CIL is received without conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above.

### **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 2018/19 the Llwydcoed Crematorium Joint Committee, the Central South Consortium Joint Committee and the Cardiff Capital Region City Deal 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, 6.31% of the transactions and balances of the Central South Consortium Joint Committee and 3.94% of the Cardiff Capital Region City Deal Joint Committee into the Authority's Accounts on a line-by-line basis.

A description of the Joint Committees are contained in Note 40 to the Statement of Accounts.

The accounting policies of the joint operations 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 40.

## 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 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 equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the 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).

## **1.14 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 Avison Young, 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. Avison Young 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.

## 1.15 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 22 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 38 of the Statement of Accounts.

## 1.16 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.

The **Consolidated Cardiff Capital Region City Deal Reserve** represents the distributable revenue reserve attributable to Merthyr Tydfil County Borough Council from the Cardiff Capital Region City Deal Joint Committee. The reserve consists of the accumulated surpluses of the Joint Committee'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 24 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 24 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 24 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 24 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 24 to the Statement of Accounts.

### **1.17 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.

### **1.18 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, cash flows and balances of the Authority.

### **1.19 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.

### **1.20 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 2019/20 Code has been issued and relevant standards are:

The Authority does not expect any of the new or amended standards within the 2019/20 Code to have a material impact on the Financial Statements.

- Amendments to IAS 40 Investment Property: Transfers of Investment Property

- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

The main change to the 2020/21 Code will be the requirements of International Financial Reporting Standard 16 – Leases. This will remove the existing classification of operating and finance leases covering buildings, equipment etc. and their differing accounting treatments. It will require all leases with a term over a year, to be recorded as assets and liabilities unless the underlying asset is of low value. Whilst this is expected to have no direct financial impact, work will need to be undertaken to ensure existing lease type arrangements across the Council are identified, and accurately recorded. This will include a review of existing and the creation of new processes for managing and recording existing and new lease arrangements.

### **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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual results differ from Assumptions</b>
<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 1.14 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 £130,000 for Buildings and £153,000 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.	The Authority uses a selection of valuation methods to measure the fair value of its surplus assets, financial assets and liabilities. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth and discount rates – adjusted for regional factors (for some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement.
<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 2019 are included within Note 22 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 £78,400 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 37.	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 £7.97 million.
<b>Arrears</b>	At 31 March 2019, the Authority had amounts it was owed for items such as Sundry Debts, Council Tax and Housing Benefit overpayments. The Authority has made an allowance for non collection against these debts (totalling £8.082m) of £0.921m (11.4%), 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 £1.842m

## 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.

There are no material items of income or expense to disclose for the 2018/19 financial statements.

## 6.0 Events after the reporting period

The statement of Accounts was authorised by the Chief Finance Officer on 11<sup>th</sup> September 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2019, 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 2018/19</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>
	£'000	£'000	£'000	£'000
People and Performance	2,898	3,530	(366)	6,062
Places and Transformation	6,465	2,586	(34)	9,017
Corporate Costs	2,949	188	18	3,155
<b>Net Cost of Services</b>	<b>12,312</b>	<b>6,304</b>	<b>(382)</b>	<b>18,234</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(7,386)</b>	<b>4,738</b>	<b>(102)</b>	<b>(2,750)</b>
<b>Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on Provision of Services</b>	<b>4,926</b>	<b>11,042</b>	<b>(484)</b>	<b>15,484</b>

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£'000	£'000	£'000	£'000
People and Performance	2,939	(497)	305	2,747
Places and Transformation	6,711	(206)	42	6,547
Corporate Costs	5,692	(53)	39	5,678
<b>Net Cost of Services</b>	<b>15,342</b>	<b>(756)</b>	<b>386</b>	<b>14,972</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(8,235)</b>	<b>4,458</b>	<b>(91)</b>	<b>(3,868)</b>
<b>Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on Provision of Services</b>	<b>7,107</b>	<b>3,702</b>	<b>295</b>	<b>11,104</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

	2018/19	Restated 2017/18
<b>Expenditure/Income</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>		
Employee Benefits Expenses	85,897	76,222
Other Service Expenses	89,569	87,831
Depreciation, amortisation, impairment	9,385	12,603
Interest Payments	4,550	4,648
Precepts and Levies	7,210	6,884
Gain on the disposal of assets	(456)	(636)
<b>Total expenditure</b>	<b>196,155</b>	<b>187,552</b>
<b>Income</b>		
Fees charges and other service income	(14,561)	(15,079)
Interest and Investment Income	(123)	(62)
Income from council tax, non-domestic rates	(45,223)	(43,877)
Government Grants and Contributions	(115,505)	(117,164)
<b>Total income</b>	<b>(175,412)</b>	<b>(176,182)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>20,743</b>	<b>11,370</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.

<b>2018/19</b>	<b>Usable Reserves</b>		
<b>Adjustments to the Revenue Resources</b>	<b>General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<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	11,042	0	0
• Financial Instruments	(80)	0	0
• Holiday Pay	(404)	0	0
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in Relation to capital expenditure	12,402	0	0
<b>Total adjustments to Revenue Resources</b>	<b>22,960</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	(546)	546	0
• Statutory Provision for the repayment of Debt	(2,749)	0	0
• Capital expenditure financed from revenue balances	(418)	0	0
• Other	0	0	0
<b>Total adjustments between Revenue and Capital Resources</b>	<b>(3,713)</b>	<b>546</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>			
• Use of the capital receipts reserve to finance capital expenditure	0	(784)	0
• Application of capital grants to finance capital expenditure	(3,763)	0	(1,283)
<b>Total Adjustments to Capital Resources</b>	<b>(3,763)</b>	<b>(784)</b>	<b>(1,283)</b>
<b>Total Adjustments</b>	<b>15,484</b>	<b>(238)</b>	<b>(1,283)</b>



<b>2017/18</b>	<b>Usable Reserves</b>		
<b>Adjustments to the Revenue Resources</b>	<b>General Fund</b>	<b>Capital Receipts</b>	<b>Capital Grants</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<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	3,702	0	0
• Financial Instruments	(65)	0	0
• Holiday Pay	357	0	0
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in Relation to capital expenditure	17,255	0	0
<b>Total adjustments to Revenue Resources</b>	<b>21,249</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	(1,591)	1,591	0
• Statutory Provision for the repayment of Debt	(2,479)	0	0
• Capital expenditure financed from revenue balances	(291)	0	0
• Other	0	0	0
<b>Total adjustments between Revenue and Capital Resources</b>	<b>(4,361)</b>	<b>1,591</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>			
• Use of the capital receipts reserve to finance capital expenditure	0	(1,353)	0
• Application of capital grants to finance capital expenditure	(5,784)	0	2,048
<b>Total Adjustments to Capital Resources</b>	<b>(5,784)</b>	<b>(1,353)</b>	<b>2,048</b>
<b>Total Adjustments</b>	<b>11,104</b>	<b>238</b>	<b>2,048</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 2018/19:

	Balance at 1st April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 31st March 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31st March 2019 £'000
<b>General Fund</b>	<b>4,627</b>	<b>0</b>	<b>73</b>	<b>4,700</b>	<b>0</b>	<b>0</b>	<b>4,700</b>
Llwydcoed Reserve	527	0	251	778	0	250	1,028
Central South Consortium Reserve	9	0	0	9	0	0	9
Cardiff Capital Region City Deal	0	0	(16)	(16)	0	176	160
Balances held by schools under a scheme of delegation	956	(70)	960	1,846	(396)	312	1,762
Insurance Reserve	2,382	(213)	0	2,169	0	0	2,169
Budget Reserve	4,632	(3,229)	1,566	2,969	(2,099)	531	1,401
Ffos-Y-Fran (Miller Argent) Account	1,331	(963)	605	973	(588)	550	935
Corporate Risk Fund Reserve	1,018	(468)	494	1,044	(466)	0	578
Living Wage Reserve	898	(277)	0	621	(275)	0	346
Redundancy Cost Reserve	500	0	500	1,000	(777)	114	337
Renewal Areas Tenants' Contributions	489	(391)	0	98	(91)	0	7
Capital earmarked reserve	392	(284)	370	478	(409)	181	250
City Deal reserve	352	0	0	352	0	0	352
Section 106 Agreements	408	(15)	189	582	(663)	112	31
ISB Allocation Surplus Account	261	(272)	116	105	(57)	0	48
Highways - S38 Road Agreements	250	(63)	13	200	(158)	0	42
Grant Agency Fees	242	(62)	9	189	(62)	4	131
Care Fees Provision	324	(234)	263	353	(283)	0	70
BIFFA Profit Sharing Grant Account	209	(33)	0	176	(2)	0	174
Working Skills for Adults and Bridges2	194	(28)	45	211	(18)	47	240
Welfare Changes	154	(65)	65	154	(64)	0	90
Welsh Government Preliminary flood defences risk assessment	147	(26)	0	121	(20)	0	101
Capital financing cost reserve	0	0	340	340	(250)	0	90
Neighbourhood Services Earmarked Reserve	0	0	207	207	(186)	0	21
NRSWA Ring-fenced Earmarked Reserve	107	(119)	170	158	0	9	167
LASPO (Legal Aid, Sentencing, & Punishment of Offenders)	116	0	12	128	(128)	24	24
ICT server infrastructure upgrade	0	0	111	111	(111)	0	0
West Merthyr Inquiry	0	0	0	0	0	168	168
Renewal Area Income Account	99	0	0	99	0	4	103
Other	1,539	(724)	921	1,736	(1,024)	478	1,190
Central South Consortium Earmarked Reserves	20	0	15	35	(16)	0	19
<b>Total</b>	<b>22,183</b>	<b>(7,536)</b>	<b>7,279</b>	<b>21,926</b>	<b>(8,143)</b>	<b>2,960</b>	<b>16,743</b>

Refer to accounting Policy 1.16 for a description of the General Reserve, Llwydcoed Reserve, Central South Consortium Reserve, Cardiff Capital Region City Deal 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 Account** - This consists of monies received from mining operations 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 can be used by the Authority.

**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

**Capital Financing Cost Reserve** – This consists of monies set aside to fund the revenue impact of future capital financing costs.

**Neighbourhood Services Reserve** – This consists of monies set aside to fund specific projects within the Neighbourhood Service area

**NRSWA Ring fenced Earmarked Reserve** – This income is generated by Fixed Penalty notices and has to be spent on specific Highways Improvement Planning functions.

**LASPO (Legal Aid, Sentencing and punishment of Offenders) Reserve** – This is income received from the Ministry of Justice and is ring fenced to be spent on Legal Aid, sentencing and punishment of offenders.

**ICT Server infrastructure upgrade** – This includes monies set aside to finance one off infrastructure projects that were completed in the 2018/19 financial year.

**West Merthyr Enquiry** – This includes monies set aside to finance legal costs in relation to a public inquiry regarding land at West Merthyr.

**Renewal Areas Income Account** – The historic balance is to be utilised to cover extended warranties on renewal programme expenditure and to be utilised in the Medium Term Financial Plan.

**Other** - This consists of 40 miscellaneous balances ranging up to a value of £80,985.

#### 11.0 Other operating expenditure

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
3,944 South Wales Police Precept	4,226
21 Bedlinog Community Council Precept	22
2,743 South Wales Fire and Rescue Authority Levy	2,773
176 Other Levies	189
(636) (Gains)/losses on the disposal of non-current assets	(456)
<b>6,248 Total</b>	<b>6,754</b>

**12.0 Financing and Investment Income and Expenditure**

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
4,648 Interest payable and similar charges	4,550
4,514 Net interest on the net defined benefit liability (asset)	4,785
<u>(62) Interest receivable and similar income</u>	<u>(122)</u>
<b>9,100 Total</b>	<b>9,213</b>

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

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
(24,812) Council tax income	(26,331)
(19,065) Non-domestic rates income	(18,914)
(69,698) Non-ringfenced government grants (Revenue Support Grant)	(71,391)
(4,830) Capital grants and contributions	(3,763)
<u>0 Corporation Tax Cardiff Capital Region City Deal</u>	<u>22</u>
<b>(118,405) Total</b>	<b>(120,377)</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 31st March 2019 was £42,157,795 (£39,627,630 as at 31st March 2018) with the Non-Domestic Rate Multiplier being £0.514 (51.4 pence) in the pound (£0.499 (49.9 pence) in the pound for 2017/18). The total number of chargeable properties for 2018/19 was 1,890 (2017/18 – 1,861). The net proceeds from Non-Domestic Rates in 2018/19 was £18,914,115 (2017/18 - £19,065,380).

***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 2018/19 was 27,255 (2017/18 – 27,142).

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

<b>Dwellings</b>	<b>Band</b>	<b>Range</b>	<b>Dwellings</b>
<b>2017/18</b>		<b>(Based on 1 April 2003 values)</b>	<b>2018/19</b>
14,100	A	Not exceeding £44,000	14,109
6,633	B	Between £44,000 and £65,000	6,643
2,168	C	Between £65,000 and £91,000	2,180
2,114	D	Between £91,000 and £123,000	2,145
1,422	E	Between £123,000 and £162,000	1,468
554	F	Between £162,000 and £223,000	556
142	G	Between £223,000 and £324,000	145
2	H	Between £324,000 and £424,000	2
7	I	Exceeding £424,000	7
<b>27,142</b>			<b>27,255</b>

	<b>Dwellings</b>	<b>Tax Base</b>	<b>Dwellings</b>	<b>Tax Base</b>
	<b>2017/18</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2018/19</b>
Total Number of properties on the valuation list	27,142	27,142	27,255	27,255
Less Exempt properties 100%	812	(812)	875	(875)
Less Single Discounts 25%	9,532	(2,383)	9558	(2,390)
Less Multiple Discounts 50%	650	(325)	677	(339)
Band D Conversion		(4,799)		(4,799)
Losses on Collection		(753)		(754)
<b>Tax Base</b>		<b>18,070</b>		<b>18,098</b>
<b>Requirement for Merthyr Tydfil County Borough Council</b>		<b>£26,032,008.00</b>		<b>£27,155,705.00</b>
<b>Basic Band D tax for the year</b>		<b>£1,440.68</b>		<b>£1,500.47</b>
Payable to South Wales Police		£3,943,507.00		£4,226,287.00
Band D tax for South Wales Police		£218.24		£233.52
<b>*Total Band D tax for the year</b>		<b>£1,658.92</b>		<b>£1,733.99</b>

\*Band D community council addition for properties in Bedlinog £19.16 (£18.19 2017/18)

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

**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 2018	152,393	5,285	140,052	241	4,157	1,764	<b>303,892</b>
Acquisitions/Additions	2,420	1,447	1,998	372	0	1,036	<b>7,273</b>
Revaluation Increases/Decreases recognised in the Revaluation Reserve	(699)	0	0	0	7	0	<b>(692)</b>
Revaluation Increases/Decreases to Surplus/Deficit on the Provision of Services	(1,468)	0	0	(372)	34	0	<b>(1,806)</b>
Derecognition - Disposals	(3)	(905)	0	0	(31)	0	<b>(939)</b>
Derecognition - Other	0	0	0	0	0	0	<b>0</b>
Reclassification and Transfers	1,068	0	0	0	(130)	(634)	<b>304</b>
<b>At 31<sup>st</sup> March 2019</b>	<b>153,711</b>	<b>5,827</b>	<b>142,050</b>	<b>241</b>	<b>4,037</b>	<b>2,166</b>	<b>308,032</b>
<b>Accumulated Depreciation and Impairment</b>							
As 1 <sup>st</sup> April 2018	1,288	4,237	44,601	0	1	130	<b>50,257</b>
Depreciation Charge	3,152	724	3,256	0	4	0	<b>7,136</b>
Depreciation written out to the Revaluation Reserve	(1,709)	0	0	0	0	0	<b>(1,709)</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	(155)	0	0	0	0	0	<b>(155)</b>
Impairment losses/(reversals) recognised in the Revaluation Reserve	(19)	0	0	0	0	0	<b>(19)</b>
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	166	0	279	0	0	120	<b>565</b>
Derecognition - Disposals	0	(905)	0	0	0	0	<b>(905)</b>
Derecognition - Other	0	0	0	0	0	0	<b>0</b>
Reclassification and Transfers	1	0	0	0	0	(1)	<b>0</b>
<b>At 31<sup>st</sup> March 2019</b>	<b>2,724</b>	<b>4,056</b>	<b>48,136</b>	<b>0</b>	<b>5</b>	<b>249</b>	<b>55,170</b>
<b>Net Book Value</b>							
<b>At 31<sup>st</sup> March 2019</b>	<b>150,987</b>	<b>1,771</b>	<b>93,914</b>	<b>241</b>	<b>4,032</b>	<b>1,917</b>	<b>252,862</b>
At 31 <sup>st</sup> March 2018	151,105	1,048	95,451	241	4,156	1,634	253,635



**Restated**

	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 1st April 2017	152,692	5,653	140,076	241	4,932	294	<b>303,888</b>
Acquisitions/Additions	4,054	264	2,781	61	0	1,634	<b>8,794</b>
Revaluation Increases/Decreases recognised in the Revaluation Reserve	281	0	0	0	418	0	<b>699</b>
Revaluation Increases/Decreases to Surplus/Deficit on the Provision of Services	(5,772)	0	0	(61)	(37)	(164)	<b>(6,034)</b>
Derecognition - Disposals	(175)	(632)	0	0	(155)	0	<b>(962)</b>
Derecognition - Other	(2,337)	0	0	0	0	0	<b>(2,337)</b>
Reclassification and Transfers	3,650	0	(2,805)	0	(1,001)	0	<b>(156)</b>
<b>At 31st March 2018</b>	<b>152,393</b>	<b>5,285</b>	<b>140,052</b>	<b>241</b>	<b>4,157</b>	<b>1,764</b>	<b>303,892</b>
<b>Accumulated Depreciation and Impairment</b>							
As 1st April 2017	3,524	4,112	41,495	0	3	71	<b>49,205</b>
Depreciation Charge	2,948	687	3,234	0	3	0	<b>6,872</b>
Depreciation written out to the Revaluation Reserve	(2,492)	0	0	0	(5)	0	<b>(2,497)</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	(431)	0	0	0	0	0	<b>(431)</b>
Impairment losses/(reversals) recognised in the Revaluation Reserve	60	0	0	0	0	0	<b>60</b>
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(459)	0	355	0	0	59	<b>(45)</b>
Derecognition - Disposals	(8)	(562)	0	0	0	0	<b>(570)</b>
Derecognition - Other	(2,337)	0	0	0	0	0	<b>(2,337)</b>
Reclassification and Transfers	483	0	(483)	0	0	0	<b>0</b>
<b>At 31st March 2018</b>	<b>1,288</b>	<b>4,237</b>	<b>44,601</b>	<b>0</b>	<b>1</b>	<b>130</b>	<b>50,257</b>
<b>Net Book Value</b>							
<b>At 31st March 2018</b>	<b>151,105</b>	<b>1,048</b>	<b>95,451</b>	<b>241</b>	<b>4,156</b>	<b>1,634</b>	<b>253,635</b>
At 31st March 2017	149,168	1,541	98,581	241	4,929	223	254,683

**Capital Commitments**

As at 31<sup>st</sup> March 2019, the Authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2018/19 and future years budgeted to cost £1,823,000. Similar commitments at 31<sup>st</sup> March 2018 were £1,129,000. The major commitments are:

<b>Capital Scheme</b>	<b>Value £'000</b>
Engineering	<b>194</b>
Community Regeneration	<b>201</b>
Neighbourhood Services	<b>54</b>
Education	<b>1,374</b>
	<b><u>1,823</u></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 2018	3,788	257	3,780	54	7,879
Acquisitions/Additions	0	0	91	0	91
Revaluation Increases/Decreases recognised in the Revaluation Reserve	0	0	0	0	0
Revaluation Increases/Decreases to Surplus/Deficit on the Provision of Services	0	0	42	0	42
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 2019</b>	<b>3,788</b>	<b>257</b>	<b>3,913</b>	<b>54</b>	<b>8,012</b>
<b>Accumulated Depreciation and Impairment</b>					
As 1 <sup>st</sup> April 2018	0	0	521	0	521
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	73	0	73
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 2019</b>	<b>0</b>	<b>0</b>	<b>594</b>	<b>0</b>	<b>594</b>
<b>Net Book Value</b>					
<b>At 31<sup>st</sup> March 2019</b>	<b>3,788</b>	<b>257</b>	<b>3,319</b>	<b>54</b>	<b>7,418</b>
At 31 <sup>st</sup> March 2018	3,788	257	3,259	54	7,358

	Museum Collection £'000	Civic Regalia £'000	Historic Buildings £'000	Monuments £'000	Total Assets £'000
<b>Cost or Valuation</b>					
At 1st April 2017	3,788	82	3,195	54	7,119
Acquisitions/Additions	0	0	328	0	328
Revaluation Increases/Decreases recognised in the Revaluation Reserve	0	175	257	0	432
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 31st March 2018</b>	<b>3,788</b>	<b>257</b>	<b>3,780</b>	<b>54</b>	<b>7,879</b>
<b>Accumulated Depreciation and Impairment</b>					
As 1st April 2017	0	0	479	0	479
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	42	0	42
Derecognition - Disposals	0	0	0	0	0
Derecognition - Other	0	0	0	0	0
Reclassification and Transfers	0	0	0	0	0
<b>At 31st March 2018</b>	<b>0</b>	<b>0</b>	<b>521</b>	<b>0</b>	<b>521</b>
<b>Net Book Value</b>					
<b>At 31st March 2018</b>	<b>3,788</b>	<b>257</b>	<b>3,259</b>	<b>54</b>	<b>7,358</b>
At 31st March 2017	3,788	82	2,716	54	6,640

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 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>Financial Assets</b>	<b>Non-Current</b>		<b>Current</b>	
	<b>31st March</b>	<b>31st March</b>	<b>31st March</b>	<b>31st March</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Investments at Amortised Cost	10	10	10,033	13,521
<u>Debtors:</u>				
Gellideg Co-operative Loan	408	429	20	20
Welsh Water Loan	56	147	100	100
Home Loans	389	0	0	0
Other	7	67	0	4
<b>Total Financial Assets</b>	<b>870</b>	<b>653</b>	<b>10,153</b>	<b>13,645</b>
Non - Financial Assets	0	0	20,750	17,833
<b>Total</b>	<b>870</b>	<b>653</b>	<b>30,903</b>	<b>31,478</b>

<b>Financial Liabilities</b>	<b>Non-Current</b>		<b>Current</b>	
	<b>31st March</b>	<b>31st March</b>	<b>31st March</b>	<b>31st March</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowings at Amortised Cost	59,979	62,168	45,026	35,999
<b>Total Financial Liabilities</b>	<b>59,979</b>	<b>62,168</b>	<b>45,026</b>	<b>35,999</b>
Non - Financial Liabilities				
Finance Lease and Other	1,330	747	50	41
Creditors	919	0	15,485	14,633
<b>Total</b>	<b>2,249</b>	<b>747</b>	<b>15,535</b>	<b>14,674</b>

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

	<b>2018/19 Total</b>	<b>2017/18 Total</b>
	<b>Surplus or Deficit on the Provision of Services</b>	<b>Surplus or Deficit on the Provision of Services</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest Expense</b>	4,550	4,648
<b>Interest Revenue: Financial assets measured at amortised cost</b>	(122)	(62)
<b>Net (Gain)/loss for the year</b>	<b>4,428</b>	<b>4,586</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 2019, 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. The Lenders’ options to propose an increase to the interest rate on the loan have been valued according to Bloomberg’s proprietary model for Bermudan cancellable swaps. The Borrower’s contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- 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 2019		31st March 2018	
		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	45,761	65,440	48,948	70,160
Long-term LOBO Loans	2	12,228	18,364	12,233	18,472
Other long term loans		1,990		987	
Short term loans		45,026		35,999	

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.

#### 17.0 Short-term Debtors

The breakdown of Debtors at 31<sup>st</sup> March 2019 is as follows:

	31st March 2019	31st March 2018
	£'000	£'000
Trade receivables	4,928	4,189
Prepayments	526	503
Other receivable amounts	15,416	13,265
<b>Total</b>	<b>20,870</b>	<b>17,957</b>

#### 18.0 Debtors for local taxation

The past due but not impaired amount for local taxation (Council Tax) can be analysed by age as follows:

	31st March 2019	31st March 2018
	£'000	£'000
Up to 1 Year	1641	1,356
Between 1 and 2 Years	885	917
Between 2 and 3 Years	672	639
Between 3 and 4 Years	480	420
Between 4 and 5 Years	324	307
Greater than 5 Years	1,027	988
<b>Total</b>	<b>5,029</b>	<b>4,627</b>

**19.0 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 2019 is as follows:

<b>31st March 2018 £'000</b>	<b>31st March 2019 £'000</b>
2,793 Bank Current Accounts	3,718
<b>2,793 Total Cash and Cash equivalents</b>	<b>3,718</b>

**20.0 Assets Held for Sale**

The breakdown of assets held for sale at 31<sup>st</sup> March 2019 is as follows:

	<b>Non-current</b>	
	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance outstanding at the start of the year</b>	306	177
Assets newly classified as held for sale	50	332
Revaluation losses	0	(26)
Revaluation gains	0	0
Impairment losses	0	0
Assets declassified as held for sale	0	(168)
Assets sold	(55)	(9)
<b>Balances outstanding at year end</b>	<b>301</b>	<b>306</b>

Assets held for sale at 31<sup>st</sup> March 2019 comprise of land and buildings as follows:

- Various pieces of land which are surplus to requirement.

**21.0 Short-term Creditors**

The breakdown of Creditors at 31<sup>st</sup> March 2019 is as follows:

<b>Short-term Creditors</b>	<b>31st March 2019 £'000</b>	<b>31st March 2018 £'000</b>
Trade Payables	(10,348)	(8,156)
Other Payables	(5,137)	(6,477)
<b>Total</b>	<b>(15,485)</b>	<b>(14,633)</b>



## 22.0 Provisions

The balance on provisions at 31<sup>st</sup> March 2019 is derived as follows:

	Insurance Claims	Pengarnddu	City Deal	Total
	£'000	£'000	£'000	£'000
<b>Balance at 1st April 2018</b>	<b>(1,244)</b>	<b>(1,950)</b>	<b>(71)</b>	<b>(3,265)</b>
Additional provisions made in 2018/19		0	0	0
Amounts used in 2018/19	423	0	0	423
Unused amounts reversed in 2018/19	37	600	33	670
<b>Balance at 31st March 2019</b>	<b>(784)</b>	<b>(1,350)</b>	<b>(38)</b>	<b>(2,172)</b>

The Authority expects that the provisions recognised at 31<sup>st</sup> March 2019 will substantially be utilised within 12 months of that date, the split of short and long term provisions is as follows:

	Short term 2017/18	Long term 2017/18	Total 2017/18	Short term 2018/19	Long term 2018/19	Total 2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance Claims	(483)	(761)	(1,244)	(235)	(549)	(784)
Pengarnddu	(1,000)	(950)	(1,950)	(450)	(900)	(1,350)
Provision						
City Deal	0	(71)	(71)	0	(38)	(38)
	<u>(1,483)</u>	<u>(1,782)</u>	<u>(3,265)</u>	<u>(685)</u>	<u>(1,487)</u>	<u>(2,172)</u>

### Insurance Claims Provision

This provision reflects the Authority's outstanding insurance claims obligations at 31<sup>st</sup> March 2019. 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.

### 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 the actual timing for clearing the site is not certain.

### City Deal Provision

This balance is as a result of including the Authority's Share of 3.94% of the Cardiff Capital Region City Deal (Note 40)

**23.0 Usable Reserves**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement, note 9 and note 10.

**24.0 Unusable Reserves**

The breakdown of Unusable Reserves at 31<sup>st</sup> March 2019 is as follows:

<b>31st March 2018 £'000</b>	<b>31st March 2019 £'000</b>
39,471 Revaluation Reserve	39,282
(2,624) Financial Instruments Reserve	(2,544)
120,761 Capital Adjustment Account	118,596
(189,315) Pensions Reserve	(190,233)
(2,008) Accumulated Absences Account	(1,605)
<b><u>(33,715) Total Unusable Reserves</u></b>	<b><u>(36,504)</u></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>2017/18 £'000</b>		<b>2018/19 £'000</b>
<b>37,114</b>	<b>Balance at 1st April</b>	<b>39,471</b>
4,388	Upward revaluation of assets	1,278
(822)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the provision of services	(242)
<b>3,566</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the provision of services</b>	<b>1,036</b>
(1,041)	Difference between fair value depreciation and historical cost depreciation	(1,197)
(168)	Accumulated gains on assets sold or scrapped	(28)
<b><u>(1,209)</u></b>	<b>Amounts written off to the Capital Adjustment Account</b>	<b><u>(1,225)</u></b>
<b>39,471</b>	<b>Balance at 31st March</b>	<b>39,282</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>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
<b>128,945</b>	<b>Balance at 1st April</b>	<b>120,761</b>
	0 Opening Balance Adjustment	13
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(5,830)	• Charges for depreciation and impairment of non current assets	(5,939)
(5,735)	• Revaluation losses on property, plant and equipment	(2,248)
(2,739)	• Revenue expenditure funded from capital under statute	(2,927)
(955)	• 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	(89)
(15,259)		(11,203)
168	Adjusting amounts written out to the Revaluation Reserve	28
<b>(15,091)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(11,175)</b>
	Capital financing applied in the year:	
1,353	• Use of Capital Receipts Reserve to finance new capital expenditure	784
2,782	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	4,226
0	• Application of grants to capital financing from the Capital Grants Unapplied Account	820
2,770	• Statutory provision for the financing of capital investment charged against the General Fund	3,167
<b>6,905</b>		<b>8,997</b>
2	Movements in the market Value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<b>0</b>
<b>120,761</b>	<b>Balance at 31st March</b>	<b>118,596</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.

2017/18 £'000	2018/19 £'000
<b>(2,690) Balance at 1st April</b>	<b>(2,624)</b>
<b>92</b> Premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with Statutory Requirements	<b>102</b>
<b>(26)</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>(22)</b>
<b>(2,624) Balance at 31st March</b>	<b>(2,544)</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.

2017/18 £'000	2018/19 £'000
<b>(179,449) Balance at 1st April</b>	<b>(189,315)</b>
<b>(6,163)</b> Actuarial (gains)/losses on pensions assets/liabilities	<b>10,124</b>
<b>(3,594)</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>(10,009)</b>
<b>(109)</b> Net adjustments to Pension strain	<b>(1,033)</b>
<b>(189,315) Balance at 31st March</b>	<b>(190,233)</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.

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
<b>(1,651) Balance at 1st April</b>	<b>(2,008)</b>
1,651 Settlement or cancellation of accrual made at the end of the preceding year	2,008
<b>(2,008)</b> Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	<b>(1,605)</b>
<b>(2,008) Balance at 31st March</b>	<b>(1,605)</b>

**25.0 Cash Flow Statement - Operating Activities**

The cash flows for operating activities include the following items:

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
186 Rents ( after rebates )	193
24,544 Council Tax receipts	26,205
19,065 National non-domestic rate receipts from national pool	18,914
69,698 Revenue Support Grant	71,391
22,944 DWP grants for benefits	19,960
20,264 Other government grants	17,303
58 Interest received	137
17,227 Cash received for goods and services	15,156
5,185 Other operating cash receipts	8,285
<b>179,171 Cash Inflows Generated from Operating Activities</b>	<b>177,544</b>
(71,331) Cash paid to and on behalf of employees	(74,228)
(70,389) Cash Payments to Suppliers	(74,593)
(4,651) Interest paid	(4,550)
(20,317) Housing Benefit paid out	(19,732)
(2,919) Levies paid	(2,962)
(3,964) Precepts	(4,248)
<b>(173,571) Cash Outflows Generated from Operating Activities</b>	<b>(180,313)</b>
<b>5,600</b> Net Cash Flows from Operating Activities	<b>(2,769)</b>

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

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
<b>(11,370) Surplus or Deficit on Provision of Services</b>	<b>(15,360)</b>
10,280 Depreciation and Impairment	9,385
(636) Gain or loss on disposal of Fixed Assets	(456)
(1,198) Other non Cash items charged to the net surplus or deficit on the provision of services	4,302
3,702 Movement in Pension Liability	5,659
925 Increase/decrease in creditors	4,234
1,944 Increase/decrease in debtors	(3,904)
12 Increase/decrease in inventories	(38)
(406) Increase/decrease in Provisions and Balances	(6,647)
0 Adjustment to Central South Consortium Opening Balances	45
24 Adjustment to Cardiff Capital Region City Deal opening Balances	10
<b>3,277</b>	<b>(2,770)</b>

## **26.0 Cash Flow Statement – Investing Activities**

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
(9,065) Purchase of Property, Plant and Equipment	(6,631)
(3,691) Other capital cash payments	(3,412)
(91,671) New Short term investments made	(82,500)
77,200 Repayments of investments	86,000
1,591 Sale of fixed assets	546
7,851 Capital grants received	3,401
<b>(17,785) Net Cash Flows Generated from Investing Activities</b>	<b>(2,596)</b>

**27.0 Cash Flow Statement – Financing Activities**

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
2,781 New long-term loans raised	879
83,500 New short-term loans raised	135,770
<u>(72,845) Repayments of amounts borrowed</u>	<u>(130,324)</u>
<b>13,436 Cash Flows Generated from Financing Activities</b>	<b>6,325</b>

**28.0 Pooled Budgets****Integrated Community Equipment Store**

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. For 2018/19 Merthyr Tydfil County Borough Council paid a contribution of £213,000 (£130,000 for 2017/18) into the pool, total expenditure for 2018/19 was £2,712,000 (£2,734,000 for 2017/18), total income was £2,831,000 in 2018/19 (£2,646,000 for 2017/18).

**Integrated Family Support Team**

Local Authorities are required to have an Integrated Family Support Team, either on an individual or partnership basis as established by the Children and Families (Wales) Measure 2010.

The Integrated Family Support Team, or alternatively IFST, was created on 1<sup>st</sup> September 2010 to co-ordinate jointly Rhondda Cynon Taf and Merthyr Tydfil County Borough Council's responsibilities to the establishment of their statutory Integrated Family Support Services (IFSS) where both local government and their respective health board partners will have collective responsibility to ensure the integration and provision of seamless services to families with complex needs.

Rhondda Cynon Taf CBC became the Host Authority upon formation and the Authority's contribution to the team for 2018/19 (and 2017/18) was £280,000, total expenditure for 2018/19 was £474,000 (£560,000 for 2017/18), total income was £560,000 for 2018/19 (and 2017/18).

### **Cwm Taf Care Home Accommodation Pooled Fund**

The Cwm Taf Social Services and Wellbeing Partnership Board are required to establish and maintain a pooled fund in relation to the exercise of their care home accommodation functions; these duties took effect from 6 April 2018.

The pooled fund is hosted by Rhondda Cynon Taff County Borough Council on behalf of all partners to the agreement, who are Cwm Taf University Health Board and Merthyr Tydfil County Borough Council. The Care Home Pooled Fund is managed by the Residential & Nursing Care Pooled Fund Manager under the direction of the Cwm Taf Care Home Accommodation Pooled Fund Operational Management Board

Lead service commissioners are responsible for commissioning & contracting placements and the subsequent payments relating to those services. Variation of anticipated spend, either negative or positive remain the responsibility of the Party/Lead Commissioner to which the variation relates.

For 2018/19 Merthyr Tydfil County Borough Council paid a contribution of £4,495,000 into the pool, total expenditure was £37,674,000 for 2018/19 and total income was £37,681,000.

### **29.0 Members' Allowances**

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

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Salaries and Allowances	622	586
Pension Contributions	75	68
National Insurance Contributions	47	43
Expenses	1	2
<b>Balance at 31st March</b>	<b>745</b>	<b>699</b>



**30.0 Officers' Remuneration**

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

<b>2018/19</b>	<b>Salary, Fees and Allowances £</b>	<b>Compensation for loss of Office £</b>	<b>Pension Contributions £</b>	<b>Total £</b>
<b>Chief Executive</b>	116,661	0	33,307	<b>149,968</b>
<b>Deputy Chief Executive</b>	93,900	0	26,808	<b>120,708</b>
<b>Chief Officer Social Services</b>	80,070	0	22,846	<b>102,916</b>
<b>Chief Officer Neighbourhood Services</b>	76,900	0	21,955	<b>98,855</b>
<b>Chief Officer Community Regeneration</b>	76,900	0	21,955	<b>98,855</b>
<b>Head of Finance</b>	72,502	0	20,699	<b>93,201</b>
<b>Head of Legal &amp; Democratic Services</b>	72,502	0	20,699	<b>93,201</b>
<b>Head of Adult Social Services</b>	69,381	0	19,808	<b>89,189</b>
<b>Head of Public Protection &amp; Housing</b>	69,381	0	19,808	<b>89,189</b>
<b>Head of Children Services &amp; Safeguarding</b>	69,381	0	19,808	<b>89,189</b>
<b>Head of Community Wellbeing</b>	61,865	0	17,662	<b>79,527</b>
<b>Head of Planning &amp; Countryside</b>	61,865	0	17,662	<b>79,527</b>
<b>Head of Planning, Performance &amp; Resources</b>	61,865	0	0	<b>61,865</b>
<b>Head of Strategic Support Services</b>	60,576	0	17,295	<b>77,871</b>
<b>Head of Corporate Services*</b>	68,929	0	19,861	<b>88,790</b>
<b>Chief Officer Learning</b>	77,313	0	19,715	<b>97,028</b>
<b>Total</b>	<b>1,189,991</b>	<b>0</b>	<b>319,888</b>	<b>1,509,879</b>

The highest paid employee during 2018/19 was the Chief Executive, whose remuneration of £116,661 excluding pension contributions was 5.54 times the median remuneration of the workforce £21,074. The Chief Executives' Salary includes returning officer fees of £1,061.

\*The following position was held by two officers during the year.  
Head of Corporate Services – Employment ceased on 10<sup>th</sup> February 2019.  
New post holder commenced on 7<sup>th</sup> February 2019

2017/18	Salary, Fees and Allowances £	Compensation for loss of Office £	Pension Contributions £	Total £
Chief Executive	122,246	0	34,107	156,353
Deputy Chief Executive	92,059	0	25,684	117,743
Chief Officer Social Services	76,377	0	21,301	97,678
Chief Officer Neighbourhood Services	73,287	0	20,447	93,734
Chief Officer Community Regeneration	73,287	0	20,447	93,734
Head of Finance	71,081	0	19,832	90,913
Head of Legal & Democratic Services	71,081	0	19,832	90,913
Head of Corporate Services	68,021	0	18,978	86,999
Head of Adult Social Services	66,623	0	18,588	85,211
Head of Public Protection & Housing	65,916	0	18,391	84,307
Head of Children Services & Safeguarding	65,916	0	18,391	84,307
Head of Community Wellbeing	60,697	0	16,922	77,619
Head of Planning & Countryside	60,652	0	16,922	77,574
Head of Planning, Performance & Resources	60,652	0	0	60,652
Chief Officer Learning*	79,098	0	20,215	99,313
<b>Total</b>	<b>1,106,993</b>	<b>0</b>	<b>290,057</b>	<b>1,397,050</b>

The highest paid employee during 2017/18 was the Chief Executive, whose remuneration of £122,246 excluding pension contributions was 5.92 times the median remuneration of the workforce £20,661. The Chief Executives' Salary includes returning officer fees of £10,638.

\*The following position was held by two officers during the year.

Chief Officer Learning– Employment ceased on 30<sup>th</sup> November 2017

New post holder commenced on 1<sup>st</sup> October 2017 on secondment from Rhondda Cynon Taf County Borough Council.

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

<b>Remuneration Band</b>	<b>2018/19 Number of Employees</b>	<b>Restated 2017/18 Number of Employees</b>
£60,000 - £64,999	12	11
£65,000 - £69,999	10	8
£70,000 - £74,999	7	8
£75,000 - £79,999	2	1
£80,000 - £84,999	2	2
£85,000 - £89,999	2	0
£90,000 - £94,999	1	1
£95,000 - £99,999	0	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	1	0
£120,000 - £124,999	0	1
	<b>37</b>	<b>31</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:

<b>Exit package cost band</b>	<b>Number of compulsory redundancies</b>		<b>Number of other departures agreed</b>		<b>Total number of exit packages by cost band</b>		<b>Total cost of exit packages in each band £'000</b>	
	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Restated 2017/18</b>	<b>2018/19</b>	<b>Restated 2017/18</b>	<b>2018/19</b>	<b>Restated 2017/18</b>
<b>£0 - £20,000</b>	0	0	31	9	31	9	256	53
<b>£20,001 - £40,000</b>	0	0	14	2	14	2	412	42
<b>£40,001 - £60,000</b>	0	0	4	1	4	1	181	58
<b>£60,001 - £300,000</b>	0	0	13	1	13	1	1,428	133
<b>Total cost included in bandings and in the CIES</b>	<b>0</b>	<b>0</b>	<b>62</b>	<b>13</b>	<b>62</b>	<b>13</b>	<b>2,277</b>	<b>286</b>

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

Under the Powers of a Capitalisation Direction in place from 1<sup>st</sup> April 2016, revenue costs in respect of service reform are eligible to be treated as capital expenditure and hence funded from capital receipts. The costs incurred relate to Redundancy costs and Early Pension Payment Costs relating to employees leaving the Council through service reconfiguration and rationalisation.

Below is a summary of the service area restructures, the 5 year saving as a result of the restructure:

<b>Service Area</b>	<b>2018/19 5 Year Gross Saving £'000</b>	<b>2018/19 Capitalised Cost £'000</b>
Social Services Adult Services restructure	2,174	66
Social Services Children's Services restructu	337	21
Support Services restructure	1,234	68
Education Department restructure	1,192	106
Street Cleansing/Waste Services restructure	624	62
Public Protection & Housing restructure	422	82
Grounds Maintenance restructure	1,414	22
Highways & Engineering Dept Restructure	851	43
Senior Management restructure	558	74
Tourist Info Centre closure	144	2
	<b>8,950</b>	<b>546</b>

<b>Service Area</b>	<b>2017/18 5 Year Gross Saving £'000</b>	<b>2017/18 Capitalised Cost £'000</b>
Social Services Adult Services restructure	5,360	174
Social Services Youth Services restructure	464	1
Social Services Children's Services restructure	168	23
Support Services restructure	2,090	203
Education Department restructure	1,205	122
Schools restructures	3,790	93
School Catering restructure	266	7
Street Cleansing/Waste Services restructure	1,822	85
Public Protection & Housing restructure	937	112
Grounds Maintenance restructure	1414	114
Highways and Engineering restructure	851	70
Senior Management restructure	558	74
Tourist Info Centre closure	144	2
	<b>19,069</b>	<b>1,080</b>

As redundancy costs are borne over a period of four years, it should be noted that the five year gross saving column will in certain cases include savings achieved in the previous year.

**31.0 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:

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable with regard to external audit services carried out by the appointed auditor for the year	160	160
Fees payable in respect of statutory inspections	101	101
Fees payable for the certification of grant claims and returns for the year	38	46
<b>Total</b>	<b>299</b>	<b>307</b>

**32.0 Grant Income**

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2018/19:

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Credited to Taxation and Non-specific Grant Income and Expenditure</b>		
Revenue Support Grant	(71,391)	(69,698)
Non-Domestic Rates	(18,914)	(19,065)
<u>Capital Grants and Contributions</u>		
General Capital Grant	(1,904)	(986)
Schools Maintenance Grant	(878)	0
Collaborative Change Programme	(490)	(1,296)
Schools Additional Capital Grant	(400)	0
Local Authority Roads Refurbishment	(248)	(374)
Flying Start Grant	(55)	(101)
*Vibrant and Viable Places Grant	990	(1,300)
ECO Scheme	0	(262)
Safe Routes In Communities	0	(147)
Other Capital Grants and Contributions	(778)	(364)
<b>Total</b>	<b>(94,068)</b>	<b>(93,593)</b>

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Credited to Services</b>		
<u>People and Performance</u>		
**Flexible Funding Grant	(6,238)	0
Pupil Deprivation Grant	(2,101)	(2,040)
Education Improvement Grant	(2,070)	(2,186)
**Flying Start	0	(2,431)
**Supporting People Programme Grant	0	(2,123)
**Communities First	0	(1,295)
**Families First	0	(1,030)
Welsh Independent Living Fund Grant	0	(569)
Social Care Workforce Fund - National Living Wage	0	(408)
**Other Revenue Grants	(2,471)	(1,941)
<u>Place and Transformation</u>		
Concessionary Fares Grant	(2,106)	(2,038)
**Flexible Funding Grant	(568)	0
***Local Transport Fund	(395)	(99)
Inspire 2 Achieve	(334)	(359)
Housing Benefit Subsidy Admin Grant	(248)	(273)
Environment and Sustainable Development Revenue Grant	(116)	(1,160)
**Other Revenue Grants	(3,700)	(3,170)
Contributions	(3)	(3)
<u>Corporate</u>		
Housing Benefit Subsidy	(19,701)	(20,366)
Other Grants	(230)	(352)
<b>Total</b>	<b>(40,281)</b>	<b>(41,843)</b>

\*The debit of £990,000 against the Vibrant and Viable Places Grant relates to the reclassification of grant income received in 2017/18 as a recyclable loan.

\*\*The 2018/19 Flexible Funding Grant replaced the following grants received in 2017/18: Flying Start, Supporting People Programme, Communities First, Families First, Out of School Childcare, St Davids Day Fund, Communities for Work, Homelessness Prevention, and Rent Smart Wales.

\*\*\*The 2017/18 Local Transport Fund was previously shown against the Other Revenue Grants Line.

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:

	<b>2018/19</b>
	<b>£'000</b>
<b>Current Liabilities</b>	
<b>Grants Receipts in Advance (Revenue Grants)</b>	
Housing Benefit Subsidy	(63)
High Street Retail Relief Scheme	(11)
<b>Total</b>	<b>(74)</b>

	<b>2017/18</b>
	<b>£'000</b>
<b>Current Liabilities</b>	
<b>Grants Receipts in Advance (Revenue Grants)</b>	
Flying Start	(101)
Discretionary Housing Payments Grant	(42)
Families First	(42)
Communities First	(16)
Other Revenue Grants	(19)
<b>Total</b>	<b>(220)</b>

### **33.0 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 32. Welsh Government grant receipts of £7,303,000 were outstanding at 31 March 2019.

**Members of the Authority** have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in note 29. Interests in other organisations held by members and their close family have been identified by an inspection of the Members' and Officers' Declaration of Interest Register, and are set out in the table below.

**Officers** - details of officers' emoluments are shown in note 30 to the Core Financial Statements. Interests in other organisations held by senior officers and their close family have been identified, and are set out in the table below.

**Joint Operations** - the Authority is involved in a number of joint operations, the details of which are shown in note 40.

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

**Other Bodies** – the Authority is represented on a number of other outside bodies, and these are set out in the table below.

Description	In-year Transactions 2018/19		Balances at 31 March 2019	
	Expenditure incurred by Authority £000	Income received by Authority £000	Owed by Authority (Creditors) £000	Owed to Authority (Debtors) £000
<b>Companies / voluntary bodies in which Members' interests declared</b>				
Voluntary Action Merthyr Tydfil	91	0	(16)	0
Cwm Taf Care & Repair	151	(7)	0	4
Pant Boys & Girls Club	96	(2)	0	0
Other companies / voluntary bodies in which Members' interests declared	242	(56)	(9)	9
<b>Companies / voluntary bodies in which Officers' interests declared</b>				
South Wales Fire & Rescue Authority	0	(3)	0	0
The College of Merthyr Tydfil	136	(46)	(5)	13
Other companies / voluntary bodies in which Members' interests declared	7	0	0	0
<b>Outside Bodies on which the Authority is represented</b>				
Merthyr Tydfil Leisure Trust	2,937	(404)	(50)	324
Merthyr Valleys Homes*	193	(320)	(57)	587
Safer Merthyr Tydfil	297	(53)	(75)	52
JV Redstart (Capita Glamorgan Consultancy)	129	0	0	0
Citizen Advice Bureau	208	(1)	(38)	0
Other bodies on which the Authority is represented	15	(91)	(14)	3

\*The Authority provided a loan to Merthyr Valleys Homes in the 2014/15 financial year, and the balance outstanding at 31 March 2019 is £428,400.00. The Authority is represented on the Board.



Description	In-year Transactions 2017/18		Balances at 31 March 2018	
	Expenditure incurred by Authority £000	Restated Income received by Authority £000	Owed by Authority (Creditors) £000	Owed to Authority (Debtors) £000
<b>Companies / voluntary bodies in which Members' interests declared</b>				
Cwm Taf University Health Board	981	(1,595)	(120)	1,112
Voluntary Action Merthyr Tydfil	361	(1)	0	1
Cwm Taf Care & Repair	116	(2)	0	0
Other companies / voluntary bodies in which Members' interests declared	340	(31)	(9)	3
<b>Companies / voluntary bodies in which Officers' interests declared</b>				
South Wales Fire & Rescue Authority	0	(3)	0	1
The College of Merthyr Tydfil	139	(43)	(9)	9
Other companies / voluntary bodies in which Members' interests declared	6	0	0	0
<b>Outside Bodies on which the Authority is represented</b>				
Merthyr Tydfil Leisure Trust	3,364	(563)	(57)	153
Merthyr Valleys Homes*	152	(199)	(32)	467
Safer Merthyr Tydfil	281	(3)	(51)	1
Capita Glamorgan Consultancy	28	0	0	0
Citizen Advice Bureau	116	(1)	0	0
Other bodies on which the Authority is represented	80	(85)	0	1

\*The Authority provided a loan to Merthyr Valleys Homes in the 2014/15 financial year, and the balance outstanding at 31 March 2018 is £448,800.00. The Authority is represented on the Board.

### **34.0 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.

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
<i>Opening Capital Financing Requirement</i>	101,541	96,369
<i>Capital Investment</i>		
Property, Plant and equipment	6,755	8,345
Investment Properties	0	0
Revenue Expenditure Funded from Capital under Statute	2,927	2,737
Joint Committee Additions	610	778
<i>Sources of finance</i>		
Capital receipts	(784)	(1,353)
Government grants and other contributions	(5,045)	(2,782)
Direct revenue Contributions	(643)	(306)
Minimum Revenue Provision	(2,655)	(2,423)
<i>Closing Capital Financing Requirement</i>	<b>102,706</b>	<b>101,365</b>
<i>Explanation of movements in year</i>		
Increase in underlying need to borrow (supported by government financial assistance)	1,625	1,619
Increase in underlying need to borrow (unsupported by government financial assistance)	2,070	5,976
Impact of Joint Committees	125	(176)
Minimum Revenue Provision	(2,655)	(2,423)
<i>Increase/(decrease) in Capital Financing Requirement</i>	<b>1,165</b>	<b>4,996</b>

### 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 2018/19 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

**35.0 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 2019 £'000</b>	<b>31st March 2018 £'000</b>
Other land and Buildings	36	45
Vehicles, Plant, Furniture and Equipment	190	60
	<b>226</b>	<b>105</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 2019 £'000</b>	<b>31st March 2018 £'000</b>
Finance lease liabilities (net present value of minimum lease payments)		
• current	(51)	(40)
• non-current	(143)	(23)
Finance costs payable in future years	(5)	(1)
Minimum lease payments	<b>(199)</b>	<b>(64)</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 2019 £'000</b>	<b>31st March 2018 £'000</b>	<b>31st March 2019 £'000</b>	<b>31st March 2018 £'000</b>
Not later than one year	82	41	51	40
Later than one year and not later than five years	117	23	143	23
Later than five years	0	0		0
	<b>199</b>	<b>64</b>	<b>194</b>	<b>63</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 2019 £'000</b>	<b>31st March 2018 £'000</b>
Not later than one year	244	337
Later than one year and not later than five years	471	458
Later than five years	22	45
	<b>737</b>	<b>840</b>

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

	<b>2018/19 £'000</b>	<b>2017/18 £'000</b>
Minimum lease payments	523	597
	<b>523</b>	<b>597</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 2019 £'000</b>	<b>31st March 2018 £'000</b>
Not later than one year	241	235
Later than one year and not later than five years	612	764
Later than five years	624	826
	<b>1,477</b>	<b>1,825</b>

**36.0 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 2018/19 the Authority paid £3,042,000 to the Teachers' Pensions (£2,982,000 in 2017/18) in respect of teachers' pension costs, which represents 16.48% of teachers' pay (16.48% in 2017/18).

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 37.

The Authority expects to pay £3.93 million in contributions into the scheme in 2019/20. There is an increase in the employers pension contribution rate to 23.68% in September 2019.

### **37.0 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.

	<b>Local Government Pension Scheme</b>		<b>Discretionary Benefits</b>	
	<b>£m</b>		<b>£m</b>	
	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of services:				
Service cost comprising				
• current service cost	10.24	9.74	0.00	0.00
• past service cost	5.63	0.13	0.30	0.00
• (gain)/loss from settlements	0.00	0.00	0.00	0.00
• adjustment to pension strain	1.03	0.11	0.00	0.00
Financing and Investment Income and Expenditure				
• Net interest expense	4.30	4.10	0.48	0.41
<b>Total post employment Benefits charged to the Surplus or Deficit on provision of services</b>	<b>21.20</b>	<b>14.08</b>	<b>0.78</b>	<b>0.41</b>
Remeasurement of the net defined benefit liability comprising:				
• Return on plan assets (excluding the amount included in the net interest expense)	(17.57)	(5.75)	0.00	0.00
• Actuarial gains and losses arising on changes in demographic assumptions	(16.64)	0.00	(0.75)	0.00
• Actuarial gains and losses arising on changes in financial assumptions	23.45	7.01	0.66	0.23
• Actuarial gains and losses arising on changes in experience	0.67	2.14	0.05	2.58
• Other	0.00	(0.05)	0.00	0.00
<b>Total post employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>11.11</b>	<b>17.43</b>	<b>0.74</b>	<b>3.22</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:				
Employers contributions payable to scheme	9.94	9.82		
Retirement benefits payable to pensioners			1.00	0.97

**Pensions Assets and Liabilities recognised in the Balance Sheet**

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

	Local Government		Discretionary Benefits	
	£m		£m	
	2018/19	2017/18	2018/19	2017/18
Present Value of the defined benefit obligation	(433.13)	(409.91)	(18.42)	(18.68)
Fair value of plan assets	262.51	239.43	0.00	0.00
Sub-total	(170.62)	(170.48)	(18.42)	(18.68)
Other movements in the (liability)/asset	(1.19)	(0.16)	0.00	0.00
<b>Net liability arising from the defined benefit obligation</b>	<b>(171.81)</b>	<b>(170.64)</b>	<b>(18.42)</b>	<b>(18.68)</b>

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

	Local Government		Discretionary Benefits	
	£m		£m	
	2018/19	2017/18	2018/19	2017/18
Opening fair value of scheme assets	239.43	227.62	0.00	0.00
Central South Consortium Opening Balance Adjustment	(0.08)	0.00	0.00	0.00
Interest Income	6.21	5.92	0.00	0.00
Remeasurement gain/(loss)				
• The return on plan assets, excluding the amount in the net interest expense	17.57	5.75	0.00	0.00
Contributions from the employer	9.94	9.82	1.00	0.97
Contributions from employees into the scheme	2.03	1.99	0.00	0.00
Benefits paid	(12.59)	(11.72)	(1.00)	(0.97)
Net increase in assets from disposals/acquisitions	0.00	0.05	0.00	0.00
<b>Closing fair value of scheme assets</b>	<b>262.51</b>	<b>239.43</b>	<b>0.00</b>	<b>0.00</b>

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

	Local Government		Discretionary Benefits	
	£m		£m	
	2018/19	2017/18	2018/19	2017/18
Opening balance at 1 April	409.91	390.59	18.68	16.43
Central South Consortium Opening Balance Adjustment	(0.09)	0.00	0.00	0.00
Current Service cost	10.24	9.74	0.00	0.00
Interest Cost	10.52	10.03	0.48	0.41
Contributions from scheme participants	2.03	1.99	0.00	0.00
Remeasurements (gains) and losses				
• Actuarial gains and losses arising on changes in demographic assumptions	(16.64)	0.00	(0.75)	0.00
• Actuarial gains and losses arising on changes in financial assumptions	23.45	7.01	0.66	0.23
• Actuarial gains and losses arising on changes in experience	0.67	2.14	0.05	2.58
Past service cost	5.63	0.13	0.30	0.00
Losses/(gains) on curtailment	0.00	0.00	0.00	0.00
Benefits paid	(12.59)	(11.72)	(1.00)	(0.97)
Net increase in assets from disposals/acquisitions	0.00	0.00	0.00	0.00
<b>Closing balance at 31 March</b>	<b>433.13</b>	<b>409.91</b>	<b>18.42</b>	<b>18.68</b>

**Local Government Pension Scheme assets comprised**

	As at 31st	As at 31st
	March 2019	March 2018
	£m	£m
Equities	169.31	179.10
Property	18.11	12.93
Government Bonds	35.44	20.35
Corporate Bonds	30.45	22.51
Cash	9.19	4.55
	<b>262.50</b>	<b>239.44</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:

	<b>Local Government</b>		<b>Discretionary Benefits</b>	
	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>
Longevity at 65 at accounting date				
Males	22.20	22.90	22.20	22.90
Females	24.10	25.00	24.10	25.00
Longevity at 45 at accounting date				
Males	23.90	25.10		
Females	25.90	27.30		
Discount rate	2.40%	2.60%	2.40%	2.60%
RPI Inflation	3.30%	3.20%	3.30%	3.20%
CPI Inflation	2.20%	2.10%	2.20%	2.10%
Pension increases	2.20%	2.10%	2.20%	2.10%
Pension accounts revaluation rate	2.20%	2.10%		
Salary increases	3.45%	3.35%		

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 2019 was calculated by the actuary as 18.6 years (18.6 years at 31<sup>st</sup> March 2018).

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:

	<b>Impact on the Defined Benefit Obligation in the scheme</b>		
	<b>Increase in assumption</b>	<b>Base Figure</b>	<b>Decrease in assumption</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Discount Rate (increase or decrease by 0.1%)	425.16	433.13	441.26
Rate of increase in salaries (increase or decrease by 0.1%)	434.82	433.13	431.46
Rate of increase in pensions (increase or decrease by 0.1%)	439.56	433.13	426.81
Post retirement mortality assumption (increase or decrease by 1 year)	447.14	433.13	419.27

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 £10.80 million contributions into the scheme in 2019/20.

### **38.0 Contingent liabilities**

As at 31<sup>st</sup> March 2019, 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.

### **39.0 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 UK rated building societies.

The Authority's Treasury Management Policy Statement and Annual Investment Strategy 2018/19 reported to Council on 7<sup>th</sup> March 2018 set limits for investments for 2018/19 of:

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

A Treasury Management Mid-Year Review of the 2018/19 financial year was also reported to Council on 19<sup>th</sup> December 2018.

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:

#### 2018/19

<b>Description</b>	<b>Balance outstanding as at 31st March 2019 £000</b>	<b>Historic Experience of Default %</b>	<b>Estimated exposure to non- repayment at 31st March 2019 £000</b>
Sundry Debtors	2,547	1.56	40
Council Tax	5,029	13.69	688

#### 2017/18

<b>Description</b>	<b>Balance outstanding as at 31st March 2018 £000</b>	<b>Historic Experience of Default %</b>	<b>Estimated exposure to non- repayment at 31st March 2018 £000</b>
Sundry Debtors	2,725	1.75	48
Council Tax	4,627	12.72	589

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:

	31st March 2019		31st March 2018	
	Sundry £'000	Council Tax £'000	Sundry £'000	Council Tax £'000
Up to 1 Year	2,243	1,640	2,448	1,356
Between 1 and 2 Years	173	885	109	917
Between 2 and 3 Years	55	672	87	639
Between 3 and 4 Years	20	480	43	420
Between 4 and 5 Years	28	324	12	307
Greater than 5 Years	28	1,028	26	988
<b>Total</b>	<b>2,547</b>	<b>5,029</b>	<b>2,725</b>	<b>4,627</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:

	2018/19				
	£'000				
	PWLB	LOBO	Other	Market Loans	Total
Less than one year	3,187		786	41,053	45,026
Between one and two years	3,187		1,346		4,533
Between two and five years	9,561		281		9,842
More than five years	33,013	12,229	362		45,604
	<b>48,948</b>	<b>12,229</b>	<b>2,775</b>	<b>41,053</b>	<b>105,005</b>

	2017/18				
	£'000				
	PWLB	LOBO	Other	Market Loans	Total
Less than one year	3,187	0	787	32,025	35,999
Between one and two years	3,187	0	349	0	3,536
Between two and five years	10,198	0	638	0	10,836
More than five years	35,563	12,233	0	0	47,796
	<b>52,135</b>	<b>12,233</b>	<b>1,774</b>	<b>32,025</b>	<b>98,167</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 2018/19 would have been as follows:

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

## 40.0 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 2017 is detailed below. There is a nine month window for auditing the financial statements and the 2018 financial statements are expected in October 2019:

	31st December 2017 £'000	31st December 2016 £'000
<b>Expenditure</b>		
Cost of Sales	1,727	2,061
Administration Expenses	1,004	979
<b>Total Expenditure</b>	<b>2,731</b>	<b>3,040</b>
<b>Income</b>		
Turnover	(2,627)	(3,150)
<b>Operating (Profit)/loss</b>	<b>104</b>	<b>(110)</b>
<b>Income Tax (Credit)/expense</b>	<b>(19)</b>	<b>27</b>
<b>Total Comprehensive expense/(income) for the year</b>	<b>85</b>	<b>(83)</b>
	31st December 2017 £'000	31st December 2016 £'000
<b>Fixed Assets</b>		
Intangible	0	0
Tangible	27	49
	27	49
<b>Current Assets</b>		
Income tax receivable	18	0
Debtors	504	687
Cash	713	619
	1,235	1,306
<b>Current Liabilities</b>		
Creditors	(400)	(408)
<b>Net Current Assets</b>	<b>835</b>	<b>898</b>
<b>Total Assets less Liabilities</b>	<b>862</b>	<b>947</b>
<b>Capital and reserves</b>		
Called up share capital	0	0
Profit and loss account	862	947
<b>Shareholders' Funds</b>	<b>862</b>	<b>947</b>

### Joint Operations

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 2018/19.

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 joint operation within the 2018/19 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 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 6.31%.

The Authority has included its share of the joint operation within the 2018/19 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.

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 2018/19.

### **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.

Merthyr Tydfil CBC's share of the joint arrangement is 3.94%.

The Authority has included its share of the joint operation within the 2018/19 financial statements.

### **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 2018/19 the Trust were paid a management Fee as agreed in a Contractual framework of £2,403,000 (£2,673,000 in 2017/18) 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 35 operating leases.

Further details in regards to Merthyr Tydfil Leisure Trust Pension Fund are disclosed within Note 38 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 2018/19**

---

*August 2019*

**MERTHYR TYDFIL COUNTY BOROUGH COUNCIL****ANNUAL GOVERNANCE STATEMENT 2018/19****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.

The Wellbeing of Future Generations (Wales) Act 2015 requires the Council to set and publish wellbeing objectives and to identify how it will work towards meeting those objectives using the sustainable development principle. Public bodies in Wales must work in a sustainable way to achieve the common vision to improve the economic, social, cultural and environmental wellbeing of Wales. Therefore, we need to make sure that when we make decisions, we take into account the impact they could have on the people living their lives in Merthyr Tydfil now and in the future.

Public bodies covered by the Act, including Local Government are required to consider the longer term in making their decisions and to work collaboratively with other public bodies to improve wellbeing in Wales. The Act places a wellbeing duty to set wellbeing objectives that maximise their contribution to achieving wellbeing goals. Public bodies' first wellbeing objectives were set and published by 31<sup>st</sup> March 2017. Public bodies are required to report annually on their progress towards meeting their wellbeing objectives.

The Act also establishes public service boards (PSB's) for each Local Authority area. The Cwm Taf Public Services Board (PSB) is a collection of public bodies working together to improve the economic, social, environmental and cultural well-being of people who live, work and visit the Cwm Taf areas of Rhondda Cynon Taf and Merthyr Tydfil. Each PSB is required to improve the economic, social, environmental and cultural well-being of its areas by working to achieve the wellbeing goals. PSB's contribution to achievement of the goals must include preparing and publishing an assessment of local wellbeing by May 2017, preparing and publishing a local wellbeing 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 – the Chartered Institute of Public Finance and Accountancy/IFAC – International Federation of Accountants, 2014), on which the Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE – the Society of Local Authority Chief Executives and Senior Managers, 2016) is based.

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.

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 Council has a Local Code of Corporate Governance in place. This is currently being reviewed to determine what changes may be necessary 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 2 of the Accounts and Audit Regulations 2015.

## **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 wellbeing objectives and 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 objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, wellbeing objectives and 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 2019 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) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.**

All Councillors and Officers in the Council are required to comply with the relevant Codes of Conduct as set out in the Constitution, which details the particular roles and responsibilities of Councillors and Officers.

The Code of Conduct and Declaration of Interests form part of the Councillor's Induction Process. Councillors are expected to declare to an appropriate Director or Manager and in the Register of Interests any financial/non-financial interests which could conflict the Council's interests. Councillors must also declare any offers/ acceptance of hospitality.

The Council has confirmed a number of Core Values and associated behaviours:

- Honesty & Openness
- Trust & Respect
- Accountability
- Learning
- Aspiration
- Team Working
- Communication

The Council has formed a Standards Committee to promote and maintain high ethical principles and these are enshrined within the Code of Conduct for Councillors. 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 responsible for training and advising Councillors on the Code of Conduct.

All new starters within the Council are provided with a Staff Handbook which provides a summary of the Council's relevant policies and working practices. Included within the Handbook is a summary of the Employee Code of Conduct. The complete Employee Code of Conduct is also available on the Council's Intranet site.

The Head of Legal and Democratic Services is the Monitoring Officer for the Council, with the specific responsibility for ensuring that the Council, its Officers and its Councillors maintain the highest standards of conduct in all they do as per Section 5 of The Local Government and Housing Act 1989 and as amended by schedule 5 paragraph 24 of the Local Government Act 2000.



The functions of the Monitoring Officer include support to the Standards Committee in its promotion of high standards; acting on Ombudsman reports; and conducting investigations into certain categories of complaints against councillors remitted by the Ombudsman. Any complaints received against Councillors are referred to the Ombudsman for investigation. Complaints are only referred to the Standards Committee if the Ombudsman felt there was an appropriate outcome to do so. The statistics for complaints made against Councillors during 2018/19 were not available at the time the AGS was compiled they are in the process of being collated and will be available from the 16<sup>th</sup> August 2019.

In 2018, every elected Councillor was subject to an individual Training Needs Analysis, and asked if there was any specific training required to assist with their continued learning and development. A training matrix is maintained which records all training undertaken by Councillors. This process assists Councillors in identifying their key strengths, consider their continued development needs and what support may be required to meet their personal objectives and deliver the Council's corporate vision.

Cabinet members are actively involved in reviewing the Council's core values to underpin all Council business.

Senior Managers have undertaken a range of courses under the banner of the Managers Academy to ensure skills and knowledge are updated and refreshed.

The Council's Procurement Strategy requires that all procurement activity will be undertaken to the highest standards of probity and professionalism and that Councillors and Officers will be fair and ethical and will avoid conduct that may contradict this or suggest a conflict of interest.

The Procurement Team will comply with the CIPS (Chartered Institute of Procurement and Supply) code of ethics and promote this throughout the Council to all members of staff that have a responsibility to commit expenditure.

To support the management of risk, Key Partners are identified within each of the Councils Risk Registers. The Council has developed an Integrated Impact Assessment (IIA) which incorporates the Council's Wellbeing Objectives, the Sustainable Development principle (the five ways of working), Welsh Language, Equalities and Biodiversity, to support effective decision making and ensuring compliance with other pieces of legislation that the Council is subject to. This has been applied to business cases and projects as part of the Councils project management framework. The implementation of the IIA was approved by Cabinet in September 2018 and was introduced for Council and Cabinet Reports as of October 2018.

For 2018/2019 the Council operated an in-house Internal Audit Service that is compliant with the Public Sector Internal Audit Standards (PSIAS). The Internal Audit Service undertook a comprehensive annual programme of work based upon a risk assessed plan. At the end of 2018/2019 the Council entered into a shared service arrangement for the provision of internal audit services. The new regional internal audit service commenced operational activity in April 2019 and is operated in collaboration between MTCBC, Rhondda Cynon Taf Council, Bridgend Council and Vale of Glamorgan Council.

The Council is a participant in the National Fraud Initiative (NFI) and the work of Internal Audit includes processing the National Fraud Initiative data matches and other relevant work.

The Council has an operating and effective Audit Committee that is compliant with the Local Government Measure (Wales) 2011 and the Accounts and Audit Regulations (Wales) 2014 as amended in 2018. The Committee Terms of Reference are compliant with best practice guidance. The Council's External Auditors undertake a comprehensive annual programme of work that they report on.

The Council's Financial Procedure Rules and Constitution documents contain guidance and instruction for staff and also detail the arrangements in place.

The Council has an Anti-Fraud and Corruption Policy in place. This is currently being reviewed to ensure it remains up-to-date and effective.

The Council has a Whistleblowing Policy in place encouraging staff to raise any concerns they may have regarding malpractice within the Council. The Policy is periodically publicised to remind staff about making referrals if the need be.

**b) Ensuring openness and comprehensive stakeholder engagement.**

A series of new engagement and consultation activities have been adopted by the Council in compliance with the Consultation Charter. 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 is 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
- Leader's Blog
- 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 Wellbeing Assessment to inform the Wellbeing Plan on behalf of the Public Services Board (PSB) and further engagement and consultation was undertaken to inform the Council's Wellbeing Statement and objectives linked to the Wellbeing of Future Generations Act.

There are clear channels of communication in place corporately for all consultation and engagement activity. This is done through the Smart Survey, Council's website ([www.merthyr.gov.uk](http://www.merthyr.gov.uk)), 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 Taff CBC 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.

The Council has also confirmed a number of Core Values and associated behaviours including Honesty and Openness, and Communication.

The Council is 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 Public Service Board 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 Public Service Board represents a statutory partnership of public and voluntary sector organisations. Wide ranging consultation was undertaken during the development of the Cwm Taf Wellbeing Assessment and the development of the Cwm Taf Wellbeing Plan.

To support the work of the Wellbeing Plan, an Involvement, Communication and Engagement Group (ICE) has been set - up as part of the Public Service Board. A Communication, Consultation and Engagement Strategy have been developed to ensure that the work of the PSB is understood and its aim of changing the way we serve the public.

In preparing the Wellbeing Assessment the PSB talked to hundreds of people who live, work and use public services across the Cwm Taf area, community groups and members of our communities who wanted to have their say. The findings from the Assessment were used to help start more detailed work to find out what was important to communities and what can be done to improve people's well-being. The Wellbeing Assessment will be used across public services to inform design and delivery of services. To ensure that everyone is able to work together to improve well-being in Cwm Taf, the Public Services Board is supported in engagement and communications by officers from PSB member organisations.

All Council agendas, reports and minutes are available on the Council's website as they are published and Full Council and Planning Committee meetings are webcast. Consideration is currently being given to webcasting Scrutiny Committees. Further to this, all agendas are published in both Welsh and English languages.

The Council operates a corporate complaints policy and a social services complaints policy to ensure it effectively deals with any concerns or complaints customers may have about services provided by the Council.

The Council adopts a positive attitude towards complaints and views them as a valuable form of feedback, which assists in the development and improvement of services. Complaints also provide an opportunity to learn lessons where a service has fallen short of an expected standard.

In 2018/19, a total of 256 corporate complaints were received by the Council; 10 of these complaints were in respect of Merthyr Valleys Homes; of the remaining 246 complaints 91 were upheld, 96 were not upheld, 15 were partly upheld, 7 were referred to the Insurance Department, 1 was withdrawn and 36 complaints were not progressed for a variety of reasons. Corporate complaints are not being reported to Cabinet.

**c) Defining outcomes in terms of sustainable economic, social, and environmental benefits.**

The Wellbeing of Future Generations (Wales) Act 2015 requires the Council to set and publish wellbeing objectives and to identify how it will work towards meeting those objectives using the sustainable development principle. Public bodies in Wales must work in a sustainable way to achieve the common vision to improve the economic, social, cultural and environmental wellbeing of Wales. Therefore, we need to make sure that when we make decisions, we take into account the impact they could have on the people living their lives in Merthyr Tydfil now and in the future.

Public bodies covered by the Act, including Local Government are required to consider the longer term in making their decisions and to work collaboratively with other public bodies to improve wellbeing in Wales. The Act places a wellbeing duty to set wellbeing objectives that maximise their contribution to achieving wellbeing goals. Public bodies' first wellbeing objectives were set and published by 31<sup>st</sup> March 2017. Public bodies are required to report annually on their progress towards meeting their Wellbeing Objectives.

The Council has an approved vision that is at the heart of delivering the local Wellbeing Objectives and PSB objectives. This aligns with the seven Wellbeing Goals and Five Ways of Working (Long Term; Preventative; Integration; Involvement; Collaboration). The Council also has a Statement of Wellbeing and a Focus on the Future document that sets out the local Wellbeing Objectives. A PSB Wellbeing Plan has been developed. There are strategies for each Wellbeing Objective underneath the vision with appropriate performance indicators identified. An extensive exercise has been carried out when developing the local Wellbeing objectives and PSB objectives. This is reflected in the PSB Wellbeing Plan and MTCBC Wellbeing Statement and Focus on the Future documents. The same approach is taken to change projects and budget setting. This is then used in setting budgets and local Wellbeing objectives.

For openness and transparency, information supporting all engagement and public consultations, is available on the Council's communication channels i.e. Council website, social media sites, Facebook and Twitter and via the Smart Survey. Stakeholders can access these channels to feedback in response to any engagement session or public consultation with the opportunity to also respond via a paper copy, email or a petition. All information will be recorded and analysed by the Corporate Communications Team, the outcome of which will be forwarded to Senior Managers and Politicians at Corporate Management Team and Corporate Leadership Team for consideration. Following this, a report will be presented to Full Council with a recommendation for

Council to approve. The outcome and the impact of the decision made will be reported via the Council's communication channels.

Performance is monitored through self-assessment and performance challenge. Service performance is also challenged at scrutiny committee meetings.

The Council has a Corporate Risk Register in place which is an essential part of the Council's corporate governance arrangements. The Corporate Risk Register is a risk register which allows the Council to focus on managing and mitigating the most significant corporate risks that could impact on the organisation and/or community.

The Council's updated Corporate Risk Register is presented to Audit Committee and Cabinet for approval, along with an Annual Report on risk management. Reporting on risk management is an integral part of the Council's risk governance arrangements. Lead Corporate Management Team Officers are invited to attend Audit Committee on a rolling programme basis to report on progress in managing their Corporate Risks.

Budget consultation exercises are held throughout the County Borough in evaluating customer priorities for the allocation of scarce resources. These take the form of Cabinet roadshows, on-line surveys and social media engagement. In addition the customer's opinion on Council Tax increases in supporting local services is also sought. This engagement assists in informing the Budget Setting process and also informs the customer of the financial pressures faced by the Council in allocation of resources to competing demands. Business cases are developed and challenged using the seven Wellbeing Goals, Five Ways of Working, regional Wellbeing Objectives and local Wellbeing Objectives.

Extensive public engagement processes are in place, these include managing expectations. This is also true for internal change. Business cases, project initiation documentation and delivery reports include assessments against determining priorities and making the best use of the resources available.

The Capital Programme is compiled for a four year period based on proposals submitted by Chief Officers/Senior Managers, supported by Cabinet and approved by Council. Revenue implications of capital decisions are included as part of an integrated Medium Term Financial Plan, for example capital financing cost implications of borrowing to support the capital expenditure. A significant proportion of capital expenditure is funded through external grants received from a number of external awarding bodies which are subject to rigorous prescriptive terms and conditions.

The Welsh Procurement Policy Statement is a key driver for procurement activity. The Council's Procurement Board is driving the application of economic, social and environmental impacts of procurement related activity. Community benefits are tested on all contracts over £1million. The Council collaborates with other public bodies extensively across the procurement portfolio and the procurement strategy supports the Wellbeing of Future Generations (Wales) Act 2015 including

supplier engagement. Open accessible competition is provided through e-procurement tools funded by Welsh Government (Sell2wales, etenderwales, AWARD, marketplace), and simplified standardised process are provided through P2P.

When inviting tenders, the process ensures that the most advantageous tender is approved and stipulates conditions in respect of complying with the Council's wellbeing objectives and the Wellbeing of Future Generations (Wales) Act 2015 as appropriate.

In terms of ensuring fair access to services the Council has adopted a Strategic Equality Plan (SEP) for 2016-2020 in line with the requirements of the Equality Act 2010. The SEP sets out the following Equalities Vision for Merthyr Tydfil:

*"A place where diversity is valued and respected and everyone can participate, flourish and have the opportunity to fulfil their potential free from discrimination and prejudice."*

This Vision is supported by the following four Equality Objectives that are set out in the Plan:

- Equality Objective 1 - Community Engagement:  
Put citizens' voices at the heart of local decision making so that their contribution is understood, recognised and used to help the Council understand and respond to the needs of its communities.
- Equality Objective 2 - Equality Awareness Raising:  
To support and facilitate Equalities training and learning opportunities so that staff at all levels, Councillors and partners recognise and incorporate Equalities as part of their role.
- Equality Objective 3 - Understanding our Staff and Communities:  
Develop robust monitoring systems to collect, collate, monitor and publish equalities data on our employees and customers, which will help the Council to ensure that it provides fair and accessible services.
- Equality Objective 4 - Gender/Equal Pay:  
Ensure equity of pay across Merthyr Tydfil County Borough Council.

The Council publishes an Annual Equality Report noting progress across all aspects of its equalities work, including progress on delivering its Equality Objectives in line with the Public Sector Equality Duty.

The Council has approved its Welsh Language Promotional Strategy. The Strategy sets out the following Welsh language Vision for Merthyr Tydfil:

*"A place which promotes the use of the Welsh language and treats the Welsh and English languages on the basis of equality".*

This will be achieved by enabling and encouraging:

- The broad provision of Welsh language education throughout the County Borough.
- The opportunities for people to use Welsh at work, at home and at play.
- The perception of languages as life skills, which enriches the lives of those who use them.
- People throughout the County Borough to feel pride in their language, and confidence to use it.

It is the Council's vision to encourage a cultural change in the way that the two languages of Wales are perceived in this County Borough. "We want to make a difference."

**d) Determining the interventions necessary to optimise the achievement of the intended outcomes.**

The delivery of corporate change is monitored and supported via the Change Management Steering Group as part of the procurement framework and governance arrangements. This group comprises of professionals from across the Council, e.g. Legal, Procurement, Risk, Equalities, Performance, Finance, Corporate Communications, HR, Business Change and Project Management (as part of the procurement framework and governance arrangements). Following delivery, the Budget Board monitors the financial position. Performance is monitored through self-assessment and performance challenge (however this is not across all service areas due to the timeline for development of the Focus on the Future Wellbeing plan). Service performance is also challenged at Scrutiny Committee meetings.

The challenge of documents is carried out by various relevant Boards as part of the governance arrangements. All reports to Cabinet and Council require an Equalities Impact Assessment. The challenge against the Wellbeing of Future Generations (Wales) Act 2015 is done as part of this process.

The Council has a project management framework that assesses risk, resources and finance (as well as other elements of the proposal). The business case template sets out each option for appraisal. The project initiation documentation sets out timescales and additional information as required.

Corporate Management Team assess reports prior to Cabinet and Council with feedback from documentation and Boards being available.

In addressing budget reduction requirements business cases consist of a number of options complete with risk and equality assessments and projected timelines for achievement.

Feedback from any public engagement and consultation process including Budget Consultation is analysed by the Communication, Consultation and Engagement Department and a report of the findings will be considered by Corporate Management Team and Cabinet members. Following this an additional report will be presented to Full Council for a decision to be made. The outcome of



this decision will be communicated to all stakeholders via the Council's communication channels i.e. Council website, Social media sites and Contact community magazine.

On request from our residents, additional information and events are held with support from the Council's Cabinet.

Internal engagement with staff is undertaken via the Council's Intranet, Leader's Blog, Roadshows, staff emails and staff forums.

Planning and control cycles that cover strategic and operational plans, priorities and targets have been established. These are currently delivered as part of Corporate Management Team and Scrutiny functions. Education and Social Services have additional control cycles to meet external requirements (including safeguarding protocols).

Appropriate local performance indicators (as well as relevant statutory or other national performance indicators) are used to identify how the performance of services and projects are to be measured.

As part of the Strategy on a Page Development a full review of Performance, Scrutiny, Partnerships, Welsh Language, Business Change, Risk and Equalities Team has taken place to ensure capacity exists to generate the information required to review service quality regularly.

The Medium Term Financial Plan aids financial planning and corporate decision making and is integrated with the Council's Wellbeing Objectives, Asset Management Plan, Strategic Workforce Plan, Financial Context, Revenue Budget, Capital Programme, Reserves Strategy and Treasury Management Policy.

The Council's Medium Term Financial Plan is for a four year period integrating revenue expenditure and capital plans linked to strategic objectives. The Capital Programme is set for four years. Four year budget requirement projections are compiled for revenue indicating projected budget deficits for years two to four. In determining affordability of the Council's plans, the Medium Term Financial Plan is compiled on the basis of projected funding received from Welsh Government. This informs the amount of available resources for Council services in defining the affordability envelope.

Professionally qualified and part qualified Accountants work with Service Managers in establishing budget requirements and identifying the impact of proposed budget reductions. Timelines are communicated along with expectations. The Medium Term Financial Plan marries capital ambitions with revenue implications over the four year period of the plan.

Although the Medium Term Financial Plan currently only indicates projected budget deficits for year's two to four, a sensitivity analysis in respect of Welsh Government Funding and Council Tax increases allow the impact of changes in the external environment to be determined. This provides further meaningful information to the decision maker.

**e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.**

Operations, performance and use of assets are reviewed on a regular basis to ensure their continuing effectiveness.

Delivery of corporate change is monitored and supported by the Change Management Steering Group as part of the procurement framework and governance arrangements. Following delivery of change, the Budget Board monitors the financial position. Performance is monitored through self-assessment and performance challenge. Service performance is also challenged at Scrutiny Committee meetings.

The Corporate Asset Management Plan (2014-19) sets out the Council's five year plan for managing its assets. This is reviewed regularly to ensure that the property portfolio is closely aligned to service requirements and corporate priorities. There is a robust property review exercise in place which analyses service requirements recommending property rationalisation where appropriate and delivers on the release of surplus property to fund the capital programme.

Assets surplus to requirements are continuously reviewed and recommended for sale where appropriate.

Benchmarking and horizon scanning techniques are used in the development of strategies and business cases for change. Benchmarking with other Local Authorities, Public Sector and Private Sector is undertaken where appropriate when budget saving proposals are presented. In addition benchmarking information is used in supporting the 'Income Management and Cost Recovery Policy' to assist in evaluating the extent to which services with an income stream are recovering costs. This then informs proposals for increases in fees and charges. Benchmarking is also utilised to assess Value for Money of Council Services, for example educational attainment.

In terms of effective operation of partnerships the Council has a Risk Category Checklist as part of its risk identification process. The Checklist includes the following in relation to partnership related risks:

- Consideration of, for example, the impact of working with private and/or public sector organisations, accountability frameworks and partnership boundaries, large-scale projects with joint ventures, outsourced services, relationship management, change control/exit strategies, business continuity and contractual liabilities.

The updated Checklist also forms part of the Council's revised Project Management Framework.

The Council has developed an Integrated Impact Assessment (IIA) which incorporates the Council's Wellbeing Objectives, the Sustainable Development principle (the five ways of working), Welsh Language, Equalities and Biodiversity, to support effective decision making and ensuring compliance with other pieces of legislation that the Council is subject to.

The IIA also includes partnership risk as part of the five ways of working. The IIA asks the following under Collaboration (Actively working together with other partners (internal and external) to deliver wellbeing objectives):

- Do partners identify, understand and manage their role in the partnership in the most appropriate way – identifying factors which influence the success of the partnership and the relationships, identifying the risks, what might go wrong, what might prevent the partnership from achieving its objectives and outcomes?
- Have the risks associated with creating, establishing, managing and delivering successful partnerships been identified and are being managed? Examples of some of the risks that could be considered include financial, legal, reputation, resource conflicts, reliance on a particular partner, how well other partners are managing risk.

This has been applied to business cases and projects as part of the Council's project management framework. The IIA was introduced for Council and Cabinet Reports as of October 2018.

Political Leaders are aware of the political balance rules and senior salary limitations relating to committee membership and they work together to ensure that nominations are made to cover all seats on committees, on outside bodies and partnership boards.

With a large number of new Councillors in 2017 there has been intensive work between Senior Councillors and Officers to facilitate understanding of roles and the functioning of the organisation.

Induction and new Councillor training has taken place together with close working between Corporate Management Team and Cabinet including a number of joint meetings being held.

The accountability of the role of Member Champions has been clarified and they will be required to report back on the work that they have been involved with and how it has impacted the Council's vision and wellbeing objectives.

The Leader and Chief Executive have defined and distinctive leadership roles that are set out in a number of areas in the Council's Constitution. This area is being reviewed owing to the appointment of new Councillors and the need to more clearly define and distinguish between the respective roles and responsibilities.

Senior Managers have undertaken a range of courses under the banner of the externally facilitated Managers Academy to ensure skills and knowledge are updated and refreshed. This has allowed the creation of new networks through coaching and action learning sets.

A performance management system has been in place and this has been reviewed with an updated performance management appraisal system called Focus on Performance having recently been launched. Workshops have been arranged to discuss new templates and how to ensure that personal development plans to capture training and development needs are included.

There are a number of health and safety policies in place to help maintain the health and wellbeing of the workforce, along with supporting staff in maintaining their own physical and mental wellbeing. These policies include:

- Corporate Health and Safety Policy;
- Risk Assessment Policy Procedure and Guidelines;
- First Aid at Work Policy;
- Display Screen Equipment Policy;
- Control of Substances Hazardous to Health Policy (COSHH);
- Drug and Alcohol Policy;
- Lone Worker policy;
- Asbestos Management Plan; and
- Workplace Stress Policy.

Occupational Health support is available to all staff including assessments by trained medical personnel, access to counselling, and workplace/workstation adaptations to comply with disability legislation and requirements. A 24 hours service for advice, information and counselling is provided online and by telephone for all Council employed staff to access. A wellbeing Wednesday scheme has been introduced where staff are encouraged to undertake activities promoted by the Council to enhance their wellbeing.

**f) Managing risks and performance through robust internal control and strong public financial management.**

A Self-Assessment of the Council's Risk Management arrangements has been undertaken to establish the Council's level of risk maturity. The Council's level of Risk Maturity was assessed as:

- Risk Management is working and embedded in the organisation

The Council continued its work to refine its arrangements through self-review and has restructured its risk register to reflect the requirements of the Wellbeing of Future Generations (Wales) Act 2015.

The Council has a Corporate Risk Register along with Chief Officer and Service Area Risk Registers in place. These Risk Registers capture and report on the management of risks and issues that could impact on:

- Delivering the Council's Wellbeing Objectives.
- The wellbeing of our communities and future generations.
- The organisation (MTCBC).

The Council also has an established Equality Impact Assessment process in place enabling report authors to identify any threats (negative impacts) and/or opportunities (positive impacts) associated with proposals in Council and Cabinet reports that could impact on Protected Groups, in line with the requirements of the Equality Act 2010.

Risk Management is a key element of the Council's Project Management Framework to ensure that it is incorporated into all levels of programmes and projects across the Council. Risk Management continues to be an integral part of the Council's Change Programme. This includes having a Programme Risk and Issue Log in place that is monitored and reported on a quarterly basis.

As part of the Council's Scrutiny Work Programme, risks and issues together with the related risk mitigation are monitored and reported in the Wellbeing Plan Reports. These are presented to the respective Scrutiny Committees in line with the Council's Wellbeing Plan.

Risk Management is an integral part of the Council's Procurement Toolkit which helps service departments and staff when procuring goods and services. It assists Procurement to manage stakeholder expectations, and facilitate outcomes that are within the risk tolerance of the Council.

The Council has an approved Risk Management Strategy that includes a Corporate Risk Management Policy Statement. The Risk Management Policy and Strategy is reviewed annually to ensure that it continues to provide an effective process for the systematic identification and management of risk within the Council which will ensure that the objectives of the Council's Risk Management Policy are realised.

Each Corporate Risk is allocated to a Portfolio Member, Lead Corporate Management Team Officer and Lead Officers to ensure that there are clear lines of responsibility and awareness at all levels of the Council.

To support the management of each Corporate Risk, Team Members and Key Partners are also identified within the Corporate Risk Register.

Within the Chief Officer and Service Area Risk Registers each risk/issue is allocated to a Risk Owner, Team Members and Key Partners. The risks/issues in the Change Management Programme Risk Log have been allocated to the Senior Responsible Officer.

The Budget Board, which includes the Leader of the Council, Cabinet Member for Governance and Corporate Services, Chief Executive (Chair), Deputy Chief Executive and Chief Finance Officer, meet on a monthly basis to scrutinise service performance against budgets. Where financial issues exist, Chief Officers, with Cabinet Members are invited to Budget Board to provide explanations and potential solutions. Cabinet formally consider Budget Monitoring statements on a quarterly basis.

Detailed reports and analysis are provided to Councillors to support decision making along with appropriate advice and discussion.

Councillors are provided with electronic access to committee papers as they are published and receive ongoing statutory and non-statutory training to support them in their role as decision makers.

Business cases in supporting budget reduction proposals provide rationale for options presented and recommendations made and include where appropriate benchmarking information, risk and equalities assessments. These are considered at Cabinet, Scrutiny Committees, Audit Committee and Council and are subject to engagement and consultation with all stakeholders.

The Council has a Risk Category Checklist as part of its risk identification process. This aims to ensure that risk identification is undertaken in a structured way to help ensure that all potential categories of risk are considered rather than just the initial risks that come to mind.

The Checklist is based on the widely used PESTLE Model (Political, Economic, Social, Technological, Legal and Environmental). The Checklist has been reviewed and updated in consultation with service areas across the Council to consider the risk requirements of the Wellbeing of Future Generations (Wales) Act 2015. The Checklist has also been updated to reflect other areas of risk in relation to partnerships, procurement and reputation, for example.

Culture has also been added as a Risk Category to ensure the Council considers risk from an environmental, social, economic and cultural wellbeing perspective. The five ways of working (Long Term, Integration, Involvement, Collaboration and Prevention) have also been added to the Checklist to ensure they are considered when developing risk action plans.

The Council's Corporate Risk Register is prepared using a combination of the following risk sources:

- Corporate Risks that were identified in the previous year's Corporate Risk Register.
- An analysis and grouping of:
  - The identified risks that have been scored 12 or above in the Chief Officer and Service Risk Registers.
  - The identified issues in the Chief Officer and Service Risk Registers.
  - Risk Identification Workshops for Corporate Management Team and Councillors.

The Council has developed an Integrated Impact Assessment (IIA) which incorporates the Council's Wellbeing Objectives, the Sustainable Development principle (the five ways of working), Welsh Language, Equalities and Biodiversity, to support effective decision making and ensuring compliance with other pieces of legislation that the Council is subject to. This has been applied to business cases and projects as part of the Council's project management framework. The IIA was introduced for Council and Cabinet Reports as of October 2018.

The Council has six scrutiny committees in place; the Governance, Performance, Business Change and Corporate Services Scrutiny Committee; the Learning and LAESCYP Scrutiny Committee; the Neighbourhood Services, Planning and Countryside Scrutiny Committee; Regeneration and Public Protection (also Crime and Disorder Committee); and the Social Services Scrutiny Committee. These committees meet approximately every six weeks. There is also a Joint Scrutiny Committee with membership including all the Scrutiny Councillors and Co-opted members. The Joint Scrutiny Committee meet when there is an issue or item that affects all the scrutiny committees. The Joint Scrutiny Committee met a number of times during 2018/2019 to consider budget proposals.

The Council sets out the respective roles and responsibilities of scrutiny Councillors in the Council's Constitution. The 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. In addition to having publically appointed co-opted members of each of the scrutiny committees, there are voluntary sector represented co-opted members, and Youth Forum co-opted members. During 2018/19; a number of issues arose relating to attendance of Youth Forum and voluntary sector co-opted members. To address these, some changes were brought into effect in relation to Youth Forum members, and these have led to an improvement on a number of the Committees. A similar process is currently underway in relation to the vacancies linked to voluntary sector co-opted members.

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. During 2018-19 no Cabinet decisions have been subject to "call-in". Cabinet members are invited to attend scrutiny committee meetings where they are available to respond to challenge on their areas of responsibility, Cabinet Member attendance has varied during 2018/19. It is noted, however, that without an Annual Cabinet Work Programme, topics which could be scrutinised earlier in the development process are not received until 7 days before the Cabinet meeting takes place. This minimises the opportunities for scrutiny committees to become involved in the planning stages of Cabinet activities.

In September 2018 the Wales Audit Office published their report *"Overview and Scrutiny: Fit for the future?"*. This report was a national study across all 22 councils in Wales and explored how fit for the future their scrutiny functions were. The report concluded that at MTCBC *"The Council is beginning to respond to weaknesses in its overview and scrutiny arrangements, but further work*

*remains to make it better placed to respond to current and future challenges.*" It also made a number of proposals for improvement that the Council is currently addressing.

The Wales Audit Office issued their Annual Audit Letter in April 2019 that highlighted their concerns of the financial challenges facing the Council and stated that *"The challenge facing the Council is significant."* A follow up letter received from the Wales Audit Office dated May 2019 also highlighted their concerns over governance and scrutiny arrangements at MTCBC and recommended that a forward work programme for Cabinet be published. The letter also iterated the key challenges faced by the Council as:

- *Financial situation;*
- *Service pressures;*
- *Leadership and capacity; and*
- *Governance.*

Further to the Wales Audit Office letter expressing their concerns the Welsh Government Minister for Housing and Local Government has confirmed that MTCBC will be provided with formal support under section 28 of the Local Government (Wales) Measure 2009, this involves the appointment of two external advisors to assist the Council to identify the main challenges it faces and also actions required to inform the support package.

The Council's Wellbeing Objectives were previously regularly reported to all of the scrutiny committees as can be evidenced in the meeting agendas and minutes. This process changed in 2018/19, where each of the Council's Wellbeing Objectives were reported on at the Governance, Performance, Business Change and Corporate Service Scrutiny Committee. This change was effected to enable every scrutiny committee Chair to receive an update on progress made against the Wellbeing Objectives at the same time, thereby reducing the opportunities for a silo approach to scrutinising progress made to occur.

The Constitution also sets out the terms of reference for the scrutiny committees. 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 2018/19 was submitted to Council in July 2019.

The Cwm Taf Joint PSB Scrutiny Committee was established during 2016/17 (MTCBC and RCTCBC) with the role of scrutinising and challenging the work of the Cwm Taf Public Services Board. Training has been provided to Councillors on the Joint PSB Scrutiny Committee on their role by the WLGA. Following Local Government elections in May 2017 the Council has had a programme of training for Councillors.

The Change Management Board members include Cabinet Members. As such monthly updates are received. Outcomes and progress are reported to Corporate Management Team and Senior Leadership Group, again on a monthly basis. Quarterly reports are provided to Cabinet for information on progress. Progress towards outcome achievement is challenged at governance



scrutiny committee meetings. Senior Management meetings are in place for each directorate to present reports on service delivery plans.

Budget Setting, Budget Monitoring and Budget Outturn statements follow a consistent template which is also the format reported to Budget Board and Cabinet. Delivery of approved savings are monitored by Change Management Steering Group and Budget Board.

The Council's Financial Procedure Rules and Constitution documents contain guidance and instruction for staff and also detail arrangements in place. They are reviewed periodically to ensure they remain fit for purpose and relevant. Both the Financial Procedure Rules and other elements of the Constitution are in need of updating to reflect changes that have taken place in recent years.

Risk Management informs the Internal Audit Plan that is put in place for the year, and each year Internal Audit will focus on a number of Corporate Risks as part of their audit work.

The Internal Audit plan is devised using a risk based strategy. Individual Internal Audit reports give opinions on risk management and internal control arrangements. The Risk Management function is subject to periodic Internal Audit review in line with the Audit Plan.

The Annual Internal Audit Report for the financial year 2018/2019 incorporating the Audit Manager's opinion has been produced and reported to the Council's Audit Committee. 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 2018/2019.

For 2018/2019 the Council operated an in-house Internal Audit Service that is compliant with the Public Sector Internal Audit Standards (PSIAS). The Internal Audit Service undertook a comprehensive annual programme of work based upon a risk assessed plan. At the end of 2018/2019 the Council entered into a shared service arrangement for the provision of internal audit services. The new regional internal audit service commenced operational activity in April 2019 and is operated in collaboration between MTCBC, Rhondda Cynon Taf Council, Bridgend Council and Vale of Glamorgan Council.

The Council is a participant in the National Fraud Initiative and the work of Internal Audit includes processing the National Fraud Initiative data matches and other relevant work.

The Council has and operates a Whistleblowing Policy and Anti-fraud and Corruption Policy that includes guidance and the avenues that can be used for reporting fraud to a number of points of contact both within the Council and externally e.g. the police, the external auditors, the ombudsman etc.

There are a number of measures used within the Revenues and Benefits Service to identify benefit and council tax reduction fraud activity and there are defined courses of action to be followed for any identified cases that can include court action and criminal prosecution.

The Council has an operating and effective Audit Committee that is compliant with the Local Government Measure (Wales) 2011 and the Accounts and Audit Regulations (Wales) 2014. The Committee Terms of Reference are compliant with best practice guidance.

The Audit Committee meets approximately every 6 weeks. It is independently chaired by a member of the non-ruling political group. Each meeting is attended by Internal Audit and a representative from the External Auditors. All meetings are minuted and open to the public. All minutes are published. Minutes and agendas of the meeting are maintained and retained on the Council's democratic administration system. Training is provided to Councillors periodically and when requested.

Effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data. Since the implementation of the General Data Protection Regulations (GDPR) on 25th May 2018, the Data Protection Officer has prepared all relevant documents and the Information Governance Team continue to offer training to staff and Councillors to implement the legislation. Reviews of current data processing have taken place.

The Council is a member of Wales Accord on the Sharing of Personal Information (WASPI) and as such will enter into WASPI agreements when sharing information with partners that are also party to the accord. In instances where a data controller is not a member of the WASPI, information sharing protocols are in place that will support the sharing of personal information.

Reviewing and auditing the quality and accuracy of data used in decision making and performance monitoring forms part of the challenge around quarterly returns, statutory returns, scrutiny committee meetings, and self-evaluation and performance board meetings. This work is currently being reviewed to align with the Wellbeing of Future Generation (Wales) Act 2015.

The annual budget process encompasses medium term financial planning with the intention that budget decisions are aligned to wellbeing objectives, asset management planning and workforce strategy. The Council approved Medium Term Financial Plan covers a four year period with currently a balanced budget set for year one and indicative budget deficits stated for years two to four (based on reported assumptions).

**g) Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

All Committee agendas, reports and minutes are written, communicated and published on the Council's website for the public and other stakeholders. These are available in both English and Welsh. Full Council meetings and Planning meetings are webcast.

Reports are subject to officer challenge as part of governance arrangements (e.g. Change Management Steering Group) and prior to Cabinet and Council via Corporate Management Team, and Service Management meetings. This provides a means for ensuring a balance between the correct level of information for transparency and ability to make a true decision.

Committee Membership, Attendance, Declarations at meetings, Registered Interests and Councillor Representation on Outside Bodies are monitored and published on the Council's website and included in the Councillors' Annual Reports.

A report on Remuneration paid to elected Councillors is published annually on the Council Website and updated with any changes throughout the financial year. All of this information is also reported to the Independent Remuneration Panel for Wales (IRPW).

The Annual Performance and Progress Report for 2017/18 was issued in 24<sup>th</sup> October 2018. The Council has issued the forward looking plan Focus on the Future - Wellbeing in our Community 2017-2022.

Annual Financial Statements are presented to Full Council for approval following External Audit by the Wales Audit Office. This is a statutory requirement. As part of the annual Council approval of the forthcoming year's Budget ("Budget Requirement and Council Tax - State of the Council Debate") the Chief Finance Officer comments on the robustness of the estimates and adequacy of financial reserves.

The way that Council resources are used to contribute to the Well Being objectives is demonstrated in the Budget Report.

Recommendations from the Wales Audit Office's Annual Improvement Report (including best practice) are also taken into account.

Medium Term Financial Plan updates are also presented to Council prior to formal approval.

The Annual Statement of Accounts is compiled based on the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice followed by every Local Authority. This ensures consistency of reporting allowing for meaningful comparisons and benchmarking. Completion and publication is governed by statutory timescales. Limited performance data is included within the audited annual accounts.

An annual assessment of application of the principles contained within the Governance Framework is undertaken and involves a number of key officers and members of Corporate Management Team including the Chief Executive, Deputy Chief Executive, Monitoring Officer, Section 151 Officer, and also Councillors via committee responsibilities e.g. the Audit Committee, Governance, Performance, Business Change and Corporate Services Scrutiny Committee.

The assessment process involves comparing existing arrangements within the Council against the checklist published by CIPFA/SOLACE. This checklist is populated by the key officers, evidence is provided to support checklist comments. The checklist, evaluations and evidence are independently evaluated by the Internal Audit Service. The checklist, any actions for improvement required arising from its completion and a draft version of the Annual Governance Statement is reviewed and evaluated by the Corporate Management Team, Scrutiny and Audit Committees; and also the Wales Audit Office.

The assessment process and the results of the assessment are published within the Annual Governance Statement.

Actions for improvement are included in the authority's corporate action plan monitoring system known as the 'AAP (Audit and Inspection Action Plans) system'.

There are a number of shared service arrangements in existence that the Council participate in. Shared services are hosted by a Lead Authority with those services following the governance arrangements in place with those Lead Authorities. There are also specific arrangements in place for reporting on performance, use of resources and other important governance matters established for different partnerships or shared services.

The Council has introduced a process for monitoring External Audit, Regulation and Inspection reports and their actions/recommendations. This involves Internal Audit checking all reports and maintaining a monitoring system. Reports are presented to Corporate Management Team and Audit Committee including update reports on progress on the implementation of agreed recommendations.

Peer challenge is built into the performance challenge arrangements. This work is currently being reviewed to align with the Wellbeing of Future Generation (Wales) Act 2015.

Peer challenges, reviews and inspections from Regulatory bodies are welcomed as a means to provide added assurance over service delivery or to identify opportunities for improvement. Good links exist with Wales Audit Office, ESTYN, the Social Services Regulators and other key regulators, commissioners and stakeholders.

Care Inspectorate Wales (CIW) undertook an inspection of services for children in MTCBC during April and May 2018. Their reported findings was published in August 2018 and provided valued conclusions on their work which included positive comments on the operation of services as well as identifying a number of areas for improvement that the Council is committed to addressing.

For 2018/2019 the Council operated an in-house Internal Audit Service that is compliant with the Public Sector Internal Audit Standards (PSIAS). The Internal Audit Service undertook a comprehensive annual programme of work based upon a risk assessed plan. At the end of 2018/2019 the Council entered into a shared service arrangement for the provision of internal

audit services. The new regional internal audit service commenced operational activity in April 2019 and is operated in collaboration between MTCBC, Rhondda Cynon Taf Council, Bridgend Council and Vale of Glamorgan Council.

The Council has an operating and effective Audit Committee that is compliant with the Local Government Measure (Wales) 2011 and the Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018. The Committee Terms of Reference are compliant with best practice guidance. It is independently chaired by a member of the non-ruling political group.

Audit Committee, Corporate Management Team and other key councillors and officers are consulted on areas of audit for inclusion in the annual plan. At the end of the financial year the Audit Manager writes an Annual Report and Opinion on the control environment, risk management and governance arrangements at the council using the work completed throughout the year as the basis on which to formulate an opinion. This opinion is also included within and informs the Council's Annual Governance Statement.

The Council has a Risk Category Checklist as part of its risk identification process. The Checklist has been reviewed and updated in consultation with service areas across the Council to consider the risk requirements of the Wellbeing of Future Generations (Wales) Act 2015. The Checklist has also been updated to reflect other areas of risk in relation to partnerships, procurement and reputation.

Risk is an integral part of the procurement process, the Procurement Board and Change Management Steering Group considers risks through each procurement gateway report.

The Public Services Board (PSB) has a detailed Terms of Reference which sets out the arrangements for a number of matters including, roles and responsibilities, public participation, governance and management; and accountability for the Board and a range of partnerships.

#### **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.

A review of the effectiveness and annual assessment of application of the principles contained within the Governance Framework is undertaken and involves a number of key officers and members of Corporate Management Team including the Chief Executive, Deputy Chief Executive, Monitoring Officer, Section 151 Officer, and also Councillors via committee responsibilities e.g. the Audit Committee, Governance, Performance, Business Change and Corporate Services Scrutiny Committee.

The assessment process involves comparing existing arrangements within the Council against the checklist published by the Chartered Institute of Public Finance and Accountancy (CIPFA)/the Society of Local Authority Chief Executives and Senior Managers (SOLACE). This checklist is populated by key officers, evidence is provided to support checklist comments and then the checklist and evaluations and evidence is independently evaluated by the Internal Audit Service. The checklist, any actions for improvement required arising from its completion and a draft version of the Statement is reviewed and evaluated by the Corporate Management Team and the Governance Scrutiny Committee and Audit Committee and also the Wales Audit Office.

The assessment process and the results of the assessment are published within the Annual Governance Statement.

The Internal Audit Service and key officers of the Council carried out a review based on CIPFA/SOLACE 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.

Throughout 2018/19 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 2018/19. Reports were published upon completion of assignments and circulated to management. Action plans are included in the Council's Audit, Inspection Action Plans system (AAPs).

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.

The Annual Internal Audit Report for the financial year 2018/19 incorporating the Audit Manager's opinion was produced and reported to the Council's Audit Committee on the 24<sup>th</sup> June 2019. 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 2018/19.

The Scrutiny committees have examined a number of issues as part of their work programme in 2018/19 as demonstrated in their Annual Report which was reported to Full Council in July 2019.

Information 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/SOLACE guidance.

The Significant Governance Issues identified for 2018/19 are shown in section 5 and take into account the definition identified in Appendix 1.

The Significant Governance Issues identified in 2017/18 together with the updated current position regarding their status is included in section 6.

## 5. SIGNIFICANT GOVERNANCE ISSUES 2018/19

Issues	2018/2019 AGS Position & Action Taken/Planned
<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>The Medium Term Financial Plan (MTFP) 2018/2019 to 2021/2022 was presented for approval to Council on 07 March 2018 and indicated an estimated budget deficit of £13.7 million over the period of the MTFP based on assumptions contained within the MTFP. The MTFP 2019/20 to 2022/23 was approved by Council on 04 March 2019 and 20 March 2019 indicating a revised estimated budget deficit of £15.0 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 determined by its wellbeing objectives, 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 Wellbeing Objectives and available finance. The Council's Operating Model Design defines how the Council is to carry out its business and supports the Council's Corporate Strategy, Wellbeing Objectives and Chief Officer's 'Strategies on a Page'. The Performance Board will monitor achievement against the measures of success and desired outcomes. In addition financial sustainability and resilience of the Council is monitored by the Chief Finance Officer.</p> <p>A provisional revenue outturn deficit of £560,000 (0.5%) is reported for 2018/19 to be funded by a further contribution from the Budget Reserve. General Reserves are projected to remain at £4.7 million (3.9% of net revenue budget), in compliance with the Council's Corporate Reserves Policy. Although the Budget Board has been instrumental in challenging budget overspends throughout the financial year, significant financial pressures were experienced within social care and in particular within the Children Looked After system. These demands have increased and are reflected within the approved revenue Budget for 2019/20 and the projected budget deficit of £8.2 million for 2020/21. It is clear the Council is faced with a challenging financial position over the period of the MTFP and is currently in the process of developing a work programme to address the projected budget deficits.</p>



<b>Issues</b>	<b>2018/2019 AGS Position &amp; Action Taken/Planned</b>
	<p>The Wales Audit Office Annual Audit Letter for MTCBC for 2017/2018 was issued to the Council in April 2019 and its main conclusions were that:</p> <ul style="list-style-type: none"> <li>• <i>The Council complied with its responsibilities relating to financial reporting and use of resources;</i></li> <li>• <i>Further work is needed to assess whether the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and</i></li> <li>• <i>All local authorities in Wales face financial challenges, however, the challenge at Merthyr Council is significant given budget pressures and reliance on diminishing reserves.</i></li> </ul> <p>The main message highlighted from the Annual Letter is that <i>“The challenge facing the Council is significant.”</i></p> <p>A follow up letter received from the Wales Audit Office dated May 2019 also highlighted their concerns over governance and scrutiny arrangements at MTCBC and recommended that a forward work programme for Cabinet be published. The letter also iterated the key challenges faced by the Council were:</p> <ul style="list-style-type: none"> <li>• <i>Financial situation;</i></li> <li>• <i>Service pressures;</i></li> <li>• <i>Leadership and capacity; and</i></li> <li>• <i>Governance.</i></li> </ul> <p>Further to the Wales Audit Office letter expressing their concerns the Welsh Government Minister for Housing and Local Government has confirmed that MTCBC will be provided with formal support under section 28 of the Local Government (Wales) Measure 2009, this involves the appointment of external advisors to assist the Council to identify the main challenges it faces and also actions required to inform the support package.</p>

**6. SIGNIFICANT GOVERNANCE ISSUES 2017/18 - UPDATE**

<b>Issues</b>	<b>CURRENT POSITION (2018/19)</b>
<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 2018/19.</p> <p>See Section 5 – ‘Significant Governance Issues 2018/19’ for the current position and action taken / planned to address the issue.</p>

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 Kevin O’Neill**  
**Leader of the Council**  
**Date: 11<sup>th</sup> September 2019**

**Ellis Cooper**  
**Deputy Chief Executive**  
**Date: 11<sup>th</sup> September 2019**

**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.

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

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

#### **Opinion**

I have audited the financial statements of Merthyr Tydfil County Borough Council for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

Merthyr Tydfil County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies and the Expenditure and Funding Analysis.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Merthyr Tydfil County Borough Council as at 31 March 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

#### **Basis for opinion**

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

#### **Conclusions relating to going concern**

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

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

#### **Other information**

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does

not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

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

## **Report on other requirements**

### **Opinion on other matters**

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

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

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

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

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

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

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

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

## **Responsibilities**

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 18 to 19, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Anthony J Barrett  
For and on behalf of the Auditor General for Wales  
12 September 2019

24 Cathedral Road  
Cardiff  
CF11 9LJ

*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.*