

# Public Document Pack



County Hall  
Rhadyr  
Usk  
NP15 1GA

Dydd Mawrth, 26 Hydref 2021

## Hysbysiad o gyfarfod

### Pwyllgor Llywodraethu ac Awdit

Dydd Mercher, 3ydd Tachwedd, 2021 at 12.00 pm,  
Neuadd Y Sir, Brynbuga – Cyfarfod o Bell

## AGENDA

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1.	Ymddiheuriadau am absenoldeb	
2.	Datganiadau o Fuddiant	
3.	Fforwm Agored i'r Cyhoedd	
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10.	Adolygiad Caffael Gwastraff Archwilio Cymru ac Ymateb Rheolwyr	177 - 182
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12.	Cadarnhau cofnodion y cyfarfod blaenorol	187 - 190
13.	To note the date of the next meeting as Thursday 25th November 2021 at 2.00pm	

Paul Matthews

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## Prif Weithredwr

## CYNGOR SIR FYNWY

### MAE CYFANSODDIAD Y PWYLLGOR FEL SY'N DILYN:

Philip White (Co-opted Member)

County Councillor Peter Clarke	Llangybi Fawr;	Welsh Conservative Party
County Councillor Tony Easson	Dewstow;	Welsh Labour/Llafur Cymru
County Councillor Mat Feakins	Drybridge;	Welsh Conservative Party
County Councillor Jim Higginson	Severn;	Welsh Labour/Llafur Cymru
County Councillor Bryan Jones	Goytre Fawr;	Welsh Conservative Party
County Councillor Paul Jordan	Cantref;	Welsh Conservative Party
County Councillor Malcolm Lane	Mardy;	Welsh Conservative Party
County Councillor Phil Murphy	Caerwent;	Welsh Conservative Party
County Councillor Val Smith	Llanbadoc;	Independent Group
County Councillor Brian Strong	Usk;	Welsh Conservative Party
County Councillor Jo Watkins	Caldicot Castle;	Liberal Democrats

## Gwybodaeth Gyhoeddus

### Mynediad i gopiâu papur o agendâu ac adroddiadau

Gellir darparu copi o'r agenda hwn ac adroddiadau perthnasol i aelodau'r cyhoedd sy'n mynychu cyfarfod drwy ofyn am gopi gan Gwasanaethau Democrataidd ar 01633 644219. Dylid nodi fod yn rhaid i ni dderbyn 24 awr o hysbysiad cyn y cyfarfod er mwyn darparu copi caled o'r agenda hwn i chi.

### Edrych ar y cyfarfod ar-lein

Gellir gweld y cyfarfod ar-lein yn fyw neu'n dilyn y cyfarfod drwy fynd i [www.monmouthshire.gov.uk](http://www.monmouthshire.gov.uk) neu drwy ymweld â'n tudalen Youtube drwy chwilio am MonmouthshireCC. Drwy fynd i mewn i'r ystafell gyfarfod, fel aelod o'r cyhoedd neu i

gymryd rhan yn y cyfarfod, rydych yn caniatáu i gael eich ffilmio ac i ddefnydd posibl y delweddau a'r recordiadau sain hynny gan y Cyngor.

### **Y Gymraeg**

Mae'r Cyngor yn croesawu cyfraniadau gan aelodau'r cyhoedd drwy gyfrwng y Gymraeg neu'r Saesneg. Gofynnwn gyda dyledus barch i chi roi 5 diwrnod o hysbysiad cyn y cyfarfod os dymunwch siarad yn Gymraeg fel y gallwn ddarparu ar gyfer eich anghenion.



# Nodau a Gwerthoedd Cyngor Sir Fynwy

## Ein diben

Adeiladu Cymunedau Cynaliadwy a Chydnerth

### Amcanion y gweithiwn tuag atynt

- Rhoi'r dechrau gorau posibl mewn bywyd i bobl
- Sir lewyrchus a chysylltiedig
- Cynyddu i'r eithaf botensial yr amgylchedd naturiol ac adeiledig
- Llesiant gydol oes
- Cyngor gyda ffocws ar y dyfodol

## Ein Gwerthoedd

**Bod yn agored.** Rydym yn agored ac yn onest. Mae pobl yn cael cyfle i gymryd rhan mewn penderfyniadau sy'n effeithio arnynt, dweud beth sy'n bwysig iddynt a gwneud pethau drostynt eu hunain/eu cymunedau. Os na allwn wneud rhywbeth i helpu, byddwn yn dweud hynny; os bydd yn cymryd peth amser i gael yr ateb, byddwn yn esbonio pam; os na allwn ateb yn syth, byddwn yn ceisio eich cysylltu gyda'r bobl a all helpu - mae adeiladu ymddiriedaeth ac ymgysylltu yn sylfaen allweddol.

**Tegwch.** Darparwn gyfleoedd teg, i helpu pobl a chymunedau i ffynnu. Os nad yw rhywbeth yn ymddangos yn deg, byddwn yn gwrando ac yn esbonio pam. Byddwn bob amser yn ceisio trin pawb yn deg ac yn gyson. Ni allwn wneud pawb yn hapus bob amser, ond byddwn yn ymrwymo i wrando ac esbonio pam y gwnaethom weithredu fel y gwnaethom.

**Hyblygrwydd.** Byddwn yn parhau i newid a bod yn hyblyg i alluogi cyflwyno'r gwasanaethau mwyaf effeithlon ac effeithiol. Mae hyn yn golygu ymrwymiad gwirioneddol i weithio gyda phawb i groesawu ffyrdd newydd o weithio.

**Gwaith Tîm.** Byddwn yn gweithio gyda chi a'n partneriaid i gefnogi ac ysbrydoli pawb i gymryd rhan fel y gallwn gyflawni pethau gwych gyda'n gilydd. Nid ydym yn gweld ein hunain fel 'trefnwyr' neu ddatrysyr problemau, ond gwnawn y gorau o syniadau, asedau ac adnoddau sydd ar gael i wneud yn siŵr ein bod yn gwneud y pethau sy'n cael yr effaith mwyaf cadarnhaol ar ein pobl a lleoedd.

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# Agenda Item 4

## Audit Committee Action List 2<sup>nd</sup> September 2021

Agenda Item:	Subject	Officer	Outcome
No actions			

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<b>SUBJECT:</b>	<b>AUDITED STATEMENT OF ACCOUNTS 2020/21 - MONMOUTHSHIRE COUNTY COUNCIL</b>
<b>MEETING:</b>	<b>Governance &amp; Audit Committee</b>
<b>DATE:</b>	<b>3<sup>rd</sup> November 2021</b>
<b>DIVISIONS/WARD AFFECTED:</b>	<b>All</b>

## 1. PURPOSE:

- 1.1. The purpose of this report is to provide the audited annual Statement of accounts for Monmouthshire County Council for 2020/21, subsequent to the audit process undertaken by Audit Wales, for consideration by Governance & Audit Committee fulfilling the scrutiny function prior to endorsement or otherwise of the statements to the November 2021 Council meeting.

## 2. RECOMMENDATIONS:

- 2.1. That the final audited Monmouthshire County Council statement of accounts for 2020/21 (Appendix 1), be reviewed in conjunction with the Audit Wales ISA260 Audit of Accounts report, and endorsed to full Council for final sign off.

## 3. KEY ISSUES

- 3.1. The Local Government (Wales) Measure 2011 identifies the review of the Council's Statement of Accounts as a specific function of the Governance & Audit Committee.

### **Draft statement of accounts**

- 3.2. Under current legislation the draft statement of accounts, prior to audit, have to be produced each year by 31<sup>st</sup> May following the financial year they relate to. During the 2020/21 closure process the finance section faced considerable disruption as a result of the continuing impact of the Covid-19 pandemic with staff resources being limited and the primary focus rightly being directed to ensuring the ongoing financial sustainability of the Council. Consequently, and utilising the flexibility permitted by Welsh Government regulation, the draft statement of accounts were not prepared until 21<sup>st</sup> July and were subsequently reviewed by Governance & Audit Committee at its meeting on 29<sup>th</sup> July 2021.

### **Final audited statement of accounts**

- 3.3. Council approval of the final audited accounts should follow the audit process and under current legislation this has to be completed by 31<sup>st</sup> July following the financial year they relate to.
- 3.4. Despite the best efforts of the Authority and Audit Wales it was not possible to complete the audit process to meet the statutory deadline. The outbreak of the COVID-19 pandemic has caused significant disruption both to the Authority and Audit Wales in being able to complete the necessary work to satisfy audit requirements to the required deadline.

- 3.5. As a result under Regulation 10(2) of the Accounts and Audit (Wales) Regulations 2014, the Authority was required to publish a notice highlighting the delayed conclusion of the audit which was made on 30<sup>th</sup> July 2021 and can be viewed at:  
<https://www.monmouthshire.gov.uk/app/uploads/2021/07/Notice-of-delayed-publishing-of-audited-accounts-2020-21.docx>.

- 3.6. The revised timetable is therefore:

<b>3<sup>rd</sup> November 2021</b>	Review & endorsement by G&AC
<b>4<sup>th</sup> November 2021</b>	Approval by Council
<b>5<sup>th</sup> November 2021</b>	Sign off by Audit Wales

#### 4. REASONS

- 4.1. To review and endorse the Authority's final audited Statement accounts which incorporate all adjustments for "corrected misstatements" which have been identified by Audit Wales and as noted in Appendix 3 of their ISA260 Audit of Accounts report.
- 4.2. It is pleasing to note that the auditors intend to provide an **unqualified audit opinion** on the Accounts, and management would wish to acknowledge the continuing strength of relationship between Council and Audit Wales, and the professional and constructive approach in which audit colleagues have conducted their activities despite the difficult circumstances.
- 4.3. Of significant note, the ISA260 Audit of Accounts report raises the following issues and recommendations, the council's management response to which is included alongside to reassure Members of the ongoing steps being taken to ensure the quality of the accounts.

#### Uncorrected misstatements

- **Overstatement of year-end creditors (£973,000) - where services were incorrectly accrued for in the 2020/21 accounts, despite not being delivered to the Council until 2021/22**

**Management comment:** The 2020/21 financial year-end process corresponded with many unbudgeted grants being notified and received during a short period in March 2021. As a result, finance teams were managing many conflicting demands on staff resources and consequently they were required to use greater estimation and judgement in carrying out many year-end calculations. This included basing their calculations on the information provided to them by budget holders and external suppliers who in many instances were under similar pressure given the ongoing COVID-19 pandemic impact. As a result, assurances received by the finance teams of the timings of goods/services received proved to be inaccurate upon further investigation.

For future closure periods, where material accruals are being calculated finance teams will look to obtain additional evidence to support the information put forward by budget holders and external suppliers.

- **Overstatement of 2020/21 income (£191,000). Revenue due relating to prior periods had been incorrectly recorded as revenue in 2020/21, as opposed to offsetting a debtor that had been established in a prior accounting period.**

**Management comment:** It is fully accepted that despite staff turnover in the financial management of this area, that the established systems and procedures in place should have

proved adequate to maintain the robust and accurate recording of income. A review of the procedures in place for recording of this rental income stream, along with a review of the sections business continuity arrangements will be carried out fully prior to the next closure period as to ensure that this remains an isolated error.

### **Recommendations**

- ***Our cut-off testing identified an item of capital expenditure (£102,000) that was not accrued for in the 2020/21 accounts, despite the works involved being delivered within the financial year. We recommend that the Council review it's close-down procedures and looks to ensure adequate central finance support for the Children and Young people service area to identify future capital accruals.***

**Management comment:** Recommendation agreed. Finance resources were severely restricted during the closure period and in prioritising higher risk areas it is fully accepted that the central finance support provided to the CYP directorate fell short in this lower risk area. Closure procedures will be reviewed with a view to ensuring adequate central finance support is planned for future closure periods.

## **5. RESOURCE IMPLICATIONS**

- 5.1. As outlined in the respective Statement of accounts to be found in the Appendices.

## **6. CONSULTEES**

Deputy Chief Executive, Chief Officer - Resources

## **7. BACKGROUND PAPERS**

Appendix 1: Audited Statement of Accounts 2020/21  
Audit Wales ISA260 Audit of Accounts report

## **8. AUTHORS:**

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# **MONMOUTHSHIRE COUNTY COUNCIL**

## **AUDITED STATEMENT OF ACCOUNTS**

**2020/21**



monmouthshire  
sir fynwy

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## 1 NARRATIVE REPORT

### 1.1 Introduction

Monmouthshire County Council's Statement of Accounts provides a record of the Council's financial position for the year. This section of the document supplements the financial information contained in the accounts, with the aim of providing an overview of the more significant financial and accounting issues which affected the Council during the year.

#### Key facts about Monmouthshire



Monmouthshire is the most South Eastern County in Wales covering the area from the towns of Abergavenny & Monmouth in the North to Chepstow & Caldicot in the South. It is a predominantly rural County covering an area of 880sq miles and serving a resident population of around 93,000.

The majority of the Council's administrative and political functions are carried out at County Hall at The Rhadry, near Usk, Monmouthshire.

#### Political and management structure

The Council uses a Leader and Cabinet (Executive) governance model, with the Cabinet comprised of elected members, who each have lead responsibility for an area of the Council's business, including the Leader. Council determines the Authority's policy framework and budget and other constitutional functions. Below Cabinet and Council level there are a number of committees and panels that fulfil various scrutiny, statutory oversight and regulatory functions.

There are 43 locally elected councillors representing 42 wards who sit on the various committees of the Council, the current political make-up (at 31st March 2021) of the Council is 25 Conservative, 9 Labour, 6 Independent members and 3 Liberal Democrat Councillors.

The Cabinet and elected members are supported by the Council's Strategic Leadership Team which is led by the Chief Executive. For management purposes the Council's operations are organised into Service Areas each of which is headed by a chief officer reporting to the Chief Executive. The Service Areas with a brief overview of their functions are:

#### Social Care, Health & Safeguarding

Adult services, Community care, Children's services, Partnerships, Resources & performance management, Commissioning and Public protection.

#### Children & Young People

Schools and Early Years provision, Standards and Resources.

#### Chief Executive's Unit

Monitoring (Legal & land charges) and Governance, Democracy & Support.

#### Resources

Finance, Information communication & technology, People, Commercial and corporate & landlord services, Future Monmouthshire.

#### Enterprise

Business growth & enterprise, Monlife, Facilities & Fleet, Neighbourhood services, Planning & housing.

#### Corporate

Corporate management, Non-distributed costs, Precepts & levies and Insurance

## 1.2 Financial Performance for the Year

### Revenue Budget for 2020/21

The net revenue budget of £170.7m was financed from council tax, government grants, business rates & fees and supplemented by charges for services. The Council has a good track record of managing within approved budgets and has carefully managed its services during the year despite the extraordinary ongoing financial pressures. As a result of significant unbudgeted Welsh Government grants that were communicated to and received by the Authority late in the financial year and that have offset core budget funding, the Council generated a surplus of £4.119m which was used to replenish earmarked reserves, and ensure a level of financial resilience to deal with service pressures and the wider policy commitments that will shape future service delivery.

Soon after setting the 2020/21 budget the Council's operations, along with the rest of the world, were severely affected by the Covid-19 pandemic which placed unexpected changes and demands on the services that we deliver. In working with all parts of the Welsh Public Sector the Welsh Government provided significant one-off support to all areas through numerous funds, ranging from support to local businesses via the Business Restrictions Fund, the Business Support Grant provided to local businesses, and recognition through the Local Government Hardship Fund of the additional costs & loss of income incurred by the Council in dealing with response. These accounts only recognise the one-off resources provided to the Council to support its services.

Further details on the outturn position are provided in the June 2021 outturn report to Cabinet.

	Revised Budget £000	Actual £000	Variance £000
<b>Net Expenditure:</b>			
<b>Net cost of services (as per internal management reporting)</b>	<b>163,657</b>	<b>160,488</b>	<b>(3,169)</b>
Attributable costs – Fixed Asset Disposal	65	68	3
Interest and Investment Income	(252)	(231)	21
Interest Payable and Similar Charges	4,047	3,709	(338)
Charges Required Under Regulation	6,143	6,075	(68)
Borrowing Cost Recoupment	(3,375)	(3,538)	(163)
Capital Expenditure Financing	252	252	0
Earmarked Contributions to/(from) Reserves	169	4,288	4,119
<b>Net Revenue Budget</b>	<b>170,706</b>	<b>171,111</b>	<b>405</b>
<b>Financed by:</b>			
General government grants	(67,723)	(67,723)	-
Non-domestic rates	(30,037)	(30,037)	-
Council tax	(79,831)	(80,238)	(407)
Council Tax Benefit Support (included in NCS)	6,885	6,887	2
<b>Net Financing Budget</b>	<b>(170,706)</b>	<b>(171,111)</b>	<b>(405)</b>
<b>Council Fund (surplus)/deficit - Non-Schools</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Council Fund (surplus)/deficit - Schools</b>	<b>304</b>	<b>(3,853)</b>	<b>(4,157)</b>
<b>Council Fund (surplus)/deficit - Total</b>	<b>304</b>	<b>(3,853)</b>	<b>(4,157)</b>

The net cost of services in the table above of £160.48m is reported on a management accounting basis, i.e. the same basis as the budget reports to Cabinet during the year. The figure for the net cost of services in the Comprehensive Income and Expenditure (CIES) in Section 6 of £167.44m is different because it is prepared on a financial accounting basis, which is specified by accounting guidelines.

Note 11.1 to the accounts shows how the figures reconcile.

### Level of general and specific reserves/balances

The following summarises the Council's general and earmarked reserves, together with specific service reserves and trading account balances. Further information on these can be found in Section 10 of the accounts.

Reserves & balances	2018/19 £000	2019/20 £000	2020/21 £000
Council Fund Balance	7,110	8,906	8,906
School Balances	(232)	(435)	3,418

Earmarked Reserves	5,550	5,182	9,334
Service Reserves	402	402	407
Trading Accounts	661	800	930
<b>Total Usable Reserves &amp; balances available for Revenue Purposes</b>	<b>13,490</b>	<b>14,854</b>	<b>22,995</b>

**Schools:** In a similar manner to the general revenue activities of the Council, Schools also received Welsh Government support in dealing with the impacts of the Covid pandemic during 2020/21, whilst also experiencing reduced spending on core service delivery during their periods of closure. The following table summarises the schools balances position by school type:

<b>School Balances</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Comprehensives	(635)	(931)	554
Primaries	242	347	2,838
Other	161	149	26
<b>Total</b>	<b>(232)</b>	<b>(435)</b>	<b>3,418</b>

### Capital expenditure & financing

In addition to revenue spending the Council also spent £18.7m on its assets which is detailed below along with the corresponding finance streams:

<b>2019/20 £000</b>		<b>2020/21 £000</b>
	<b>Expenditure</b>	
1,427	Schools modernisation programme	393
7,316	Infrastructure	9,482
6,225	Asset management schemes	2,755
659	Other	1,638
908	Inclusion schemes	926
477	ICT schemes	0
5,573	Regeneration schemes	2,509
831	Vehicles	1,003
<b>23,415</b>	<b>Total Expenditure</b>	<b>18,706</b>
	<b>Financing</b>	
(5,910)	Capital receipts	(1,042)
(8,673)	Borrowing and Finance Lease Commitments	(5,859)
(8,547)	Grants and Contributions	(11,553)
(286)	Revenue and Reserve Contributions	(252)
<b>(23,416)</b>	<b>Total Financing</b>	<b>(18,706)</b>

### Significant capital receipts

The most significant capital receipts received in 2020/21 were £2.1m for land at Chepstow Road, Raglan, £2.7m for Crick Road and £1.45m for the share of the former County Hall site, Cwmbran. All other receipts totalled £1.2m. The Council currently ring fences all capital receipts to support ongoing capital investment priorities in line with its Corporate plan.

### Revaluation and disposals of non-current assets

The Council has a policy of revaluing all Land & Building assets every five years on a rolling programme. During 2020/21 the valuations included Community Centres, Hubs & Public Contact Centres, Public Conveniences and Primary Schools. The programme for subsequent years is as follows:

- 2021/22 – Community Centres, Corporate Facilities, Recreational Spaces and Leisure Centres
- 2022/23 – Primary Schools, Recreational Spaces and Community Centres

In addition to this rolling asset revaluation programme, an annual review is also undertaken of our assets for any significant changes in their use. The Investment Property portfolio is assessed annually by the Authority's Estates section to ensure the value is accurately reflected in the accounts.

During the year the value of our non-current assets has reduced from £399.0m to £389.9m, arising from recognising the in-year asset enhancing spend of £9.6m; the rolling programme of revaluations decreasing their held value by £(0.5)m; depreciation of £(12.8)m; book value of disposals of £(2.5)m; transfers to current assets of £(2.3)m & transactions relating to consolidated arrangements £(0.7)m.

### Borrowing arrangements and sources of funds

The Council's overall borrowing, on a principal valuation basis, totalled £183.46m as at 31st March 2021 (£187.71m as at 31st March 2020), comprising of the following:

31st March 2020 £000		31st March 2021 £000
89,627	Public Works Loan Board	74,647
13,816	Market Loans & Bank loans	13,812
5,248	Welsh Government	5,062
76,023	Local Government bodies	86,944
3,000	Special Purpose Vehicle	3,000
<b>187,714</b>	<b>Total borrowing</b>	<b>183,466</b>

Further information on borrowing arrangements is disclosed in notes 13.3 and 13.4 to the accounts. The Council continues to operate within its limits as set according to the Local Government Act 2003 and the CIPFA Prudential Code.

### Collection of Council Tax and Non-Domestic Rates

The Council Tax bill for Monmouthshire County Council in 2020/21 (including amounts raised for Police and Community Councils) was £1,717.44 (£1,629.72 in 2019/20) for properties in valuation Band D. We collected 96.6% in year of the total due (97.7% 2019/20). Our collection rate for Non-Domestic Rates was 92.8% in 2020/21 (97.7% in 2019/20). During the year £54,000 Council Tax and £27,000 Non-Domestic Rates' debts were written off (£168,000 and £200,000 in 2019/20).

### Pension Liabilities

We are required to state the cost of paying retirement pensions when we become committed to the costs, not when we actually pay them. An Actuary is used to estimate the figure for Monmouthshire and 2020/21 shows a net liability of £306,876,000 (£230,526,000 in 2019/20).

There is a increase in the combined net liability of the Greater Gwent pension funds of £76,350,000 from 1 April 2020 to 31 March 2021. This has resulted from a increase in the value of scheme liabilities of £177m offset by a increase in the value of scheme assets. The increase in liabilities is due to changes in financial assumptions (e.g. increased inflation, decreased discount rate, increased longevity/age presumptions).

The date of the latest actuarial valuation was 31 March 2019 and this updated the employers' contribution rates from April 2020 until 31 March 2023. Further details are given in section 14 of the notes to the Accounts.

## 1.3 The Financial Outlook

**2021/22:** In setting its 2021/22 revenue budget the Council was required to make difficult choices regarding service delivery and Council Tax levels. As part of the process the Council approved an annual Council Tax increase of 3.89%, which increased the annual band D charge by £53.71 to £1,434.47 (excluding amounts raised for Police and Community Councils). It also approved £4.7m of savings measures to ensure that the approved budget is delivered.

In respect of the Council's forward capital programme this has been constructed to principally support the Schools modernisation programme, Disabled Facilities Grants, Asset management and Infrastructure, with some £73.5m (including contributions to the Cardiff Capital Region City Deal initiative) forecast to be spent from 2021/22 to 2024/25.

**The Medium Term:** The medium term prognosis is still of concern with the current MTFP indicating a funding gap of £15m over the next three years if settlement from Welsh Government remains static. There are currently no indicative settlement figures published which significantly impedes and impacts on forward planning of budgets over the medium term. Demand led cost pressures continue to increase in areas such as Children's services, Adult Social Care, Children's additional learning needs and Transport.

There is still a need to think differently about the even greater challenges of the medium term and this work and engagement will continue in the coming months, and notably with other local authorities, Welsh Government and the Welsh Local Government Association (WLGA) and where funding distribution and projections are concerned.

## Covid19 Impact

2020/21 saw a continuation of the emergency response enabled in March 2020 which necessitated the Council to change how it delivers its services:

- Much of the administrative business undertaken continued with officers working remotely.
- Immediate business critical services were maintained i.e. waste collection, school hubs, social care, benefits etc. Staff within other services that have either been closed or the service reduced were redeployed as appropriate.
- The Council provided representation to the Gwent Strategic Coordinating Group and sub groups for strategic and operational decision making. The Council also established an Emergency Response Team which, alongside the Council's Cabinet and Strategic Leadership Team, oversaw the response/delivery.

The financial challenges facing the Council and resulting from the Covid-19 pandemic were hugely significant during 2020/21 and will continue to be over the medium term as the economy recovers and demands on local services transform in line with the social changes that the pandemic has brought about.

The Council continues to incur significant costs in its response effort and this will continue as it transitions towards recovery. Furthermore and resulting from the restrictions that UK Government and Welsh Government have had to put in place to contain the spread of the virus we are suffering significant shortfalls in our income levels. Some of these will return more quickly than others as services are able to be safely turned back on.

In working with all parts of the Welsh Public Sector the Welsh Government provided significant one-off support to all areas through numerous funds which have been administered by the Council during the year. This has ranged from support to local businesses via Business Support Grants, payments made to care workers and specific Freelancer and Start up grants:

Support fund	£000s
Business Support Grants	25,417
Business Support Grants	13,621
Care Workers £500 Payments	1,193
Covid-19 Freelancer Grant	440
Self Isolation Payments	145
Covid-19 Start Up Grant	143
SSP Enhancement	127
<b>Total</b>	<b>41,084</b>

It is inevitable that the Council will face significant financial challenges as we move into the recovery phase of the pandemic as demands on services change in light of a severely altered socio-economic landscape. Alongside this there will continue to be risks associated with Welsh Government support funding being reduced or stopped. It is therefore important that the Council looks to replenish earmarked reserves to strengthen ongoing financial resilience.

In considering the above and in apportioning the outturn position the future financial stability of the Council was considered, alongside the potential additional unknown costs that could occur in dealing with post Covid-19 recovery, whilst also giving financial resilience to service areas to deal with service pressures and the wider policy commitments that will shape future service delivery.



### Cardiff Capital Region City Deal (CCRCDD)

The Council continues to be an active member of the Cardiff Capital Region City Deal initiative. This Council will make a 6.1% contribution to the £120 million with the percentage being based on its proportion of the regional population, and fund the annual costs of this investment. The development and management of this £120 million is the responsibility of the CCRCDD Regional Cabinet. The capital contribution in 2020/21 of £122,862 (£0 in 2019/20) was less than anticipated due to projects not being completed as planned.

The Authority has included its share of income, expenditure, assets, liabilities, reserves and cash flows relating to the arrangement within the single entity accounting statements and disclosures. Further details of the arrangement are outlined in note 16.6.

## 1.4 The Accounting Statements

The Authority's accounts for the year are set out in sections 5 to 17. They consist of:

### *Movement in Reserves Statement*

This statement shows the movement in the year on the 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 reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the Council Fund Balance for council tax setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory Council Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

### *Comprehensive Income and Expenditure Statement*

This 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. Authorities raise taxation to cover expenditure in accordance with regulations. This may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

### *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'.

### *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.



## Notes to the Accounts

The core financial statements outlined above are supported by notes to further assist the reader in interpreting the Authority's financial position for the year ended 31st March 2021. The notes are sectioned to aid the user of the accounts to navigate the extensive supporting notes.

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**Peter Davies**  
**Deputy Chief Executive (S151 Officer)**

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4th November 2021

**Date**

## 2 STATEMENT OF RESPONSIBILITIES

### 2.1 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 line with statute this is the Section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

### 2.2 The Section 151 Officer's Responsibilities

The Section 151 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 Section 151 Officer has:

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

The Section 151 Officer has also:

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

## APPROVAL OF STATEMENT OF ACCOUNTS

I certify that the accounts set out within sections 5 to 17 gives a true and fair view of the financial position of the Council as at the 31st March 2021 and its income and expenditure for the year ended 31st March 2021.

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**Peter Davies**  
**Deputy Chief Executive (S151 Officer)**

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4th November 2021

**Date**

Monmouthshire CC

Annual Governance Statement 2020/21

October 2021

### **Executive Summary**

The Statement itself demonstrates that Monmouthshire has appropriate governance arrangements in place to meet the challenges of the governance principles and that a review has been undertaken to assess the effectiveness of those arrangements. We have demonstrated that in the majority of areas we have effective governance arrangements in place which are continually improving, but also recognise that there is always further work to do.

Despite the pandemic the Council has managed to maintain the majority of its governance arrangements this year and has demonstrated it has sound and effective arrangements in place in the services it delivers and the crisis it had to deal with. The majority of improvements noted in the 2019/20 Action Plan have been addressed during the year such that there is no need for formal Action Plan for 2020/21. The Code of Corporate Governance was presented to the Council's Audit Committee during the year and will be presented to Cabinet for formal approval during 2021/22.

Audit Wales's review of Good Governance concluded that the Council has a clear strategic approach for significant changes, although, better information would help Members when deciding the future shape of the Council.

- 1 This Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (C.I.P.F.A.) and the Society of Local Authority Chief Executives and Senior Managers (S.O.L.A.C.E.), the 'Delivering Good Governance in Local Government Framework 2016' and Delivering Good Governance in Local Government Guidance Notes for Welsh Authorities 2016'. It embraces the elements of internal financial control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.
- 2 The Statement itself demonstrates that Monmouthshire has governance arrangements in place to meet the challenges of the governance principles and that a review has been undertaken to assess the effectiveness of those arrangements. We have demonstrated that in most areas we have effective governance arrangements in place which are continually improving, but also recognise that there is further work to do. Progress against the 2019/20 action plan is shown at Appendix 1.

### **Scope of Responsibility**

- 3 Monmouthshire County Council (the Council) (MCC) 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 Council also has a duty under the Local Government (Wales) Measure 2011 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation.
- 4 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and which includes arrangements for the management of risk.
- 5 The Council's financial management arrangements conform to the governance requirements of the 'CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)'.
- 6 The **Code of Corporate Governance**, which is consistent with the principles of the C.I.P.F.A. / S.O.L.A.C.E. Framework 'Delivering Good Governance in Local Government', was initially approved by Council in July 2011; the Code was revised and updated again in June 2020. A copy of the Code is available from the Chief Internal Auditor. This statement explains how the Council has complied with the revised Framework and Guidance (2016) and also meets the requirements of the Accounts and Audit (Wales) Regulations 2014. The revised Code sets out what governance arrangements are in place within Monmouthshire CC for each of the Governance Principles.

### **The Purpose of the Governance Framework**

- 7 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its population outcomes, priorities and objectives and to consider whether those objectives have met the outcomes and led to the delivery of appropriate, cost effective services.
- 8 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, outcomes and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 9 The governance framework has been in place at the Council for the year ended 31 March 2021 and up to the date of approval of the statement of accounts.

### **The Governance Framework**

**10** The Council's Corporate Governance is in line with the following principles:

Overarching requirements for acting in the public interest:

- A.** Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B.** Ensuring openness and comprehensive stakeholder engagement

In addition achieving good governance in the Council requires effective arrangements for:

- C.** Defining outcomes in terms of sustainable economic, social, environmental and cultural benefits
- D.** Determining the interventions necessary to optimise the achievement of the intended outcomes
- E.** Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F.** Managing risks and performance through robust internal control and strong public financial management
- G.** Implementing good practices in transparency, reporting, and audit to deliver effective accountability

**Wellbeing of Future Generations (Wales) Act 2015**

**11** Monmouthshire has to demonstrate it is compliant with the Well-being of Future Generations (WFG)(Wales) Act 2015 and this compliments the way it functions in line with the above principles of good governance; the core behaviours being:

- behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law; and
- ensuring openness and comprehensive stakeholder engagement

This needs to be applied to the five ways of working outlined in the 2015 Act. These five ways of working have to permeate all segments of delivering outcomes which, in turn, should ensure effective use of resources as the Council maximises its contribution to the economic, social, environmental and cultural well-being of Monmouthshire and Wales.

- Long Term
- Prevention
- Integration
- Collaboration
- Involvement

Monmouthshire Council priority goal (Well-being Objectives)	Contribution of Well-being Objectives to Well-being Goals						
	Prosperous Wales	Resilient Wales	Healthier Wales	More equal Wales	Wales of cohesive communities	vibrant culture and thriving Welsh Language	Globally responsible Wales
The best possible start in life	✓		✓	✓		✓	
Lifelong well-being	✓	✓	✓	✓	✓		
Maximise the Potential of the natural and built environment	✓	✓	✓		✓	✓	✓
Thriving and well- connected county	✓	✓	✓	✓	✓		✓
Future-focused Council	✓	✓			✓		✓

- 12 The key elements of the Council's governance arrangements are set out in its Corporate Plan 2017-2022, "A Monmouthshire that works for everyone" which was approved by Council in February 2018. A mid-term refresh was presented to Council in March 2020.
- 13 As part of the requirements of the Well-being of Future Generations (Wales) Act 2015 the Public Service Board (PSB) is focused on improving social, economic, environmental and cultural wellbeing, in accordance with the sustainable development principle. Public Service Boards have a planning responsibility to prepare and publish an assessment of local well-being, produce a local well-being plan and report annually on its progress.
- 14 The Public Service Board has approved four well-being objectives that underpin a clear purpose of "building sustainable and resilient communities".
- 15 An update on the emerging actions being developed to deliver the objectives contained in Monmouthshire's Well-being Plan was signed off by the PSB in April 2018. The Public Services Board Committee was renamed the Public Services Committee in March 2020 in order to scrutinise wider public service provision and where powers allow, to provide greater accountability of services delivered in collaboration or by external partners.
- 16 The PSB presented its annual report 2019/20, in July 2020 to the Public Services Committee.

### Coronavirus (Covid-19) Pandemic

- 17 The Coronavirus pandemic (WEF March 2020) had initially caused significant organisational disruption including new emergency responsibilities, increased staff absence and a requirement for staff to work from home (where possible) while continuing to ensure statutory services were maintained as expected. This statement assesses the governance in place during 2020/21 with the majority of key operations being affected by Coronavirus throughout the year.
- 18 In accordance with the Council's Corporate Emergency Management Plan (revised March 2019) an Emergency Response Team (ERT) was established along with a regional multi-agency Strategic Co-ordination Group (SCG) to deal with this pandemic. These groups started to meet on a daily basis during March 2020 and continued throughout 2020/21.
- 19 Once enacted, the Corporate Emergency Management Plan allowed for an emergency management structure and delegation of emergency powers to the ERT Gold Duty Officer in consultation with the Leader of the Council.

- 20 The pandemic has impacted on the Council's delivery of services as some staff were diverted to front line duties to ensure that critical services were prioritised. There have also been new areas of activity as part of the national response to Coronavirus for example providing emergency assistance to businesses in Monmouthshire.
- 21 There has been funding and logistical consequences of delivering the local government response. To ensure appropriate governance and accountability, these costs have been identified by staff and appropriately coded on the Council's Main Accounting System and reclaimed from Welsh Government.
- 22 In line with public health measures to mitigate the spread of Coronavirus and to enable the Council to focus on the delivery of critical services, all public meetings were initially suspended. This included Council meetings, meetings of full Cabinet and all committee and sub-committee meetings, including Select, Planning and Licensing. The Council felt it was important to re-instate public meetings as soon as it was safe to do so. Using appropriate technology, key meetings were held remotely which could be viewed by the public through live streaming or through You Tube channels later. MCC was the first Council in Wales to get its meetings back up and running (Investment Committee 24 April 20). Cabinet held a virtual and remote meeting on the 6<sup>th</sup> May 2020, Council was run virtually on 4<sup>th</sup> June 2020, Audit Committee June 2020, with other public meetings following.
- 23 Urgent decisions initially were made in accordance with the officer and Members' schemes of delegation as detailed in the Council's Constitution and urgent decision-making procedures.
- 24 As the use of technology came into operation, minimal Council meetings were cancelled; they were held remotely through live video links.
- 25 "The Council has risen to the challenge by establishing new ways of delivering services that support residents and businesses, assisting community activity and supporting staff well-being. The pace of change over the past seven months has been unrelenting, with hundreds of staff re-deployed, new services created almost overnight, and millions of pounds re-directed towards preserving life and helping local businesses remain viable." An evaluation of the Council's progress against its Coronavirus Strategic Aims was taken through Cabinet in November 2020.
- 26 As much as possible, the systems of internal control have continued to operate during the pandemic. The Council's implementation of Office365 (Teams) has allowed the majority of employees to successfully work from home without major disruption.
- 27 In the Chief Internal Auditor's opinion, adequate assurance was obtained over the course of 2020/21 to result in an overall 'Reasonable' audit opinion to be issued for the Council's activities, although this was based on the limited work undertaken by the team. Internal Audit coverage was adversely affected during 2020/21 as it was significantly involved with fraud prevention activities following the Welsh Government business grants support and then supported the Track Trace and Prevent (TTP) operation led by the Council's Public Health Team. Reliance on previous year's audit work has also been taken into consideration in arriving at this year's opinion in that there have been no significant systems or staff changes. 57% of the approved revised audit plan was completed against the target of 82%; 9 audit opinions were issued; no *Limited Assurance* audit opinions were issued. Further detail regarding the Internal Audit team's performance is included within the Internal Audit Annual Report 2020/21.
- 28 In conclusion, during 2020/21 the Coronavirus pandemic did not lead to significant internal control or governance issues which impacted on the overall review of effectiveness. This will be monitored during 2021/22 and reviewed as part of future Annual Governance Statements in future.

## **Review of Effectiveness**

- 29 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Strategic Leadership Team within the Authority which has responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 30 The governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

**31** The processes that have been applied to maintain, review and improve the effectiveness of the governance framework include:

- i) The Monitoring Officer presented the revised and updated Council Constitution to the Democratic Services Committee in January 2021 and to full Council in March 2021;
- ii) Periodic reviews of the financial controls including the financial procedure rules by the Chief Finance Officer (Head of Finance); financial procedure rules were approved by Council in September 2014; Contract Procedure Rules were reviewed and updated during 2020/21 and approved by full Council within the Constitution in March 2021;
- iii) Whole Authority Strategic Risk Management Assessment and amendments to the Policy were approved by Cabinet in March 2020 & April 2021;
- iv) Formal risk management and ongoing review of the processes involved reported through Audit Committee July 2020 & March 2021
- v) The Audit Committee undertook a self-evaluation exercise towards the end of 2019/20; summary reported to Audit Committee June 2020;
- vi) Annual Audit Committee report to Audit Committee July 2020 and Council September 2020;
- vii) the Internal Audit function, whose work takes account of identified risks through regular audits of the major systems, establishments and major projects in accordance with the annual internal audit plan, and which includes 'follow-up' work to ensure that agreed recommendations are implemented; reported through Audit Committee
- viii) the work of the Council's Select and other Committees, including its Audit and Standards committees;
- ix) the opinions and recommendations of the Council's external auditors, following both financial audit work and per the Local Government Measure in regard to matters, including governance issues, which are considered for action and implementation and reported to Council, Cabinet and Audit Committee, as appropriate;
- x) The opinions and recommendations of other inspection, regulation and review agencies which are reported to Council, Cabinet, Select Committees and Audit Committee as appropriate. Audit Committee receives a regular report on the progress made with recommendations and proposals issued by Audit Wales.
- xi) regular monitoring of performance against the Corporate Plan and service plans and of key targets, and reporting of this to senior management and members;
- xii) Corporate Plan update 2019/20 – Council October 2020;
- xiii) Through the coronavirus pandemic establishing a series of interim strategies to provide clarity in direction and ensure accountability – 'Plan on a Page' to Cabinet May 2020, July 2020 & December 2020
- xiv) Whole Authority Safeguarding Position Statement during Covid – 19 – Cabinet May 2020; Annual Safeguarding Evaluation Report and Activity Plan – Council January 2021;
- xv) Estyn's report into Local Government Education Services in Monmouthshire County Council – Cabinet May 2020;
- xvi) Annual appraisal of the effectiveness of the authority's performance management arrangements reported annually to Audit Committee.
- xvii) Chief Officer for Children and Young People's Annual Report presented to Council May 2019; Chief Officer for Social Care, Safeguarding & Health's Annual Report presented to Council June 2020; Corporate Parenting Annual Report to Council October 2019; Annual Statutory Report on Performance 2019/20 from the Director of Social Care, Safeguarding and Health – Council December 2020;
- xviii) Updated policies and strategies reported through Cabinet and Council

**32** The following paragraphs review the effectiveness of the governance arrangements in Monmouthshire under the 7 principles.

**Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**



- 33** The Code of Conduct for Members and a protocol on Member / Officer relations are set out in the Constitution, updated March 2021. The Council also has a local protocol for the self-regulation of member conduct.
- 34** The Standards Committee, which includes a majority of independent representatives, advises on and monitors the Members' Code of Conduct, the Protocol for Member/Officer Relations, and any other Codes relating to the conduct of Members. Due to Covid -19 restrictions, The Standards Committee met once during 2020/21.
- 35** Public Service Ombudsman Wales Annual Report (2019/20) was presented to Cabinet in November 2020.

Conduct Complaints about MCC Members received by the Public Services Ombudsman:

	2017-18	2018/19	2019/20
Not upheld	3	1	2
Referred to Standards Committee	0	0	0
Referred to Adjudication Panel	1	0	0
TOTAL COMPLAINTS CLOSED	4	1	2

- 36** Agreed arrangements enable the Council to comply with statutory requirements in respect of child protection and the protection of vulnerable adults. Recruitment procedures help ensure that Council employees and Members working with children or vulnerable adults are checked for their suitability to do so through independent DBS checks.
- 37** In accordance with its statutory responsibilities, the Council has in place a Health and Safety Policy and related procedures.
- 38** There were no successful "call-in" challenges to decisions on procedural grounds; 3 judicial reviews were commenced or dealt with at the pre-action stage in the period. There were no judicial reviews in the previous year.
- 39** Policy and decision-making is facilitated through (i) Council and Cabinet; the meetings of which are open to the public and live streamed online except where exempt or confidential matters are being discussed, and (ii) a scheme of delegation to committees and officers as set out in the Constitution: Five select committees (including the statutory Public Services Select Committee) and a separate Audit Committee review, scrutinise and hold to account the performance of the Cabinet, decision-making committees and officers. A Scrutiny "Call-In" process for decisions which have been made but not yet implemented is incorporated in the Constitution in order to consider their appropriateness.
- 40** A Scrutiny and Executive Protocol is in place which is aligned to the updated constitution of March 2021 and provides parameters for effective executive and scrutiny relationships.
- 41** The Constitution is updated periodically by the Monitoring Officer; the latest update approved by Council was in March 2021. It can be found on the Council's website.
- 42** To ensure agreed procedures and all applicable statutes are complied with, the Monitoring Officer attends full Council meetings, Cabinet and SLT. To ensure sound financial management is a key factor in decisions, the Chief Officer Resources (Interim Head of Finance) attends SLT, Cabinet and Council meetings.
- 43** The ethical governance framework includes:
- codes of conduct for officers and Members
  - a protocol governing Member/Officer relations
  - a whistle-blowing policy widely communicated within the Council

- registers of personal and business interests for Members
- declarations of interests for Chief Officers
- an agreed policy and associated corporate procedures for ensuring that complaints about services can be properly made and investigated, and for ensuring that any lessons can be applied
- equalities awareness training.

- 44 In accordance with the Local Government and Housing Act, 1989, the Monitoring Officer ensures compliance with established policies, procedures, laws and regulations. After appropriate consultation, this officer will report to the full Council in respect of any proposals, decisions or omissions which could be unlawful or which have been subject of an Ombudsman Investigation resulting in a finding of maladministration. The Monitoring Officer has not issued a Section 5 report in 2020/21 or in the previous year, 2019/20.
- 45 All exemptions of the Contract Procedure Rules are reported through Audit Committee periodically. The Internal Audit team continues to deliver awareness raising sessions on the importance of compliance with these Contract Procedure Rules and Financial Procedure Rules.
- 46 The Audit Committee has the opportunity to call in senior managers during the year and challenge them on why a procurement process went outside the Council's normal tendering processes. Following 2 consecutive **Limited** Assurance audit opinions, the Head of Strategic Projects was called into Audit Committee (March 2020) to justify the lack of improvement in internal controls re Fuel Cards. The Chief Officer Resources reported on progress regarding Anti Bribery, Fraud and Corruption (October 2020). An update on the use of Agency Workers audit was presented to Audit Committee (November 2020). Following previous **Limited** Assurance audit opinions, Heads of Service for Food Procurement and Caldicot Castle provided a progress report to Audit Committee (January 2021).
- 47 As a result of Covid-19 the Internal Audit Team was repurposed during most of the year to undertake extensive counter fraud activities on Welsh Government business grants and support TTP; a report was taken to Audit Committee explaining the situation, January 2021. 9 Internal Audit opinions were issued in 2020/21; **no** audit jobs resulted in **Limited** assurance.
- 48 The overall opinion on the adequacy of the internal control environment for 2020/21 was **REASONABLE**. Management agreed to implement the recommendations made in audit reports in order to address the weaknesses identified. The Internal Audit opinions issued in 2020/21 were as follows:

	2018-19	2019-20	2020-21
Substantial Assurance (Very Good)	2	2	2
Considerable Assurance (Good)	11	11	6
Reasonable Assurance	13	7	1
Limited Assurance (Unsatisfactory)	6	9	0
Total	32	29	9

- 49 Reasons why the outcome of the audit reviews which were deemed to provide Limited assurance have been, or will be, presented in a separate report to Audit Committee; assurances have been sought from respective operational managers that action will be taken to make the necessary improvements in control.
- 50 The Internal Audit team did not have a full complement of staff for the full year for the reasons explained above. 57% of the 2020/21 revised audit plan was achieved, which was lower than the previous year (77%). The Chief Internal Auditor's overall audit opinion is based on the number of audits undertaken and their individual opinions; he was able to give an overall opinion on the adequacy of the control environment but this was based on a very limited number of opinions issued. The 2020/21 audit opinion was supported by the knowledge that there were appropriate governance, risk management and internal control assurances in place in the previous year, 2019/20, with no significant changes. The Assistant Head of Finance left MCC in January 2020 but the post was covered by the Central Accountancy Finance Manager and Chief Officer Resources.

- 51 The Internal Audit team continued to ensure its compliance with the Public Sector Internal Audit Standards (PSIAS). This was validated through a peer review process at the end of 2017/18; the outcome of which was that the team are generally compliant.
- 52 An Improvement Framework is in place to ensure the economic, effective and efficient use of resources and for securing continuous improvement. This is supported by a range of mechanisms including collaborative working initiatives and reviews undertaken both internally and by the external auditors and inspectors. This framework works in conjunction with the Local Government Wales Measure 2009 & 2011. Performance and Improvement Objectives reported to Council in October 2020 through the Corporate Plan Annual Update 2019/20. Work is underway to amend the Council's improvement framework to reflect new performance arrangements and duty established by the Local Government and Elections (Wales) Act 2021.
- 53 The strategies which support this Framework include the Asset Management Plan, People Strategy, Local Development Plan, Financial Plan, Digital Strategy, Economy & Enterprise Strategy which are delivered through service business plans and employee aims & objectives, evaluated and risk assessed.
- 54 Chief Officers and Heads of Service are accountable for ensuring that the Council Priorities are delivered and performance against key targets is regularly monitored via the performance management framework and is regularly reported to members via Select Committees.

#### **Principle B: Ensuring openness and comprehensive stakeholder engagement**

- 55 The agendas are published in advance of all meetings on the Council's website; corresponding minutes are published post meeting.
- 56 The scrutiny /select reports on recommendations/outcomes from scrutiny activity are presented to Cabinet quarterly. The scrutiny function has a 'Scrutiny Service Business Plan'. The plan is built into the Council's improvement framework. At Monmouthshire, scrutiny is undertaken by 5 select committees.
  - Children and Young People's Select Committee
  - Adults Select Committee
  - Economy and Development Select Committee
  - Strong Communities Select Committee
  - Public Service Select Committee
- 57 The Scheme of Delegation sets out responsibilities for decision making. The Council's website includes the Cabinet and Cabinet Member decisions / Member profiles. The Scrutiny Handbook and a Scrutiny and Executive Protocol have been developed to support Members to carry out their responsibilities effectively provides a guide for Members, officers and the public on the role and value of scrutiny and the website displays the Scrutiny Forward Work Programme and invites public submissions. Development of Customer Insight to better understand our communities. Dissemination of Area Committee meeting minutes to all Members.
- 58 Social media, Twitter, Facebook and You Tube for example, is used to engage local people and communicate the corporate message. Scrutiny has a Twitter account to help engage more effectively with the public on democracy. Chief Officers, Members and the Communications team are very proactive in engaging with the public.
- 59 Public engagement events and You Tube continued to be used in 2020/21 for the budget proposals. The Council has encouraged the community within Monmouthshire to actively contribute to making stepped changes to improve the way in which services are provided. This links back to the principles of the Well-being of Future Generations Act which sets out five ways of working including involvement.
- 60 In addition to regular internal communications, throughout the pandemic the Chief Executive has extensively engaged with the public providing updates on essential Covid-19 related statistics and Council service provision.
- 61 In May 2018, Monmouthshire Public Services Board, adopted their Well-being Plan in line with the requirements of the Well-being of Future Generations (Wales) Act. The plan was informed by the Monmouthshire Well-being Assessment which sought the views of Monmouthshire residents and draws

together findings from data, academic research and policy papers and the views of local people. This Plan is challenged publicly through Public Services Select Committee, July 2020.

- 62 The “Our Monmouthshire” approach, which was essential to the Well-being Assessment is about all of us addressing the needs of the future as well as current generations. People in Monmouthshire were asked “*what’s good about your community and what would make it better, now and in the future*”. The well-being assessment was also used as evidence to inform the Council’s Corporate Plan, making sure it addresses some of the really big challenges that Monmouthshire faces in coming years.
- 63 Transparency and openness is important to Monmouthshire; the Annual Statement of Accounts was taken through the Audit Committee process before being endorsed by Council. All Council decisions, reports and questions asked by Members are available on the website. Financial information, Corporate Plan progress, Council activities, achievements, developments, updates and events were included on the Council’s intranet and website, with all Council, Cabinet, Audit Committee and Select Committees live streamed. All public meetings of the Council are live streamed and are available to view on the Council’s YouTube channel at any time after the meeting, which provides greater transparency of the Council’s business.
- 64 Individual Cabinet Members can make decisions under the scheme of delegation; agendas and decisions for all Cabinet Members are published on the Council’s website.
- 65 The Council’s website contains links to the following areas of open data in the interests of openness.

Data published by Monmouthshire County Council:

- List of expenditure over £500
- Our spend data as a useful dashboard
- Food Hygiene ratings
- Business property data set
- List of Primary Schools
- List of Secondary Schools

- 66 The Medium Term Financial Plan (MTFP) supports the vision for Monmouthshire and extensive public engagement continued in 2020/21 for the 2021/22 budget and Medium Term Financial Plan which engaged with the public in their own community; this included website, social media, drop in sessions, Cabinet Member YouTube video (January 2021) and open meetings. These were key to providing people with the opportunity to become informed; Cabinet October 2020, January 2021.
- 67 Public engagement and consultation is key to the WFG Act; one of the five ways of working is Involvement. This along with the other ways of working is now considered in all relevant decision making reports for Cabinet and Council through a Future Generations Evaluation which includes Equalities and Sustainability Impact Assessments. The progress of implementing the WFG Act was reported through the PSB in 2020/21, July 2020.
- 68 Implementing Open Government standards which enable us to effectively engage with our citizens and open up our data for anyone who needs to use it. Making the most of digitisation and digital inclusion to enable us to engage with people across our County.

**Principle C: Defining outcomes in terms of sustainable economic, social, environmental and cultural benefits**

- 69 The Council’s five priority goals, which are also the Council’s well-being objectives, are set out in its Corporate Plan 2017-2022, “A Monmouthshire that works for everyone” which was approved by Council in February 2018. A mid-term refresh was presented to Council in March 2020. The 2019/20 Corporate Plan annual report was presented to Council in October 2020. Building sustainable and resilient communities is the unifying purpose of the diverse range of services the Council delivers. This is shared with our partners on the PSB, which is responsible for setting well-being objectives for the County.



- 70** Monmouthshire County Council is a member of the Monmouthshire PSB, where we work with other public services and the voluntary sector on the delivery of the local well-being plan. This includes countywide well-being objectives that are a focus for public services that are part of the PSB. Combining the ingenuity and initiative of all partners is key to finding new solutions to pressing, social, economic and environmental problems. This sense of 'power of the collective' is central to its core purpose, reflected in its values and embodied in its culture.
- 71** The Well-being Plan sets out the vision of the PSB. The four identified objectives are to:
- Provide children and young people with the best possible start in life
  - Respond to the challenges associated with demographic change
  - Protect and enhance the resilience of our natural environment whilst mitigating and adapting to the impact of climate change
  - Develop opportunities for communities and business to be part of an economically thriving and well connected county.
- 72** Under the Well-being of Future Generations (Wales) Act 2015 The Council has a responsibility to:
- Set and publish well-being objectives
  - Take all reasonable steps to meet those objectives
  - Publish a statement about well-being objectives
  - Detail arrangements to publish an annual report of progress
- 73** In March 2018 Council approved the Council's Corporate Plan 2017-2022, which incorporated the Council's well-being objectives, and endorsed the Area Plan. The well-being objectives bring together the latest evidence from the well-being assessment, policy and legislation and show how the Council will strive to deliver a public service that meets the needs of the present without compromising the ability of future generations to meet their own needs. The Well-being Objectives are now incorporated within the Corporate Plan; the 2019/20 update was presented to Council October 2020.
- 74** The Corporate Plan Objectives for 2017 to 2022 are supported by service business plans to operationally deliver these objectives. Service plans are made available on the Council's Hub intranet site. These are quality assessed as part of the service planning process. All service plans were developed to align the delivery of the Council's Corporate Plan. Through the pandemic in 2020/21 the Council's established performance framework has been adjusted and prioritised in its application, where necessary, to reflect the Council's response. Through the coronavirus pandemic a series of interim strategies to provide clarity in direction and ensure accountability have been established– Cabinet May 2020, July 2020 & December 2020. To support this, structures and mechanisms were put in place to track and evaluate progress.
- 75** Audit Wales presented its Certificate of Compliance for the audit of Monmouthshire's 2020/21 Improvement Plan to the Audit Committee in June 2020. It has carried out work with all councils on improvement assessment, the WFG Act, the service user perspective and scrutiny as well as some local work. It concluded that the Council meets its statutory requirements for continuous improvement and there are no formal recommendations.
- 76** Reports were taken through the scrutiny process during the year which included links to the Council's policies, priorities and objectives. The agendas and minutes of which became public documents are available through the Council's website.
- 77** WFG Act continued to be a key theme and foundation through the reporting processes in 2020/21.
- 78** The Council is embracing the benefits of digital communications including social media use, for example "My Monmouthshire", which enables people to interact and transact with the Council using mobile devices. The Council's website includes more transactional functions. In 2018-19 the Council also launched a "chatbot" to further broaden the channels people can use to interact with their local authority. During 2020/21 there was extensive use of Twitter, Facebook and You Tube to raise awareness of forthcoming events, to provide live streaming of Cabinet, Council, scrutiny and other political meetings, to promote the activities and services provided and to show support and encouragement for community groups.
- 79** Enhancing the digital services with economic (effective and efficient processes aiding business interaction), environmental (less travel and print consumables) and social (digital customer centric

services) continued to be a key aspect of improving services throughout 2020/21. Outcomes are measured via the Digital Programme Office Service plan and performance planning process.

- 80 To ensure the best use is made of resources and that taxpayers and service users receive excellent value for money, there are a number of mechanisms within the Council to support this. The Option appraisals now form part of the Cabinet report template. All IT investments are considered through SLT and then Cabinet before decisions are taken as required via Cabinet or Council.
- 81 Regular budget / outturn reports for revenue and capital were presented to and approved by Cabinet during the year; June 2020, July 2020, October 2020, January 2021 & March 2021. The budget management actions of Cabinet and senior officers are scrutinized by 4 of the Select Committees quarterly. The budget monitoring reporting cycle periodically contains some output measures and unit cost data, so that economic comparison of costs with other Councils can be made. Previously the Council has compared very favourably to others.
- 82 The MTFP process for 2021/22 to 2024/25 was reviewed and approved by Cabinet in October 2020. The Draft Capital Budget Proposals 2021/22 to 2024/25 were taken to Cabinet in January 2021. Draft Revenue Budget Proposals 2021/22 also went to Cabinet in January 2021. Final Proposals went to Cabinet before being approved by Council in March 2021. Ongoing scrutiny of the Council's budget position in line with the MTFP has provided Members with a greater understanding of the budget setting process and the pressures within individual directorates.
- 83 An authority-wide performance measurement system for the Council, the "data hub", hosted on the Council's intranet site continues to be updated. This enables Members and officers to track and monitor data in key strategic plans through "dashboards". This also allows performance to be compared against other council areas, where applicable. The "data hub" has been reviewed and streamlined to ensure information is up to date and focussed on the most pertinent performance data.
- 84 Audit Wales presented the Audit Wales Certificate of Compliance for the audit Monmouthshire County Council's assessment of performance for 2019/20 to Audit Committee in November 2020. This was an update on the current effectiveness of the Authority's performance management arrangements. Audit Wales concluded that the Council has discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.
- 85 The Equality Impact Assessment and Sustainable Development checklists were revised and combined to align with the Future Generations Act. The "Future Generations Evaluation" ensures the decisions the Council makes are carefully considered to take equality and sustainable development into account, this includes legislation that Monmouthshire County Council is subject to the Equality Act 2010, WFG Act and Welsh Language (Wales) Measure 2011. A range of these were undertaken during 2020/21 which have been published on the website accompanying decision making reports. The integrated checklist has been updated to ensure that new policy decisions are considered against the socio-economic duty which came into effect on 31 March 2021.
- 86 The Council has a long-standing commitment to equality and diversity and under the Equality Act 2010, has to produce a Strategic Equality Plan. The Council's third Strategic Equality Plan 2020-2024 sets the Council's objectives to ensure it delivers better outcomes for people with protected characteristics. An annual monitoring report for 2019/20 has been produced and scrutinised by Strong Communities Select Committee in March 2021.
- 87 The Council has a Welsh Language Strategy for 2017 – 2022, which sets out a vision of how Welsh language will look in Monmouthshire in 5 years, and is accompanied by targets to help achieve that vision. Also the Welsh Language Monitoring Report 2019/20 was presented to Strong Communities Select in September 2020 to note compliance and progress made with the Welsh Language Standards allocated to Monmouthshire County Council.

**Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

- 88 The Local Authority is a partner in the South East Wales Consortium Schools Causing Concern protocol. This Policy forms a part of, and is aligned with, the National Model for School Improvement in relation to the informal support and challenge provided by the Local Authority (LA) to a school prior to any issuing

of a warning notice or invocation of formal powers of intervention based on the six grounds for intervention. It also aligns with the Welsh Government (WG) Guidance on Schools Causing Concern (March 2016).

- 89 Contract Procedure Rules exemptions are normally reported to the Audit Committee every six months; a report will be taken to Governance and Audit Committee during 2021/22 outlining the previous 18 months of exemptions requested. Managers are challenged in year to justify their procurement outside the Council agreed procedures.
- 90 Regular reporting into Cabinet, Scrutiny and Audit Committee enables the achievement of the Council's objectives to be challenged and appropriate actions put in place to address any identified issues so that the intended outcomes can be achieved. The Strategic Risk Register was reviewed by Audit Committee in July 2020. The Whole Authority Strategic Risk Assessment 2020/21 was also reported to Audit Committee (March 2021) and signed off by Cabinet April 2021.
- 91 Dealing with customer complaints helps Monmouthshire to identify and deal with failures in service delivery. The Council's complaint / compliment procedure is available on the web site. Out of 214 complaints received in 2019/20, 207 were resolved informally with 13 being formally investigated, 5 of which were referred the Ombudsman, with only 1 under investigation. 169 comments were received along with 240 compliments; (Audit Committee February 2021).

#### **Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

- 92 The Council's recruitment procedures provide equality of employment opportunities. The equality-assessed pay structure meets the requirements of the Single Status Agreement of 1997. The Single Status Collective Agreement was approved by Cabinet in September 2010. This is complemented by the People Strategy. The Pay Policy is approved annually by Council and is available on the MCC website.
- 93 Developing the digital capabilities of people and systems to enable effectiveness, efficiency and enhanced customer services is important within Monmouthshire and is measured via the Digital Programme Service Business Plan. To further enhance service delivery and better deal with cyber security / information risks the Digital Programme Office has been split into the Information Security and Technology Team and the Digital Design and Innovation Team.
- 94 There is continued support for Members' development through briefing sessions and other learning opportunities. A comprehensive training programme was developed for the intake of new Members following Council elections in May 2017.
- 95 There is also ongoing training and development which meets the needs of officers and Members through the corporate programme. Coaching and leadership skills training will be rolled out to all managers in due course. Check in, Check Out provides a value-based performance assessment approach between staff and line managers and aims to ensure employees have clear and effective understanding of their contribution to the objectives of their teams and subsequently the Council.
- 96 A Scrutiny Member Development Training Programme is in place which provides ongoing specific skills based training for Members and includes scrutiny induction; this is agreed by the Scrutiny Chairs' Group. The training programme forms part of the Scrutiny Service Plan.
- 97 Appropriate and relevant job descriptions were in place for the Chief Executive, Strategic Leadership Team (SLT), Monitoring Officer and Head of Finance.

#### **Partnerships/collaboration working**

- 98 There is Council policy on information sharing along with numerous information sharing protocols with our partners; this is included within the Data Protection Policy. Information sharing is key to joined-up service delivery. The Wales Accord on the Sharing of Personal Information (WASPI) was developed as a practical approach to multi agency sharing for the public sector in Wales. The Authority is required to meet statutory obligations regarding the handling and sharing of data, in accordance with the General Data Protection Regulation 2018. The Information Sharing protocol has been developed to ensure information is only shared appropriately, safely and compliantly.

- 99 The Council ensures that it has appropriate governance arrangements around its collaborations with other public agencies and other third parties. These can take a range of forms, from informal arrangements to those where governance arrangements are determined through legislation. The governance arrangements form a key part of the decision making processes that the Cabinet or Council follow when deciding to enter a collaborative arrangement, transparent local accountability is a key area of focus.
- 100 As a key example of our commitment to effective governance, arrangements have been developed for the PSB Select Committee, now the Public Services Committee from March 2020.
- 101 The Community & Partnership Development Team was developed in order to help build sustainable and resilient communities that support the wellbeing of current and future generations in Monmouthshire which is a shared purpose with the public service board partners. The Team work with communities and partners to help bring about social change and improve the quality of life in the county. The team act as enablers, unlocking potential and supporting sustainability through collective impact; providing a resource and tangible link between local communities and a wide range of partners; enabling the delivery of measureable and sustainable programme of activities that will constantly look to the future. The team will ensure MCCs statutory duties are fulfilled across the partnerships landscape.

**Principle F: Managing risks and performance through robust internal control and strong public financial management**

- 102 There are robust arrangements for effective internal financial control through the Council's accounting procedures and financial regulations. These include established budget planning procedures, which are subject to risk assessment, and regular reports to Members comparing actual revenue and capital expenditure to annual budgets. The Chief Finance Officer is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972. Procedures for tendering and contract letting are included in the Contract Procedure Rules and Financial Procedure Rules. The Council's Treasury Management arrangements follow professional practice, are subject to regular review and are contained in the Treasury Management Strategy approved by Council each year.
- 103 In July 2017 Audit Wales reported to Audit Committee that the "Council has a clear strategic approach for significant service changes, although better information would help Members when deciding the future shape of the Council" (Good Governance when Determining Significant Service Changes report, March 2017).
- 104 Audit Wales presented its Certificate of Compliance for the audit of Monmouthshire's 2020/21 Improvement Plan to the Audit Committee in June 2020 and concluded that the Council is meeting its statutory requirements.
- 105 The Anti-Fraud, Bribery and Corruption Strategy was revised and updated during 2017/18. It was approved by Cabinet July 2017 and provides a deterrent, promotes detection, identifies a clear pathway for investigation and encourages prevention. An Annual risk assessment on fraud and corruption is presented to Audit Committee. The Council's Council Tax Reduction Anti-Fraud Policy was approved by Cabinet in June 2015. A training package has been developed and presented to Audit Committee (January 2020).
- 106 The Audit Committee considers the effectiveness of the Council's arrangements for securing continuous improvement including risk management arrangements. The Audit Committee also considers corporate governance, monitors the work of auditors and inspectors, and monitors the relationships between auditors and staff and the responses to audit and inspection recommendations. It also has responsibility for reviewing the Annual Statement of Accounts and its associated reports (which include this statement) before approval by Council. The Audit Committee has an independent, non-political, Chairman who prepares an annual report of the work of the Audit Committee, July 2021.
- 107 Internal Audit operate to the standards set out in the 'Public Sector Internal Auditing Standards' which have been developed from the Institute of Internal Auditors (IIA) International Internal Auditing Standards which came into effect in April 2013. The team's role and status is set out in the Council's Internal Audit Charter. The Chief Internal Auditor reports a summary of audit findings to the Audit Committee each quarter; he also reports annually an opinion on the overall adequacy and effectiveness of the Council's internal control environment.



**108** The Chief Internal Auditor continues to ensure Internal Audit complies with the Public Sector Internal Audit Standards. A self-assessment was undertaken during 2017/18 to assess compliance with the Standards which was validated in March 2018 by an external assessor, the Chief Internal Auditor of Neath Port Talbot Council.

**109** The Council has an objective and professional relationship with its external auditors and statutory inspectors. It manages its information resource through strategies and policies to enable effective decision making which is managed via the Information Strategy and action plan.

### **Risk management**

**110** The Council's Strategic Risk Management Policy was updated and approved by Cabinet in March 2019; progress was reported into Audit Committee in July 2020 & March 2021. The policy requires the proactive participation of all those responsible for planning and delivering services in identifying, evaluating and managing high level strategic risks to the Council's priorities, services and major projects. The risk controls necessary to manage them are identified and monitored to ensure risk mitigation.

**111** Within the Council the purpose of risk management is to:

- preserve and protect the Council's assets, reputation and staff
- aid good management of risk and support whole authority governance
- aid delivery of its population outcomes internally and when working with partners
- improve business performance and anticipated risks in delivering improvements
- avoid unnecessary liabilities, costs and failures
- shape procedures and responsibilities for implementation.

The strategic risk assessment ensures that:

- Strategic risks are identified and monitored by the Authority
- Risk controls are appropriate and proportionate
- Senior managers and elected members systematically review the strategic risks facing the Authority.

The risk assessment is prepared by drawing on a wide range of evidence including service plans, performance measures, regulatory reports, progress on the previous risk assessment and the views of select and audit committees. In order to mitigate the risks, proposed actions are recorded and also aligned back into the respective service business plan. The risk assessment is a living document and is updated over the course of the year as new information comes to light.

**112** The Council's Strategic Risk Assessment for 2020/21 contains 18 risks. These were reviewed throughout the year with the latest version was presented to Audit Committee in March 2021. The majority were rated initially as medium risks. Following mitigation there were 4 low risks, 9 medium risks and 5 high risks.

**Principle G:** Implementing good practices in transparency, reporting, and audit to deliver effective accountability

**113** The South East Wales Education Achievement Service (EAS) Business Plan 2021/22 was presented to Cabinet in March 2021. The plan sets out the priorities, programmes and outcomes to be achieved by the EAS on behalf of the South East Wales Consortium.

**114** The updated People Strategy was endorsed by Cabinet in July 2018; this is the overarching framework for People and Organisational Development which supports its role in ensuring the organisation is equipped with the collective capacity, capability and mindset to meet financial and improvement challenges and respond to opportunities that present

**115** The Council's first Commercial Strategy was endorsed by Cabinet in July 2018; the purpose of this report was to present for approval the Council's first Commercial Strategy and accompanying action plan. The strategy builds upon aspects of the Procurement, Digital and Asset Management Strategies and is a key means through which the Council can play a role in the self-determination of its future viability and sustainability.

- 116** In September 2019, the updated Digital Infrastructure Action Plan was approved by Cabinet.
- 117** There have been significant developments in technology in the last 4 years, and the experience, data and evidence we have collected from our customers about the way they wish to engage and transact with us has informed this new strategy. Our workforce needs to have the digital knowledge and skills to build in end-to-end automated customer services and business processes. We need to reduce demand through self-service facilities and provision of accurate, relevant data and information that people can use with confidence to make decisions.
- 118** Continued improvements have been made to cyber security arrangements since the onset of Covid-19 which has increased digital working methods.
- 119** In July 2018, the Council's latest iteration of its Procurement Strategy was approved by Cabinet. The Strategy builds upon workshop sessions undertaken with the Economy and Development Select Committee and the aims, aspirations and priorities for procurement, identified throughout the participative process.
- 120** Transparency and openness is important to Monmouthshire; the Annual Statement of Accounts was taken through the Audit Committee process before being endorsed by Council. All public meetings of the Council, including Council, Cabinet, Select, Audit Committee, Planning Committee are live streamed on YouTube and are available to view on the Council's YouTube channel at any time after the meeting, which provides greater transparency of the Council's business.
- 121** The Council's enabling strategies have been revised to align to the delivery of the corporate plan, these include the Digital Strategy, People Strategy and Asset Management Strategy as well as linking in with MCC's Service Business Plans.
- 122** The Audit Committee continues to support the Internal Audit team and endorses its annual report and plan. The plan details the work and service areas the team will cover based on a risk assessment in order to provide assurance on the adequacy of the internal controls, governance arrangements and risk management process. The Audit Committee presents its Annual report to Council.
- 123** The Whole Authority Report complaints, comments and compliments 2019/20 was presented to Audit Committee in February 2021 which identified the number and types of feedback received and dealt with from 1 April 2019 until 31 March 2020.

### **Information Governance**

- 124** Monmouthshire County Council (MCC) has restructured its Information Security and Governance offering from June 2021 in response to an increase in digital working and to maintain cyber resilience to protect our information. MCC continues to ensure training and awareness of governance issues is focussed on high risk service departments as well as through continuous updates and Information Security training events. This is to ensure compliance with the General Data Protection Regulation 25<sup>th</sup> May 2018- specifically following the "12 Steps to Compliance" as recommended by the Information Commissioner's Office (ICO). A structured approach to information security and governance is operated internally via the Information Governance Group chaired by Senior Information Risk Officer (SIRO) as well as through collaboration with the wider SRS partners providing our technology infrastructure. GDPR Operational Leads have been established, along with Digital Champions linking in with teams, individuals and volunteers to ensure compliance and messages are communicated.
- 125** MCC have a dedicated intranet site for general advice as well as assistance with GDPR legislative requirements, including templates for privacy notices, records of processing activities (ROPA's) and Data Processing Impact Assessments (DPIA's).
- 126** To keep the public informed, MCC has now published its online privacy notices for relevant service areas. Significant work is underway through 2021/2 to consolidate and update all privacy notices to make them more transparent and sustainable to maintain. A comprehensive list of all data systems is maintained centrally along with information audits for every service area, linking into the ROPA's.
- 127** The Corporate GDPR Policy is on the public website for clarity. Related policies will be updated accordingly by relevant lead officers, so that they satisfy GDPR requirement. Links are in place to work with the South East Wales Information Forum (SWIF) and WARP (Warning Advice and Security Point)

on a regular basis to share best practice. Good housekeeping is encouraged as is continuous improvement to mitigating against the risk of harm to individuals, although it is recognised further work is required to back date data cleansing tasks which require considerable capacity.

### **Main areas for Improvement**

**128** The Council will continue to monitor and review its governance arrangements and identify any gaps. These will be addressed during the year to further strengthen governance in Monmouthshire County Council:

- Deliver awareness raising training sessions on the importance of compliance with new and revised Contract Procedure Rules and Financial Procedure Rules;
- Code of Corporate Governance to be formally approved by Cabinet

### **Action Plan 2019/20**

**129** Appendix 1 shows how the 2019/20 Action plan areas for improvement have been addressed during 2020/21.

### **Monitoring & Evaluation**

**130** We propose over the coming year to continually review our governance arrangements to ensure they remain effective and appropriate. Steps will be taken, where appropriate, to further enhance our governance arrangements. We are satisfied that these steps will address any need for improvements identified in the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:** ..... **4<sup>th</sup> November 2021**

**Councillor Richard John                      Leader**

**Signed:** ..... **4<sup>th</sup> November 2021**

**Paul Matthews                                      Chief Executive**

## Progress against the Action Plan 2019/20

Governance Principle	Area for Improvement	Progress
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Continue to deliver training sessions on the importance of compliance with the new and revised Contract Procedure Rules and Financial Procedure Rules;	Internal Audit have continued to deliver training sessions within schools and on the manager's induction programme.  Internal Audit will work with the new procurement partnership to ensure the revised and updated CPRs are rolled out across MCC.
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	The Code of Corporate Governance was last approved by Council in July 2011. This will need to be updated and approved in line with Delivering Good Governance in Local Government Framework 2016'	Outstanding.  The Code of Corporate Governance has been updated and was presented to Audit Committee in June 2020.  This now needs formal Cabinet approval.
Principle F: Managing risks and performance through robust internal control and strong public financial management	The Council will work through the Audit Wales proposals for improvement in the following areas: <ul style="list-style-type: none"> <li>▪ Scrutiny: Fit for the Future?</li> <li>▪ Review of Asset Management</li> <li>▪ Information Management</li> <li>▪ Whole Authority review of children's safeguarding</li> </ul>	A corporate plan has been developed that sets out a clear direction for the Council up to 2022.  The role and purpose of service planning has been reviewed and a revised process established aligned to the corporate plan.  Council's enabling strategies have been revised to align to the delivery of the corporate plan, these include the Digital Strategy, People Strategy and Asset Management Strategy  The Council's Strategic Risk Management Policy was updated

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

### Opinion on financial statements

I have audited the financial statements of Monmouthshire County Council for the year ended 31 March 2021 under the Public Audit (Wales) Act 2004.

Monmouthshire County 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.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

In my opinion the financial statements:

- give a true and fair view of the financial position of Monmouthshire County Council as at 31 March 2021 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

### Other Information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to

determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

## Report on other requirements

### Opinion on other matters

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

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

### Matters on which I report by exception

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

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

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

## 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:



- Enquiring of management, the Council's Chief Internal Auditor and those charged with governance, including obtaining and reviewing supporting documentation relating to the Council's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or noncompliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Obtaining an understanding of the Council's framework of authority as well as other legal and regulatory frameworks that the Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Council;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Council's controls, and the nature, timing and extent of the audit procedures performed.

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.

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

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

**Adrian Crompton**  
**Auditor General for Wales**  
**5 November 2021**

**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

## Movement In Reserves Statement for the Year Ended 31st March 2021

		Council Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Joint Arrangement - CCRCD	Total Reserves
	Note	£000	£000	£000	£000	£000		£000
Balance at 1st April 2019		6,877	6,613	4,581	18,072	(57,643)	2,493	(37,077)
<b>Movement in reserves during 2019/20</b>								
Total Comprehensive Income and Expenditure		(23,337)	-	-	(23,337)	60,554	142	37,360
Adjustments between accounting basis & funding basis under regulations	10.2	24,700		(1,374)	23,327	(23,327)		-
Net Increase/(Decrease) before Transfers to Earmarked Reserves		1,363	-	(1,374)	(10)	37,228	142	37,360
Transfers to/(from) Earmarked Reserves	10.4	230	(230)		-			-
Increase/(Decrease) in 2019/20		1,593	(230)	(1,374)	(10)	37,228	142	37,360
Balance at 31st March 2020 carried forward		8,471	6,383	3,208	18,061	(20,415)	2,635	283
<b>Movement in reserves during 2020/21</b>								
Total Comprehensive Income and Expenditure		(6,980)	-	-	(6,980)	(64,449)	34	(71,395)
Adjustments between accounting basis & funding basis under regulations	10.2	15,122	-	6,373	21,495	(21,495)		0
Net Increase/(Decrease) before Transfers to Earmarked Reserves		8,142	-	6,373	14,515	(85,943)	34	(71,395)
Transfers to/(from) Earmarked Reserves	10.4	(4,289)	4,289	-	-	-	-	0
Increase/(Decrease) in 2020/21		3,852	4,289	6,373	14,515	(85,943)	34	(71,395)
Prior period adjustment: CCRCD							29	29
Balance at 31st March 2021 carried forward		12,324	10,672	9,581	32,576	(106,358)	2,698	(71,083)



Comprehensive Income & Expenditure Statement for the Year Ended 31st March 2021							
2019/20					2020/21		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
73,298	(13,317)	59,981	Children & Young People		77,070	(17,822)	59,248
71,689	(17,367)	54,322	Social Care & Health		79,142	(24,684)	54,459
63,253	(28,015)	35,238	Enterprise		66,811	(34,438)	32,373
6,649	(865)	5,784	Chief Executives Unit		8,357	(1,418)	6,940
40,854	(22,658)	18,196	Resources		41,831	(24,341)	17,490
3,591	(2,748)	843	Corporate		2,350	(3,023)	(673)
150	(308)	(158)	Cardiff Capital Region City Deal (CCRCD)	16.6	288	(448)	(159)
259,483	(85,278)	174,206	<b>Cost of Services</b>	11.1	275,850	(106,173)	169,677
			<b>Other operating expenditure:</b>				
			<i>Precepts &amp; Levies:</i>				
11,779	0	11,779	Gwent Police Authority		12,647	0	12,647
4,383	0	4,383	South Wales Fire & Rescue Authority		4,584	0	4,584
2,699	0	2,699	Community and Town Councils		2,952	0	2,952
106	0	106	National Parks		106	0	106
94	0	94	Internal Drainage Boards		94	0	94
300	(229)	71	Gains/losses on the disposal of non-current assets		2,184	(2,188)	(4)
		19,131	<b>Total Other operating expenditure</b>				20,378
17,189	(9,850)	7,340	Financing and investment income and expenditure	11.3	18,156	(13,127)	5,029
			Interest & Investment income: CCRCD			(7)	(7)
			Change in Fair Value of Investment Properties: CCRCD		464		464
			<b>Taxation &amp; non-specific grant income:</b>				
0	(75,628)	(75,628)	Council Tax	11.5	228	(80,466)	(80,238)
0	(30,682)	(30,682)	Non-domestic rates redistribution	11.5	0	(30,037)	(30,037)
0	(71,205)	(71,205)	General government grants	11.6	0	(77,988)	(77,988)
		0	Recognised Capital Grants & Contributions: CCRCD			(275)	(275)
33		33	Tax Expenses: CCRCD			(57)	(57)
		23,195	<b>(Surplus) or Deficit on Provision of Services</b>				6,946
			<b>Other Comprehensive Income and Expenditure:</b>				
		(4,139)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	12.1			201
		401	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income				(327)
		(56,816)	(Gains)/losses on remeasurement of pension assets / liabilities	14.3			64,575
		(60,554)	<b>Total Other Comprehensive Income and Expenditure</b>				64,449
		(37,360)	<b>Total Comprehensive Income and Expenditure</b>				71,395

Balance Sheet as at 31st March 2021			
31st March 2020 £000s		Note	31st March 2021 £000s
241,222	Other land and buildings	12.1	229,194
10,470	Vehicles, plant, furniture and equipment	12.1	10,373
71,151	Infrastructure	12.1	73,613
4,459	Community assets	12.1	4,459
2,844	Assets under construction	12.1	2,016
0	Surplus assets not held for sale	12.1	10
4,792	Heritage Assets	12.7	4,792
63,427	Investment Property	12.5	65,304
220	Intangible Assets		141
91	Long-Term Investments	13.1	1,362
2,993	Long Term Debtors	13.5	2,867
<b>401,670</b>	<b>Long term assets</b>		<b>394,129</b>
5,658	Short Term Investments	13.1	23,444
482	Inventories		442
28,511	Short Term Debtors	13.5	33,047
22,377	Cash and Cash Equivalents	15.3	19,158
2,060	Assets Held for Sale	12.6	2,569
0	CCRCD: Deferred Tax asset		88
<b>59,088</b>	<b>Current Assets</b>		<b>78,748</b>
(1,475)	Cash and Cash Equivalents	15.3	(621)
(95,123)	Short Term Borrowing	13.1	(98,595)
(24,768)	Short Term Creditors	13.6	(36,405)
(4,534)	Provisions	13.7	(4,757)
<b>(125,899)</b>	<b>Current Liabilities</b>		<b>(140,377)</b>
(230,526)	Liability related to defined benefit pension scheme	10.9	(306,876)
(502)	Provisions	13.7	(448)
(92,591)	Long Term Borrowing	13.1	(84,871)
(2,734)	Long Term Creditors: CCRCD		(2,760)
(2,352)	Other Long Term Liabilities	13.1	(2,377)
(3,852)	Capital Grants Receipts in Advance	11.6	(4,214)
(2,018)	Revenue Grants Receipts in Advance		(2,037)
<b>(334,576)</b>	<b>Long Term Liabilities</b>		<b>(403,583)</b>
<b>283</b>	<b>Net Assets</b>		<b>(71,083)</b>
8,471	Council Fund Balance	10.3	12,324
6,383	Earmarked Reserves	10.4	10,671
3,207	Capital Receipts Reserve	10.6	9,581
392	Usable Reserves: CCRCD		181
<b>18,453</b>	<b>Usable Reserves</b>		<b>32,758</b>
41,523	Revaluation Reserve	10.7	38,407
(230,526)	Pensions Reserve	10.9	(306,876)
167,534	Capital Adjustment Account	10.8	164,073
5,479	Deferred Capital Receipts Reserve	10.11	2,692
(517)	Financial Instrument Adjustment Account		(517)
(355)	Financial Instrument Revaluation Reserve		(28)
(3,553)	Accumulating Absence Adjustment Account	10.10	(4,110)
2,243	Unusable Reserves: CCRCD		2,517
<b>(18,171)</b>	<b>Unusable Reserves</b>		<b>(103,842)</b>
<b>283</b>	<b>Total Reserves</b>		<b>(71,083)</b>

Cash Flow Statement for the Year Ended 31st March 2021			
31st March 2020			31st March 2021
£000		Note	£000
23,195	Net (surplus) or deficit on the provision of services	15.1	6,946
(35,955)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	15.1	(41,657)
14,723	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	15.1	22,126
1,963	<b>Net cash flows from Operating Activities</b>	15.1	(12,585)
21,405	Purchase of property, plant and equipment, investment property and intangible assets		12,235
11,607	Purchase of short-term and long-term investments		15,421
0	Other payments for investing activities		0
(4,537)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(7,415)
(19,310)	Proceeds from short-term and long-term investments		236
(10,487)	Other receipts from investing activities		(9,811)
(1,322)	<b>Net Cash (Inflow)/Outflow from Investing Activities</b>		10,666
	<b>Financing Activities</b>		
546	Repayments of short and long-term borrowing		15,504
31	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		34
(8,863)	Cash receipts of short and long-term borrowing		(11,255)
0	Other receipts from financing activities		0
(8,285)	<b>Net Cash (Inflow)/Outflow from Financing Activities</b>		4,283
(7,643)	<b>Net (increase) / decrease in cash and cash equivalents</b>		2,363
13,259	Cash and cash equivalents at the beginning of the reporting period		20,902
20,902	<b>Cash and cash equivalents at the end of the reporting period</b>	15.3	18,539

**Notes to the Accounts  
for the Year Ended  
31st March 2021**

## 10 MOVEMENT IN RESERVES STATEMENT NOTES

### 10.1 Movement in Reserves

This statement shows the movement in the year on the 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. A summary of the movement in reserves during the financial year is illustrated below. More detailed information to support the Movement in Reserves Statement follows this note.

	Note	Balance at 1st April 2019 £000	Movement in Reserve £000	Balance at 31st March 2020 £000	Movement in Reserve £000	Balance at 31st March 2021 £000
<b>Usable Reserves:</b>						
Council Fund balance: Authority	10.3	7,110	1,796	8,906	0	8,906
Council Fund balance: LMS School Balances	10.5	(232)	(203)	(435)	3,853	3,418
Earmarked reserves	10.4	6,613	(230)	6,383	4,288	10,671
Capital Receipts Reserve	10.6	4,581	(1,373)	3,207	6,374	9,581
Usable Reserves: CCRCD		250	142	392	(211)	181
<b>Total Usable Reserves</b>		<b>18,321</b>	<b>133</b>	<b>18,453</b>	<b>14,304</b>	<b>32,758</b>
<b>Unusable Reserves:</b>						
Revaluation Reserve	10.7	38,948	2,575	41,523	(3,116)	38,407
Capital Adjustment Account	10.8	166,977	557	167,534	(3,461)	164,073
Financial Instruments Adjustment Account		(631)	114	(517)	0	(517)
Pension Reserve	10.9	(268,213)	37,687	(230,526)	(76,350)	(306,876)
Deferred Capital Receipts Reserve	10.11	8,168	(2,689)	5,479	(2,787)	2,692
Financial Instrument Revaluation Reserve		46	(401)	(355)	327	(28)
Accumulated Absences Adjustment Account	10.10	(2,939)	(614)	(3,553)	(557)	(4,110)
Unusable Reserves: CCRCD	16.6	2,243	0	2,243	273	2,517
<b>Total Unusable Reserves</b>		<b>(55,400)</b>	<b>37,228</b>	<b>(18,171)</b>	<b>(85,671)</b>	<b>(103,842)</b>
<b>Total Authority Reserves</b>		<b>(37,077)</b>	<b>37,361</b>	<b>282</b>	<b>(71,366)</b>	<b>(71,084)</b>

### 10.2 Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note summarises the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. A more detailed overview is provided in the individual notes that follows for each reserve:

Movements in 2020/21:	Council Fund Balance £000	Usable Reserves £000	Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Charges for depreciation and impairment of Property, Plant and Equipment assets	17,719	0	(17,719)
Charges for impairment of Heritage Assets	1	0	(1)
Revaluation movements on Heritage Assets	0	0	0
Revaluation movements on Property Plant and Equipment (charged to SDPS)	2,503	0	(2,503)
Revaluation movements on Assets Held for Sale (charged to SDPS)	0	0	0
Movements in the market value of Investment Properties	(2,412)	0	2,412

Amortisation and impairment of intangible assets	79	0	(79)
Capital grants and contributions applied	(10,265)	0	10,265
Revenue expenditure funded from capital under statute	1,529	0	(1,529)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	4,593	0	(4,593)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Statutory provision for the financing of capital investment (MRP)	(6,075)	0	6,075
Capital expenditure charged against the Council Fund	(252)	0	252
<b>Adjustments involving the Capital Receipts Reserve:</b>			
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(4,628)	7,415	(2,786)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(1,042)	1,042
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>			
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0
<b>Adjustments involving the Pensions Reserve:</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	25,801	0	(25,801)
Employer's pensions contributions and direct payments to pensioners payable in the year	(14,026)	0	14,026
<b>Adjustment involving the Accumulated Absences Account:</b>			
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	557	0	(557)
<b>Adjustment between the Capital Adjustment Account and the Revaluation Reserve:</b>			
Depreciation of non-current asset revaluation gains	0	0	0
<b>Total adjustments between accounting basis &amp; funding basis under regulations</b>	<b>15,122</b>	<b>6,373</b>	<b>(21,495)</b>

<b>Movements in 2019/20:</b>	<b>Council Fund Balance £000</b>	<b>Usable Reserves £000</b>	<b>Unusable Reserves £000</b>
<b>Adjustments primarily involving the Capital Adjustment Account:</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Charges for depreciation and impairment of Property, Plant and Equipment assets	14,523	-	(14,523)
Charges for impairment of Heritage Assets	189	-	(189)
Revaluation movements on Heritage Assets	0	-	0
Revaluation movements on Property Plant and Equipment (charged to SDPS)	518	-	(518)
Revaluation movements on Assets Held for Sale (charged to SDPS)	0	-	0
Movements in the market value of Investment Properties	560	-	(560)
Amortisation and impairment of intangible assets	186	-	(186)
Capital grants and contributions applied	(8,658)	-	8,658
Revenue expenditure funded from capital under statute	4,161	-	(4,161)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,290	-	(1,290)

<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Statutory provision for the financing of capital investment (MRP)	(5,564)	0	5,564
Capital expenditure charged against the Council Fund	(286)	-	286
<b>Adjustments involving the Capital Receipts Reserve:</b>			
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(1,847)	4,537	(2,689)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(5,910)	5,910
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>			
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(113)	-	113
<b>Adjustments involving the Pensions Reserve:</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	32,284	-	(32,284)
Employer's pensions contributions and direct payments to pensioners payable in the year	(13,155)	-	13,155
<b>Adjustment involving the Accumulated Absences Account:</b>			
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	614	-	(614)
<b>Adjustment between the Capital Adjustment Account and the Revaluation Reserve:</b>			
Depreciation of non-current asset revaluation gains	-	-	-
<b>Total adjustments between accounting basis &amp; funding basis under regulations</b>	<b>24,700</b>	<b>(1,374)</b>	<b>(23,327)</b>

### 10.3 Usable Reserves available for Revenue Purposes

The in-year movements in the Authority's usable Reserves that are available to be applied for revenue purposes are summarised below:

Each of the Authority's Schools is directly governed by a Board of Governors, which is responsible for managing the school's finances. the balance on the Council Fund includes £3,418,000 in respect of underspent (or overspent) budgets which have been delegated to schools. These balances are at the disposal of the respective schools and represent an earmarked reserve which is not available for the Authority to use generally.

	At 1st April 2019 £000	In Year Movement £000	At 31st March 2020 £000	In Year Movement £000	At 31st March 2021 £000
Amount of Council Fund Balance held by Schools under Local Management Schemes	(232)	(203)	(435)	3,853	3,418
Amount of Council Fund Balance generally available for new expenditure	7,110	1,796	8,906	0	8,906
Total Council Fund Balance	6,877	1,594	8,471	3,853	12,324
Earmarked Revenue Reserves	6,613	(230)	6,383	4,288	10,671
<b>Total Usable Reserves available for Revenue Purposes</b>	<b>13,490</b>	<b>1,364</b>	<b>14,854</b>	<b>8,142</b>	<b>22,995</b>

### 10.4 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the Council Fund into earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Council Fund expenditure.

Earmarked reserves have been set up where there has been a need to set aside resources for a specific future purpose. The purpose of each earmarked reserve is detailed below. Utilisation of these reserves is under the control of the Cabinet and has been approved by it.

The transfers to and from Earmarked Reserves in 2020/21 can be summarised as follows:

	At 1st April 2019 £000	Transfer to Reserves £000	Transfer from Reserves £000	At 31st March 2020 £000	Transfer to Reserves £000	Transfer from Reserves £000	At 31st March 2021 £000
Invest to Redesign	1,083	278	(194)	1,168	280	(64)	1,384
Priority Investment	405			405	1,500		1,905
Insurance and risk management	1,019		(83)	935			935
IT Transformation	479		(225)	254	600		854
Treasury equalisation	990			990		(400)	590
Capital Investment	643		(16)	627			627
Redundancy and Pensions	333		(88)	245	700	(88)	857
Capital Receipt Generation	279		(98)	181	300	(65)	416
<b>Other reserves</b>							
Elections	83	35		118	174		292
Museums acquisition	53			53			53
Solar Farm Maintenance & Community Fund	41	23		64	23		87
Castlegate	80			80	233		312
Newport Leisure Park	62			62	126		188
Sustainability - PV Invertor Replacement Reserve	0			0	15		15
Covid19 Hardship Fund Equalisation Reserve	0			0	819		819
<b>Service Reserves:</b>							
Local Resilience Forum	115	84	(2)	198			198
Grass Routes Buses	151	5		156	5		161
Schools sickness & maternity cover	136		(88)	48			48
<b>Trading Accounts:</b>							
Youth Offending Team	150			150			150
Outdoor education centres	0			0			0
Building Control	14		(13)	1			1
Rural Development Plan	413	116		530	92		621
Highways Plant & Equipment Replacement	34	75	(39)	69	75	(44)	100
Homeless Prevention	50			50	8		58
<b>Total</b>	<b>6,613</b>	<b>617</b>	<b>(846)</b>	<b>6,383</b>	<b>4,950</b>	<b>(661)</b>	<b>10,671</b>

**Invest to Redesign Reserve** - To fund service redesign to either improve the service, generate income or reduce costs.

**I.T. Transformation Reserve** - To invest in information technology in support of the organisations outcomes and generation of improved service efficiency, income generation or cost savings.

**Capital Investment Reserve** - To finance future capital expenditure.

**Priority Investment Reserve** - To fund additional one off investment in the Authority's agreed priorities.

**Redundancy and Pensions Reserve** - To meet redundancy costs and commuted payments for early retirements over a maximum of 5 years.



**Insurance and Risk Management Reserve** - To meet excesses and administration costs on claims against the Council, to provide cover on self insured risks and contribute to risk management activities.

**Treasury Equalisation Reserve** - Originally created from rescheduling discounts and premia, intended for use under the concept of prudence to permit a long term view to be taken of treasury decisions.

**Capital Receipt Generation Reserve** - Securing capital receipts is a vital element of the Authority's capital investment strategy. Improving the final disposal value by investment, either in the fabric of the asset or by proper disposal expertise ensures the Council obtains the best possible value for surplus assets. Current accounting regulations are such that investing in disposal must be taken against the revenue account and these costs cannot be fully offset against the ultimate capital receipt. The reserve has been established to finance such expenditure.

**Other Reserves** - These include a number of other reserves where separate classification is not deemed necessary in the accounts due to the level of the reserve balance or its nature.

**Service Reserves** - Created from surpluses and deficits on the Authority's external and internal trading account activities, and maintained to support and develop these services.

**Trading Reserves** - Trading reserves at the year-end now represent balances created as a result of external trade or where the Authority assumes lead authority status for administering funds on behalf of other partner organisations.

## 10.5 School Balances

The balance on the Council Fund includes £3,418,120 in respect of underspent (or overspent) budgets which have been delegated to schools. These balances are at the disposal of the respective schools and represent an earmarked reserve which is not available for the Authority to use generally. Details of the movements of these reserves are shown below:

	At 1st April 2019	In Year Movement	At 31st March 2020	In Year Movement	At 31st March 2021
	£	£	£	£	£
<b>Comprehensives</b>					
Caldicot	(65,012)	(114,680)	(179,693)	409,100	229,408
Chepstow	50,662	(114,232)	(63,570)	(23,231)	(86,801)
King Henry VIII	(82,798)	(142,902)	(225,700)	423,196	197,496
Monmouth	(538,325)	75,795	(462,530)	676,722	214,192
<b>Sub Total Comprehensives</b>	<b>(635,473)</b>	<b>(296,019)</b>	<b>(931,493)</b>	<b>1,485,787</b>	<b>554,294</b>
<b>Primaries</b>					
Archbishop R Williams	73,405	10,311	83,716	122,680	206,397
Cantref	88,391	16,802	105,193	94,604	199,797
Castle Park	(23,773)	25,926	2,153	119,700	121,853
Cross Ash	54,151	10,007	64,157	18,313	82,470
Deri View	80,001	(6,044)	73,956	74,153	148,109
Dewstow	108,642	27,813	136,455	101,356	237,811
Durand	29,087	(16,396)	12,691	65,193	77,884
Gilwern	55,251	9,298	64,549	102,302	166,852
Goytre Fawr	2,738	32,156	34,893	56,646	91,540
Kymin View	5,607	32,348	37,955	97,350	135,305
Llandogo	(83,516)	(93,019)	(176,535)	89,705	(86,830)

Llanfair Kilgeddin CV	0	0	0	0	0
Llanfoist	14,341	10,530	24,871	68,562	93,433
Llantilio Pertholey	(9,643)	(11,373)	(21,016)	88,231	67,215
Llanvihangel Crucorney	34,342	15,343	49,684	54,986	104,670
Magor Vol Aided	(54,651)	35,866	(18,785)	135,987	117,202
New Pembroke Primary	(13,239)	14,444	1,205	124,302	125,507
Osbaston Church in Wales	6	(11,256)	(11,250)	51,859	40,609
Our Lady's & St Michael's Catholic Primary	(14,170)	30,030	15,859	38,534	54,393
Overmonnow	(18,473)	(15,456)	(33,928)	75,032	41,104
Raglan	(108,452)	75,340	(33,112)	141,989	108,878
Rogiet	20,014	(24,418)	(4,404)	82,499	78,095
Shirenewton	132,093	(3,203)	128,890	47,356	176,246
St Mary's (Chepstow)	(63,592)	17,074	(46,518)	67,378	20,860
The Dell	16,389	(13,357)	3,032	45,378	48,410
Thornwell	(53,722)	6,572	(47,150)	112,037	64,887
Trellech	71,983	(21,035)	50,948	64,743	115,691
Undy	(129,534)	(16,391)	(145,925)	152,295	6,370
Usk CV	9,910	36,032	45,942	97,113	143,055
Ysgol Gymraeg Y Fenni	51,306	(55,714)	(4,408)	38,775	34,367
Ysgol Gymraeg Ffin	(32,980)	(12,903)	(45,883)	61,521	15,638
<b>Sub Total Primaries</b>	<b>241,912</b>	<b>105,324</b>	<b>347,236</b>	<b>2,490,578</b>	<b>2,837,815</b>
<b>Other</b>					
Mounton House	141,505	30,555	172,060	(172,060)	(0)
Pupil Referral Unit	19,653	(42,584)	(22,931)	48,943	26,012
<b>Sub Total Other</b>	<b>161,158</b>	<b>(12,029)</b>	<b>149,129</b>	<b>(123,117)</b>	<b>26,011</b>
<b>Total</b>	<b>(232,404)</b>	<b>(202,724)</b>	<b>(435,128)</b>	<b>3,853,248</b>	<b>3,418,120</b>

## 10.6 Capital Receipts Reserve

Amounts in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's borrowing requirement. Receipts are appropriated to the reserve from the Council Fund via the Statement in Movements Statement.

2019/20 £000		2020/21 £000
4,581	Balance as at 1st April	3,207
1,847	Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,628
2,689	Transfer from Deferred Capital Receipts Reserve upon receipt of cash	2,787
(5,910)	Less: use of the Capital Receipts Reserve to finance new capital expenditure	(1,042)
<b>3,207</b>	<b>Balance as at 31st March</b>	<b>9,581</b>

## 10.7 Revaluation Reserve

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

Revalued downwards or impaired;

Used in the provision of services and the gains are consumed through depreciation; or  
Disposed of and the gains are realised.

The Reserve contains gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2019/20 £000		2020/21 £000
38,948	Balance at 1 April	41,523
5,411	Upward revaluation of assets	1,818
(1,272)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,019)
(1,564)	Difference between fair value depreciation and historical cost depreciation	(2,336)
0	Accumulated gains on assets sold or scrapped	(579)
<b>41,523</b>	<b>Balance at 31 March</b>	<b>38,407</b>

## 10.8 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 enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

This note provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2019/20 £000		2020/21 £000
166,977	Balance at 1 April	167,534
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
(14,523)	Charges for depreciation and impairment of property, plant and equipment assets	(17,719)
0	Revaluation movements on heritage assets	0
(189)	Charges for impairment of heritage assets	(1)
(518)	Revaluation movements on Property, Plant and Equipment	(2,503)
0	Revaluation movements on Assets Held for Sale	0
(186)	Amortisation & impairment of intangible assets	(79)
(4,161)	Revenue expenditure funded from capital under statute	(1,529)
(1,290)	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	(4,013)
1,564	Adjusting amounts written out of the Revaluation Reserve	2,336
5,910	Use of the Capital Receipts Reserve to finance new capital expenditure	1,042
8,658	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	10,265
5,564	Statutory provision for the financing of capital investment charged against the Council Fund	6,075
286	Capital expenditure charged against the Council Fund	252
(560)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	2,412

167,534	Balance at 31 March	164,073
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## 10.9 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 pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2019/20 £000		2020/21 £000
(268,213)	Balance at 1 April	(230,526)
56,816	Remeasurement gains or (losses) on pension assets and liabilities	(64,575)
(32,284)	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	(25,801)
13,155	Employer's pensions contributions and direct payments to pensioners payable in the year	14,026
(230,526)	Balance at 31 March	(306,876)

## 10.10 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the Council Fund Balance from accruing for compensated absences earned but not taken in the year, for example, annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the Council Fund Balance is neutralised by transfers to or from the Account. Further information on the calculations of benefits can be found in notes 13.7(c) and 17.6 to the accounts.

2019/20 £000		2020/21 £000
(2,939)	Balance at 1 April	(3,553)
2,939	Settlement or cancellation of accrual made at the end of the preceding year	3,553
(3,553)	Amounts accrued at the end of the current year	(4,110)
(3,553)	Balance at 31 March	(4,110)

## 10.11 Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of Land but for which full cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

The balance at the 31st March 2021 is primarily due to the Old Abergavenny cattle market site disposed of under a finance lease.

2019/20 £000		2020/21 £000
8,168	Balance at 1 April	5,479
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0
(2,689)	Transfer to the Capital Receipts Reserve upon receipt of cash	(2,787)
5,479	Balance at 31 March	2,692

## 11 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT NOTES

### 11.1 Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the authority (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also 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 (CIES).

2019/20				2020/21		
Net Expenditure Chargeable to the general fund £000	Adjustments between the Funding & Accounting Basis £000	Net Expenditure in the CIES £000		Net Expenditure Chargeable to the general fund £000	Adjustments between the Funding & Accounting Basis £000	Net Expenditure in the CIES £000
51,883	8,098	59,981	Children & Young People	56,093	3,155	59,248
50,087	4,234	54,322	Social Care & Health	51,327	3,132	54,459
24,376	10,862	35,238	Enterprise	21,688	10,685	32,373
4,735	1,049	5,784	Chief Executives Unit	4,524	2,416	6,940
7,191	11,005	18,196	Resources	6,454	11,036	17,490
16,412	(15,569)	843	Corporate	20,403	(21,076)	(673)
0	(158)	(158)	Cardiff Capital Region City Deal (CCRCDC)	0	(159)	(159)
154,685	19,521	174,206	Cost of Services	160,488	9,189	169,677
(156,481)	5,470	(151,011)	Other Income & Expenditure	(160,489)	(2,243)	(162,732)
(1,796)	24,991	23,195	Surplus or Deficit	(0)	6,946	6,946
(7,111)			Opening General Fund Balance	(8,906)		
(1,796)			Surplus or Deficit on General Fund	(0)		
(8,906)			Closing General Fund Balance	(8,906)		

### Adjustments from the General Fund to arrive at the CIES Amounts:

2019/20					2020/21			
Adjustments for Capital Purposes £000	Net Change for Pensions Adjustments £000	Other differences £000	Total Adjustments £000		Adjustments for Capital Purposes £000	Net Change for Pensions Adjustments £000	Other differences £000	Total Adjustments £000
6,623	2,284	(809)	8,098	Children & Young People	8,174	1,117	(6,136)	3,155
1,317	3,739	(821)	4,234	Social Care & Health	1,049	2,239	(156)	3,132
6,662	4,205	(5)	10,862	Enterprise	7,746	2,548	392	10,685
398	592	59	1,049	Chief Executives Unit	2,130	390	(104)	2,416
2,061	1,001	7,943	11,005	Resources	2,864	549	7,623	11,036
2,768	723	(19,060)	(15,569)	Corporate	0	(609)	(20,467)	(21,076)
0	0	(158)	(158)	Cardiff Capital Region City Deal (CCRCDC)	0	0	(159)	(159)
19,829	12,543	(12,851)	19,521	Cost of Services	21,963	6,233	(19,007)	9,189
(14,302)	6,586	13,186	5,470	Other Income & Expenditure	(16,649)	5,542	8,865	(2,243)
5,527	19,129	334	24,991	Adjustments between the Funding & Accounting Basis	5,314	11,775	(10,142)	6,946

## 11.2 Expenditure & Income analysed by nature

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

2019/20		2020/21
£000		£000
132,489	Employee benefits expenses	131,994
117,623	Other services expenses	132,394
21,459	Depreciation, amortisation and impairment	24,198
19,070	Precepts & levies	20,382
4,088	Interest payments	3,703
1,337	Gain/loss on disposal of non-current assets	4,593
<b>296,066</b>	<b>Total Expenditure</b>	<b>317,263</b>
(51,115)	Fees, charges & other service income	(48,320)
(440)	Interest and investment income	(239)
(106,310)	Income from council tax & NNDR	(110,560)
(113,158)	External grants and contributions	(146,570)
(1,848)	Gain/loss on disposal of non-current assets	(4,628)
<b>(272,871)</b>	<b>Total Income</b>	<b>(310,317)</b>
<b>23,195</b>	<b>Surplus or Deficit on the Provision of Services</b>	<b>6,946</b>

## 11.3 Financing and Investment Income and Expenditure

A summary level breakdown of Financing and Investment Income and Expenditure reported on the face of the Comprehensive Income and Expenditure Statement for the year is shown below. Further information is contained within the respective notes to the accounts.

31st March 2020				Note	31st March 2021		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000			Gross Expenditure £000	Gross Income £000	Net Expenditure £000
4,088	-	4,088	Interest payable and similar charges	13.2	3,703	-	3,703
6,586	-	6,586	Pensions interest cost and expected return on pensions assets	14.3	5,542	-	5,542
-	(473)	(473)	Interest receivable and similar income	13.2	-	(206)	(206)
-	(17)	(17)	Interest receivable and similar income: CCRC share		-	(7)	(7)
4,149	(7,025)	(2,876)	Income and expenditure in relation to investment properties and changes in their fair value		6,200	(10,315)	(4,115)
2,367	(2,301)	66	(Surpluses)/deficits on trading undertakings not included in the Net Cost of Services		2,711	(2,581)	130
-	(33)	(33)	Other investment income		-	(25)	(25)
<b>17,189</b>	<b>(9,850)</b>	<b>7,340</b>	<b>Total Financing and Investment Income and Expenditure</b>		<b>18,156</b>	<b>(13,134)</b>	<b>5,022</b>

## 11.4 Agency Income & expenditure

The Council acted as an agent on behalf of the following in the provision of goods and services:

### Covid-19 Grants

Due to the impact of the Covid-19 pandemic on the need for additional services, support for individuals and businesses there have been a large number of new grants and financial support made available by Welsh Government. Local Authorities have been requested to administer on the Welsh Government's behalf because they have the local knowledge and ability to put in place systems quickly to make payments.

The below table details each scheme:

Scheme	Purpose	Amount Received 2020/21 (£000's)
<b>Business Support Grants</b>	Grants to support businesses during lockdown closures.	25,417
<b>Business Support Grants</b>	Relief given to retail, leisure and hospitality.	13,621
<b>Care Workers £500 Payments</b>	Bonus payment for individual care workers.	1,193
<b>Covid-19 Freelancer Grant</b>	Payment available for freelancers in the culture sector of up to £2.5k	440
<b>Self Isolation Payments</b>	£500 for eligible individuals who have to self isolate.	145
<b>Covid-19 Start Up Grant</b>	Financial assistance for newly created businesses facing operational and financial challenges as a result of the Covid-19 outbreak.	143
<b>SSP Enhancement</b>	To top up to full salary where employees only receive statutory sick pay when off sick with Covid-19 or having to self isolate as an infection control measure.	127
<b>Total</b>		<b>41,084</b>

## 11.5 Council Tax & National Non-Domestic Rates

### Council Tax

Council tax derives from charges raised according to the value of residential properties. Each dwelling has been classified into one of nine valuation bands according to its capital value at 1 April 2003 for this specific purpose. Charges are calculated by taking the amount of income required for the Authority, Office of Police and Crime Commissioner for Gwent and Town and Community Councils for the forthcoming year and dividing this amount by the Council Tax Base. The Council Tax Base is the total number of properties in each valuation band adjusted by a proportion to convert the number to a Band D equivalent, totalled across all bands and adjusted for discounts. The tax base was £46,331.92 for 2020/21 (£46,096.27 for 2019/20).

This average basic amount for a Band D property, £1,717.44 (£1,629.72 in 2019/20), is multiplied by the proportion specified for the particular band to give the individual amount due.

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

Band	A	B	C	D	E	F	G	H	I
<b>Multiplier</b>	6/9	7/9	8/9	1.0	11/9	13/9	15/9	18/9	21/9
<b>Chargeable Dwellings</b>	515	3,350	7,080	9,101	7,225	7,762	5,409	1,759	668
<b>Valuation (£000)</b>	up to 44	44-65	65-91	91-123	123-162	162-223	223-324	324-424	424+

The analysis of the net proceeds from council tax are as follows:

2019/20 £000		2020/21 £000
(75,619)	Council tax collectable	(80,466)
(10)	Provision for non-payment of council tax	228
<b>(75,628)</b>	<b>Total Council Tax proceeds</b>	<b>(80,238)</b>



## National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Welsh Government specifies an amount for the rate, 0.535p per £ in 2020/21 (0.526p per £ in 2019/20) and, subject to the effects of transitory arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The NNDR income after relief and provisions of £25,952,192 (£25,064,453 for 2019/20) was based on an average rateable value of £62,197,106 (£61,980,991 for 2019/20).

The Authority acts as the Welsh Government's agent and collects rates due from ratepayers in its area and then pays the proceeds into the NNDR pool administered by the Welsh Assembly Government. The Welsh Government redistributes the sums payable to the local authorities on the basis of a fixed amount per head of population. The total amount redistributed from the National Pool to the Council in 2020/21 was £30.04m (£30.7m in 2019/20).

A net debtor of £1,042,517 at 31st March 2021 (£1,341,174 debtor as at 31st March 2020) is included in the balance sheet which represents the amount by which the cash paid over to Welsh Government exceeds the amount collected from ratepayers.

## 11.6 Grant Income

### Capital Grants and Contributions

The Authority has credited the following capital grants & contributions to the Comprehensive Income and Expenditure Statement in 2020/21:

2019/20 £000		2020/21 £000
2,275	WG General Capital Grant	2,423
952	Section 106 Developer Contributions	507
6,321	WG Grants	8,623
11	Other Contributions	0
<b>9,559</b>	<b>Total</b>	<b>11,553</b>
	<b><i>Credited to the Comprehensive Income and Expenditure Statement:</i></b>	
(901)	Grants and contributions applied towards Revenue Expenditure Funded from Capital under Statute	(1,288)
(8,658)	Capital grants and contributions applied and credited to Taxation and Non-specific Grant Income	(10,265)
<b>(9,559)</b>	<b>Total</b>	<b>(11,553)</b>

### Capital Grants and Contributions Received in Advance

The Authority has also received a number of capital grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the provider. The balances at the year-end are as follows:

2019/20 £000		2020/21 £000
	<b><i>Developer Contributions held in Advance:</i></b>	
3,852	S106 Developer contributions	4,214
<b>3,852</b>	<b>Total</b>	<b>4,214</b>

### Revenue Grants and Contributions

The Authority credited the following revenue grants and contributions to the Comprehensive Income and Expenditure Statement:

2019/20 £000		2020/21 £000
	<b>Revenue Grants credited to services</b>	
	<b><i>Central Government:</i></b>	
17,996	Housing Benefit Subsidy	17,553
	<b><i>Welsh Government:</i></b>	
0	Welsh Government Covid-19 Hardship fund - Expenditure Support	9,103



0	Welsh Government Covid-19 Hardship fund - Income loss Support	8,382
0	Welsh Government Covid-19 Hardship fund - Other	2,566
3,886	Education Improvement Grant (PDG)	3,959
3,298	Sixth Form Funding (DCELLS)	3,452
2,039	Housing Support Grant (Supporting People)	2,116
1,146	Children & Communities (Flying Start)	1,117
0	MYST (Children's Services Care)	990
522	Waste Management	509
970	Concessionary Fares (PTSG)	622
650	Families First	651
473	Rural Development Plan	362
0	Floods and SUDS	541
0	Government Tech Innovate	315
1,010	Teachers Pension Grant (transferred into RSG 2020/21)	0
7,036	Other WG grants	7,393
	<b>Home Office:</b>	
186	Support /Afghan / Syrian / Unaccompanied Asylum Seekers	203
111	Police and Crime Commissioner	52
2,862	<b>Other Grants &amp; Contributions</b>	1,078
42,186	<b>Total Revenue Grants credited to services</b>	<b>60,965</b>
	<b>Non-Specific Grant Income</b>	
30,682	Non-Domestic Rates	30,037
62,548	Revenue Support Grant	67,723
93,229	<b>Total Non-Specific Grant Income</b>	<b>97,760</b>

## 12 NON-CURRENT ASSET & CAPITAL FINANCING NOTES

### 12.1 Property, Plant and Equipment

The following tables summarise the movements in the Authority's property, plant and equipment portfolio by asset type for the years ending 31st March 2021 and 31st March 2020.

Movements in 2020/21:								
	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment* £000
<b>Cost or Valuation:</b>								
At 1st April 2020	251,758	21,829	95,742	4,459	0	2,844	376,632	1,259
Additions	3,604	2,906	6,820	(3)	-	1,425	14,753	-
Revaluation movements taken to Revaluation Reserve	(3,031)	(7)	-	0	-	-	(3,038)	(18)
Revaluation movements taken to Surplus/Deficit on Provision of Services	(2,943)	-	-	-	-	0	(2,943)	-
Impairment movements taken to Surplus/Deficit on Provision of Services	(2,168)	(790)	(2,079)	3	0	-	(5,035)	-
Reclassified (to)/from Held for Sale	(2,269)	(733)	-	(1)	10	-	(2,993)	-
Disposals			(2,255)	(0)		-	(2,256)	
Other transfers	2,254					(2,254)	(0)	
CCRCD Assets	(2,169)	-	-	-	-		(2,169)	-
<b>At 31st March 2021</b>	<b>245,034</b>	<b>23,205</b>	<b>98,228</b>	<b>4,459</b>	<b>10</b>	<b>2,015</b>	<b>372,951</b>	<b>1,241</b>
<b>Accumulated Depreciation:</b>								
At 1st April 2020	(10,535)	(11,359)	(24,592)	0	0	0	(46,486)	0
Depreciation charge	(8,243)	(2,163)	(2,279)	-	-	-	(12,684)	(53)
Depreciation written out on revaluation to Revaluation Reserve	2,497	7	-	-	0	-	2,504	-
Depreciation written out on revaluation to Surplus/Deficit on Provision of Services	440	-	-	-	0	-	440	53
Depreciation written out on impairment to Surplus/Deficit on Provision of Services	-	-	-	-	-	-	0	-
Reclassified to/(from) Held for Sale	-	683	-	-	-	-	683	-
Disposals			2,255				2,255	
<b>At 31st March 2021</b>	<b>(15,840)</b>	<b>(12,832)</b>	<b>(24,615)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(53,288)</b>	<b>0</b>
<b>Net Book Value:</b>	<b>229,194</b>	<b>10,372</b>	<b>73,613</b>	<b>4,459</b>	<b>10</b>	<b>2,015</b>	<b>319,663</b>	<b>1,241</b>

Movements in 2019/20								
	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment* £000

<b>Cost or Valuation:</b>								
At 1st April 2019	250,654	20,632	91,831	4,319	110	3,019	370,564	1,378
Additions	6,493	2,885	7,308	143	-	2,009	18,839	-
Revaluation movements taken to Revaluation Reserve	(239)	(52)	-	0	-	-	(292)	(119)
Revaluation movements taken to Surplus/Deficit on Provision of Services	(4,796)	-	-	-	-	0	(4,796)	-
Impairment movements taken to Surplus/Deficit on Provision of Services	(2,423)	(376)	(223)	(3)	0	-	(3,025)	-
Reclassified (to)/from Held for Sale	0	(1,259)	-	-	(110)	-	(1,369)	-
Disposals	-	-	(3,174)	(0)	-	-	(3,174)	-
Other reclassifications	(99)	-	-	-	0	-	(99)	-
CCRCDC Assets	2,169	-	-	-	-	(2,183)	(14)	-
<b>At 31st March 2020</b>	<b>251,758</b>	<b>21,830</b>	<b>95,742</b>	<b>4,459</b>	<b>0</b>	<b>2,844</b>	<b>376,633</b>	<b>1,259</b>
<b>Accumulated Depreciation:</b>								
At 1st April 2019	(12,046)	(10,229)	(25,746)	-	-	-	(48,021)	(44)
Depreciation charge	(7,158)	(2,319)	(2,021)	-	-	-	(11,498)	(53)
Depreciation written out on revaluation to Revaluation Reserve	4,380	52	-	-	0	-	4,431	-
Depreciation written out on revaluation to Surplus/Deficit on Provision of Services	4,278	-	-	-	0	-	4,278	98
Depreciation written out on impairment to Surplus/Deficit on Provision of Services	-	-	-	-	-	-	0	-
Reclassified to/(from) Held for Sale	-	1,137	-	-	-	-	1,137	-
Disposals	-	-	3,174	-	-	-	3,174	-
Other reclassifications	11	-	-	-	0	-	11	-
<b>At 31st March 2020</b>	<b>(10,536)</b>	<b>(11,359)</b>	<b>(24,592)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(46,487)</b>	<b>0</b>
<b>Net Book Value:</b>	<b>241,222</b>	<b>10,470</b>	<b>71,150</b>	<b>4,459</b>	<b>0</b>	<b>2,844</b>	<b>330,146</b>	<b>1,260</b>

## 12.2 Revaluations of Property, Plant & Equipment

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out by the Authority's Estates Section under the supervision of the Head Of Commercial and Integrated Landlord Services (MRICS). 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 (RICS).

The following statement summarises the progress of the Authority's rolling programme for the revaluation of fixed assets:

- The 2020/21 revaluations were carried out or approved by qualified valuers within the Authority's Estates section or external qualified valuers. The basis for valuation is set out in the accounting policies within section 17 of the notes to the accounts.
- All assets requiring valuations have been revalued in the 5 year period ending 31st March 2021. The valuations carried out during 2020/21 primarily include Community Centres, Hubs & Contact Centres, Public Conveniences & Primary Schools.

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Carried at historical cost	53	10,373	73,613	4,458	10	2,015	90,522
<b>Valued at current value as at:</b>							
31st March 2021	19,091	-	-	-	-	-	19,091
31st March 2020	37,742	-	-	-	-	-	37,742
31st March 2019	78,832	-	-	-	-	-	78,832
31st March 2018	53,701	-	-	-	-	-	53,701
31st March 2017	39,775	-	-	-	-	-	39,775
<b>Total Cost or Valuation</b>	<b>229,193</b>	<b>10,373</b>	<b>73,613</b>	<b>4,458</b>	<b>10</b>	<b>2,015</b>	<b>319,663</b>

### 12.3 Schools Non-Current Assets

The Authority currently owns and runs four comprehensive schools, twenty four primary schools and one special school. In addition to the twenty four primary schools, there are two voluntary controlled schools and four voluntary aided schools.

The Authority runs the voluntary controlled schools on behalf of 3rd party organisations such as charities and religious organisations who own the underlying assets. The Authority does not record these school assets on its balance sheet other than Raglan Primary (£3,913,125 as at 31st March 2021) as the transfer of legal ownership to the third party is still ongoing.

With regards to voluntary aided schools within Monmouthshire, and similar to voluntary controlled schools, the assets are owned by 3rd party organisations and are not recorded on the Authority's balance sheet other than Osbaston Primary (£1,646,450 as at 31st March 2021) as the transfer of legal ownership to the third party is still ongoing.

The net book value of school non-current assets as at 31st March 2021, shown in the Authority's balance sheet, is £163,484,094 (£170,725,078 as at 31st March 2020).

### 12.4 Private Finance Initiatives

#### Monmouth Health & Social Care Facility (Monnow Vale)

The Authority has entered into a pooled budget arrangement with the Aneurin Bevan Local Health Board. Under the arrangements funds are pooled under Section 33 of the NHS (Wales) Act 2006 to provide health and social care in the form of inpatient, outpatient, clinic and day care facilities to individuals who have medical, social, community or rehabilitation needs. This agreement came into effect from the 1st June 2006.

The Facility is a unique project that replaced a number of out dated or separate facilities scattered throughout the County with a new building that has been financed by a private finance partner over a period of 30 years.

The Authority accounts for its 28% share of the PFI assets, comprising buildings and equipment, with a corresponding liability amounting to its long term obligation for financing these assets.

The life of the building had originally been established for valuation purposes as being 40 years and the equipment as being 15 years. As the life of the building is 10 years beyond that of the PFI agreement, it is anticipated that the facility will be used by the parties beyond the 30 year PFI agreement. At the end of the agreement, the buildings revert to the Health Board at nil consideration. There have been no changes in the arrangements during the year.

The Authority's share in the assets used to provide services at the facility are recognised on the Authority's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 12.1, their total net book value at 31st March 2021 being £1,240,744.

## 12.5 Investment Properties

Investment Properties are those that are used solely to earn income and/or for capital appreciation. Investment Properties are not used in any way to deliver a service and are not held for sale. The Authority's current portfolio of investment properties consists of long held assets such as County Farms and District Shops and also a Solar Farm, Newport Leisure Park and Castlegate Business Park constructed/acquired more recently. The resultant impact on the Authority's net income is shown below.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2019/20 £000		2020/21 £000
(4,983)	Rental income from investment property	(4,845)
2,401	Direct operating expenses arising from investment property	1,725
<b>(2,582)</b>	<b>Net (gain)/loss</b>	<b>(3,120)</b>

The following table summarises the movement in the fair value of investment properties over the year.

Three asset valuations due to be carried out by the 31st March 2021 have not yet been completed and as a result are not reflected in these draft statements. These relate to Castlegate Business park, Newport Leisure park and Oak Grove Solar farm. The valuations will be completed during July 2021 and will be reflected in the final statement of accounts.

2019/20 £000		2020/21 £000
64,682	Balance at start of the year	63,427
235	Additions	141
(1,018)	Disposals	(2,458)
(560)	Net gains/(losses) from fair value adjustments recognised in Financing and Investment Income and Expenditure	2,412
88	Transfers (to)/from Property, Plant and Equipment	1,781
<b>63,427</b>	<b>Balance at end of the year</b>	<b>65,304</b>

Capital receipts totalling £5,102,490 were credited to the Capital receipts reserve during 2020/21 in relation to investment properties (£4,206,058 in 2019/20).

## Fair Value Hierarchy

Details of the Authority's investment properties and information about the fair value hierarchy:

2019/20				Type of Property	2020/21			
Quoted Prices in active markets for identical assets	Other Observable inputs	Significant Unobservable inputs			active markets for identical assets	Other Observable inputs	Significant Unobservable inputs	
Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
£000	£000	£000	£000		£000	£000	£000	£000
		90	90	Freehold Reversions			95	95
	29,531		29,531	Agricultural Properties		29,692		29,692
		1,126	1,126	Retail Units			1,236	1,236
		1,709	1,709	Industrial Properties			1,940	1,940
		4,642	4,642	Solar Farm			5,098	5,098
			0	Share of CCRCD Asset			1,781	1,781

		26,330	26,330	Properties acquired for rental income			25,463	25,463
0	29,531	33,896	63,428		0	29,692	35,612	65,304

There have been no transfers between levels during the year.

**Level 2 Other Observable inputs:** The fair value for the Agricultural Portfolio (at market rents) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets locally. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

**Level 3 Significant Unobservable Inputs:** The Freehold Reversions, Retail Properties, Industrial Properties & Solar Farm located in the local authority area & properties acquired in 2018/19 for rental income are measured using the income approach, by means of a term and reversion method. The approach has been developed using the authority's own data requiring it to factor in assumptions such as the duration, rent growth, occupancy levels, bad debt levels, maintenance costs, etc. These property types are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

**Highest and Best Use:** In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

**Valuation Techniques:** There has been no change in the valuation techniques used during the year for investment properties.

### Level 3 Investment Properties

A summary of the movement in the fair value of level 3 investment properties over the year:

2019/20 £000		2020/21 £000
38,331	Balance at start of the year	33,896
48	Transfers (to)/from Level 3	1,781
(19)	Additions	8
0	Disposals	0
(4,464)	Net gains/(losses) from fair value adjustments included in Surplus or Deficit on the Provision of Services	(73)
33,896	Balance at end of the year	35,612

### Fair Value Measurement

The valuers arrive at a Fair Value for level 3 Investment Properties by applying a yield to the income stream. The yield reflects the risk and is derived from factors such as the use made of the property, the quality of the tenant, the length and security of the income and also in the case of retail, the location. These impact on rent growth, occupancy levels, bad debt levels and maintenance costs. The yield is arrived at from the valuers knowledge of the market, from contacts and published information alongside knowledge of the individual asset.

Type of Property	Valuation Technique used to measure Fair Value	Unobservable Inputs	Range	Sensitivity
Freehold Reversions	Income approach, by means of a term and reversion method	Yield	4%	The Fair Value of the Property will increase as the yield reduces.
Retail Units		Yield	7% - 10%	
Industrial Properties		Yield	12%	
Solar Farm		Yield	6%	
Investment Assets		Yield	6%	
Investment Assets		Yield	7%	

## 12.6 Assets Held for Sale

Assets held for sale comprise those assets that are available for immediate sale and where the sale is highly probable and will be actively marketed at its market value. The in-year movement and balance of assets held for sale as at 31st March 2021 are shown below:

2019/20 £000		2020/21 £000
2,100	Balance outstanding at start of year	2,060
0	Additions	0
232	Assets newly classified as held for sale: From Plant, Property & Equipment	2,320
0	Assets declassified as held for sale: To Plant, Property & Equipment	(10)
0	Revaluation gains	334
0	Revaluation losses	0
0	Impairment losses	0
(272)	Assets sold	(2,135)
2,060	Balance outstanding at year-end	2,569

## 12.7 Heritage Assets

The Code requires that heritage assets are measured at valuation in the financial statements, together with comparative year information. The Code however permits some relaxations in the valuation requirements of heritage assets, meaning that the authority could potentially recognise more of the museums collections in the Balance Sheet. However, whereas the Authority recognises some heritage collections in financial statements, it is of the view that obtaining valuations for the vast majority of these collections would involve a disproportionate cost of obtaining the information in comparison to the benefits to the users of the Authority's financial statements. Whilst this exemption is permitted by the Code, the position will be subject to ongoing review.

The Authority would not typically consider disposing of any heritage assets even though previously offers have been received.

The following table summarises the movement in the carrying value of Heritage assets:

	Property Heritage Assets £000	Museum Exhibits £000	Civic Regalia, Artwork & Collect'n £000	Total £000
<b>Cost or Valuation:</b>				
1st April 2019	100	4,464	180	4,744
Additions	237	0	-	237
Revaluation increases/ (decreases) recognised in the SDPS	0	-	-	0
Impairment losses/(reversals) recognised in the SDPS	(189)	-	-	(189)
Reclassified from property, plant and equipment	0	-	-	0
<b>31st March 2020</b>	<b>149</b>	<b>4,464</b>	<b>180</b>	<b>4,792</b>
<b>Cost or Valuation:</b>				
Additions	1	-	-	1
Revaluation increases/ (decreases) recognised in the SDPS	0	-	-	0
Impairment losses/(reversals) recognised in the SDPS	(1)	-	-	(1)
Reclassified from property, plant and equipment	-	-	-	0
<b>31st March 2021</b>	<b>149</b>	<b>4,464</b>	<b>180</b>	<b>4,792</b>

## Property Heritage Assets

The Authority owns six property assets which meet the criteria for inclusion as heritage assets. These comprise the following assets:

- Caldicot Castle
- Angidy Ironworks, Tintern
- The Slaughterhouse - Arches, Monmouth
- Clydach Ironworks, Clydach
- War Memorial, Frogmore St, Abergavenny
- Tintern Station, Tintern

These assets were last valued on an existing use value (EUV) basis and were carried out internally by the Authority's Estates Section under the supervision of the Head Of Commercial and Integrated Landlord Services (MRICS).

Further to this Abergavenny Museum and Castle is leased by the Authority.

## Museum Exhibits

Monmouthshire operates four museums, namely Monmouth, (The Nelson Museum), Abergavenny, Caldicot (Castle) and Chepstow. Each individual museum maintains an inventory of exhibits and the Authority last commissioned a valuation of material items in August 2012.

The most significant museum exhibit is the Nelson collection which is included on the balance sheet at a valuation of £4.3m and was last valued by external valuers in August 2012. The valuation was limited to selected items with market prices in excess of £1,000.

## Civic Regalia, Artwork & Collections

Five other assets are classified as Heritage assets under this classification where cost information was readily available. These comprise the following assets:

- Henry Tapestry
- Chairman's Chain of Office
- Vice Chairman's Chain & Insignia
- Lady Chairman's Chain & Insignia
- Vice Lady Chairman's Chain & Insignia

These assets are currently valued at their most recent insurance valuation. The Authority currently has insurance cover in place for the majority of the exhibits. This was agreed through negotiation with the insurance underwriters.

## 12.8 Capital Expenditure and Capital Financing

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

31st March 2020 £000		31st March 2021 £000
186,342	Opening Capital Financing Requirement	189,451
	<b>Capital investment:</b>	
	<b>Enhancing value:</b>	
14,802	Property, plant and equipment	9,569
(19)	Investment properties	8
55	Intangible assets	0
49	Heritage assets	0
	<b>Not enhancing value:</b>	



3,025	Property, plant and equipment	5,035
253	Investment properties	133
0	Intangible assets	0
0	Assets held for sale	0
189	Heritage assets	1
5,062	Revenue Expenditure Funded from Capital under Statute	2,816
0	Loans & advances treated as capital expenditure	1,147
	<b>Sources of finance:</b>	
(5,910)	Capital receipts	(1,042)
(2,275)	General Capital Grant	(2,423)
(5,320)	Capital Grants and Contributions	(8,623)
(952)	S106 Contributions	(507)
(286)	Direct revenue contributions	(252)
	<b>Other:</b>	
(5,564)	Minimum revenue provision	(6,075)
0	Capital receipt set aside	0
<b>189,451</b>	<b>Closing Capital Financing Requirement</b>	<b>189,236</b>
	<b>Explanation of movements in year:</b>	
2,403	Increase in underlying need to borrowing - supported by Government financial assistance	2,417
6,270	Increase in underlying need to borrowing - unsupported by Government financial assistance	3,442
(5,564)	Less: Minimum revenue provision	(6,075)
<b>3,109</b>	<b>Increase / (decrease) in Capital Financing Requirement</b>	<b>(216)</b>

## 12.9 Capital Commitments

At 31st March 2021, the Authority had entered into 2 major contracts (i.e. those individually above £200,000) for the construction of Property, Plant and Equipment in 2021/22 and later years, budgeted to cost a total of £1,090,595 (£0 at 31st March 2020).

## 12.10 Minimum Revenue Provision

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual minimum revenue provision (MRP) from revenue to contribute towards the reduction in its overall borrowing requirement.

Provision is made in accordance with the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2014 and adjoining MRP guidance which places a simple duty for an authority each year to make an amount of MRP which it considers to be "prudent".

The Authority also makes additional voluntary revenue contributions in respect of finance leased assets.

The amount of revenue provision made by the Authority in 2020/21 was £6,075,366 (£5,564,000 in 2019/20).

## 12.11 Leases - Authority as Lessor

### Operating Leases

The Authority has entered into operating lease arrangements to lease property assets to various individuals and organisations. These primarily consist of Industrial units, County Farms, Land parcels and Recreation halls.

The minimum lease payments receivable includes rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. During the financial year £2,819,107 of minimum lease payments were receivable by the Authority (£2,223,357 in 2019/20).

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

2019/20 £000		2020/21 £000
2,137	Not later than one year	2,660
6,716	Later than one year and not later than five years	6,285
12,793	Later than five years	10,849
<b>21,646</b>		<b>19,794</b>

### Finance Leases

In 2016/17, the Authority entered into a Finance lease arrangement for land at the Old Cattle market in Abergavenny.

The gross carrying amount and present value of the minimum lease payments receivable under this finance lease is detailed below.

2019/20			2020/21	
Present Value of Minimum Lease Payments to the Authority	Gross Amount outstanding from Lessee		Present Value of Minimum Lease Payments to the Authority	Gross Amount outstanding from Lessee
£000	£000		£000	£000
156	160	Not later than one year	156	160
592	640	Later than one year and not later than five years	592	640
2,004	2,720	Later than five years	1,906	2,560
<b>2,753</b>	<b>3,520</b>		<b>2,655</b>	<b>3,360</b>

The present value of the minimum lease payments has reduced during 2020/21 by the £160,000 receivable in year, offset by finance lease interest receivable.

## 12.12 Leases - Authority as Lessee

### Operating Leases

The Authority has acquired property, vehicles, plant and equipment by entering into operating leases.

The expenditure charged to the services within the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £354,511 (£326,411 in 2019/20).

The future minimum lease payments due under non-cancellable leases in future years are:

2019/20 £000		2020/21 £000
281	Not later than one year	297
582	Later than one year and not later than five years	652
155	Later than five years	181
<b>1,018</b>		<b>1,130</b>

## 13 FINANCIAL INSTRUMENTS, CURRENT ASSETS & LIABILITIES NOTES

### 13.1 Categories of Financial Instruments

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, benefits and government grants, do not give rise to financial instruments.

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment of financial assets.

Under the new Accounting Standard IFRS 9, financial instruments may be held at amortised cost or at fair value either through other Comprehensive income or Profit & Loss.

Financial assets are held as amortised cost where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows. This is the majority of our treasury investments such as term deposits, certificate of deposits, call accounts, trade debtors for goods and services provided contractually and also lease receivables. This excludes council tax debtors and grants receivable as they are non-exchange transactions.

Financial assets held at amortised cost and some assets held at fair value through other comprehensive income are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council. For most assets, this is 12 month expected credit losses until the risk increases significantly, then it is lifetime expected losses. For trade debtors expected lifetime losses are always used. Due to the high credit rating of counterparties used for treasury investments 12 month expected credit losses are minimal.

Financial assets are held at fair value through other comprehensive income where cashflows are solely payments of principal and interest and it is the Council's business model to collect these cashflows and sell the instruments before maturity. The authority does not hold any such investments. The standard also allows the authority to elect to account for equity investments through other comprehensive income if they are being held for strategic investment purposes, see table below.

All other financial assets are held at fair value through Profit & Loss. This includes an existing unquoted equity investment; a principal of £40,000 representing an equal share with Torfaen County Borough Council in SRS Business Solutions Limited. This investment comprised seed funding for the company and is revalued at £60,000 representing the most likely cash inflows resulting from this asset in the future. Further information is provided in note 16.6.

The following categories of financial assets are carried in the Balance Sheet as at 31st March 2021:

Long-Term 31st March 2020 £000	Short-Term 31st March 2020 £000		Note	Long-Term 31st March 2021 £000	Short-Term 31st March 2021 £000
		<b>Financial Assets</b>			
		<b>Investments at amortised Cost:</b>			
32	3,000	Principal invested	13.4	1,179	20,458
		Accrued Interest			
		<b>Investments at fair value through other comprehensive income:</b>			
	2,658	Equity Investments elected FVOCI			2,986
		<b>Investments at fair value through profit &amp; loss:</b>			
60		Unquoted equity investments	13.4	183	
<b>91</b>	<b>5,658</b>	<b>Total Investments</b>		<b>1,362</b>	<b>23,444</b>
		<b>Cash &amp; Cash Equivalents at amortised cost:</b>			
	22,363	Principal	15.3		19,158
	14	Accrued Interest			
<b>0</b>	<b>22,377</b>	<b>Total Cash &amp; Cash Equivalents</b>		<b>0</b>	<b>19,158</b>
		<b>At amortised cost:</b>			

70	11,857	Trade Receivables			9,879
	(611)	Loss allowance			(597)
2,710	98	Lease Receivables		2,557	100
214	(9)	Loans made for service purposes		210	1
2,993	11,336	Included in Debtors	13.5	2,766	9,383
3,084	39,371	Sub-Total Financial Assets		4,128	51,985
	2,542	Current assets which are not Financial Instruments			3,098
	17,175	Debtors which are not Financial Instruments	13.5	100	23,665
3,084	59,088	Total Financial Assets		4,228	78,748

Long-Term 31st March 2020 £000	Short-Term 31st March 2020 £000		Note	Long-Term 31st March 2021 £000	Short-Term 31st March 2021 £000
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All of the Council's financial liabilities are held at amortised cost including short and long term loans, bank overdraft, lease payables, PFI contracts and trade payables for goods and services.

The following categories of financial liabilities are carried in the Balance Sheet as at 31st March 2021:

		Financial Liabilities			
		<b>Loans at amortised Cost:</b>			
(92,563)	(94,325)	Principal sum borrowed		(84,843)	(97,911)
	(797)	Accrued Interest		0	(683)
(28)	(1)	EIR adjustments		(28)	(1)
(92,591)	(95,123)	Total Borrowings	13.4	(84,871)	(98,595)
		<b>Loans at amortised Cost:</b>			
	(1,475)	Cash & cash equivalents	15.3		(621)
0	(1,475)	Total Cash & Cash Equivalents		0	(621)
		<b>Liabilities at amortised Cost:</b>			
(708)		PFI and finance lease liabilities		(674)	
(1,644)		Other Long Term Liabilities		(1,703)	
(2,352)	0	Total Other Long Term Liabilities		(2,376)	0
		<b>Liabilities at amortised Cost:</b>			
(7,034)	(2,014)	Trade Payables			(1,134)
(7,034)	(2,014)	Included in Short Term Creditors	13.6	0	(1,134)
(101,977)	(98,612)	Total Financial Liabilities		(87,247)	(100,349)
0	(22,754)	Short term creditors which are not Financial Instruments	13.6		(35,271)
(232,599)	(4,534)	Other Current & long term liabilities which are not Financial Instruments:		(316,335)	(4,758)
(334,577)	(125,899)	Total Balance Sheet Liabilities		(403,582)	(140,378)

Equity instruments elected to fair value through OCI						
31st March 2020 £000	31st March 2020 £000	31st March 2020 £000		31st March 2021 £000	31st March 2021 £000	31st March 2021 £000
Fair value	OCI	Dividends		Fair value	OCI	Dividends
1,295	(254)	66	Kames Capital diversified monthly income fund	1,539	243	67

914	(92)	37	Investec Asset Management Ltd diversified income fund	1,001	88	37
449	(56)	15	CCLA LAMIT Property Fund	446	(3)	19
<b>2,658</b>	<b>(401)</b>	<b>119</b>	<b>Total Balance Sheet Asset</b>	<b>2,986</b>	<b>327</b>	<b>124</b>

The Council has elected to account for the investments in pooled funds above which are equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and changes in their fair value are not considered to be part of the Council's annual financial performance.

### 13.2 Financial Instruments - Income, Expense, Gains and Losses

The Income, expense, gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

31st March 2020 £000					31st March 2021 £000
	Financial Liabilities measured at:	Fair value through P&L	Fair value through OCI	Fair value through OCI - elected	Amortised cost
18	Interest expense - finance lease /private finance initiative debtors	0	0	0	15
0	Losses on de-recognition	0	0	0	0
0	Losses from changes in fair value	0	0	0	0
1	Impairment losses	0	0	0	0
4,068	Other Interest expense	0	0	0	3,688
4,088	Subtotals	0	0	0	3,703
<b>4,088</b>	<b>Total Interest payable and similar charges</b>				<b>3,703</b>
	Financial assets measured at:	Fair value through P&L	Fair value through OCI	Fair value through OCI - elected	Amortised cost
(64)	Interest income relating to finance lease debtors	0	0	0	(64)
(151)	Interest from deferred receipts	0	0	0	0
(119)	Dividend income (elected equity instruments)	0	0	(124)	0
0	Gains on derecognition	0	0	0	0
0	Gains from changes in fair value	0	0	0	0
0	Impairment loss reversals	0	0	0	0
(139)	Other Interest income	0	0	0	(43)
(473)	Subtotals	0	0	(124)	(107)
<b>(473)</b>	<b>Total Interest &amp; Investment income</b>				<b>(231)</b>
<b>3,614</b>	<b>Net impact on surplus/deficit on provision of services</b>				<b>3,472</b>
(Restated)	Impact on other comprehensive income:	Fair value through P&L	Fair value through OCI	Fair value through OCI - elected	Amortised cost
0	Gains on revaluation	0	0	330	0
(401)	Losses on revaluation	0	0	(3)	0
0	Amounts recycled to surplus/deficit on provision of services	0	0	0	0
(401)	Subtotals	0	0	327	0
<b>(401)</b>	<b>Impact on other comprehensive income</b>				<b>327</b>
<b>3,213</b>	<b>Net (gain)/loss for the year</b>				<b>3,799</b>

### 13.3 Fair Values of Financial Instruments

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2021, using the following methods and assumptions

- Shares in SRS Business Solutions Limited have been valued by discounting the expected future cashflows at a rate reflecting the risk to the cashflows.

The value of financial instruments held at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2021, using the following methods and assumptions:

- Loans borrowed by the Council 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.
- Discount rates for "Lender's Option Borrower's Option" (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March 2021.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at an appropriate rate.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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, e.g. bond prices
- 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

#### Financial liabilities

Balance Sheet 31st March 2020 £000	Fair Value 31st March 2020 £000		Balance sheet position	Fair Value Level	Balance Sheet 31st March 2021 £000	Fair Value 31st March 2021 £000
		<b>Financial liabilities held at amortised cost:</b>				
(187,714)	(210,863)	Borrowings	Borrowing (ST & LT)	2	(183,466)	(204,695)
(708)	(678)	PFI and finance lease liabilities	Other LT Borrowing	3	(674)	(695)
<b>(188,422)</b>	<b>(211,541)</b>	<b>Subtotal</b>			<b>(184,140)</b>	<b>(205,390)</b>
		<b>Financial liabilities held at amortised costs for which fair value is not disclosed:</b>				
(1,475)		Cash & Cash equivalent	C & C E		(1,193)	
(2,014)		Trade payables	Short term creditors		(1,134)	
(1,644)		Net agency creditor and lease deposits	Other LT Borrowing		(1,703)	
<b>(193,556)</b>		<b>Total financial liabilities</b>			<b>(188,169)</b>	

The fair value of financial liabilities held at amortised cost is more than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the current rates available for similar loans at the balance sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

## Financial Assets

Balance Sheet 31st March 2020 £000	Fair Value 31st March 2020 £000	Fair Value Level			Balance Sheet 31st March 2021 £000	Fair Value 31st March 2021 £000
		<b>Financial assets held at fair value:</b>				
2,658	2,658	Equity investments elected FV through OCI	ST Investments	<b>2</b>	2,986	2,986
60	60	Unquoted equity investments held at FVP&L	LT Investments	<b>3</b>	183	183
<b>2,718</b>	<b>2,718</b>	<b>Subtotal</b>			<b>3,168</b>	<b>3,168</b>
		<b>Financial assets held at amortised cost:</b>				
2,753	2,662	Lease receivables	LT debtors	<b>3</b>	2,657	2,799
2,630	2,573	Trade receivables - deferred receipt	LT debtors			
<b>8,100</b>	<b>7,952</b>	<b>Subtotal</b>			<b>5,825</b>	<b>5,967</b>
		<b>Financial assets held at amortised cost for which fair value is not disclosed:</b>				
22,377		Cash & Cash equivalent	C&CE		19,158	
5,658		Short term investments	ST Investments		23,444	
11,857		Trade Receivables	Short term debtors		9,879	
214		Loans made for service purposes	Long term debtors		210	
<b>48,206</b>		<b>Total financial assets</b>			<b>58,517</b>	

There is a small difference between the fair value and carrying value of long term lease receivables and long term trade receivables.

## 13.4 Nature and Extent of Risks arising from Financial Instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team in conjunction with appointed treasury advisors.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Welsh Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its management practices seek to achieve a suitable balance between risk and return or cost.

Whilst the majority of Investments used continue to be with institutions which are given a high credit rating by external rating agencies and which continue to show other measures of credit worthiness, the authority's investment portfolio now includes £3m in strategic pooled funds which achieve higher returns. The risk is controlled by following the advice of the Authority's treasury management advisors, by the use of experienced fund managers and diversification within the funds purchased.

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

- Credit risk – the possibility that the counterparty to any of the Authority's financial assets will fail to meet its contractual obligations to pay the amounts due, causing a loss to the Council.
- Liquidity risk – the possibility that the Authority might not have cash available to make contracted payments on time
- Market risk – the possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

The revised Borrowing Strategy continues to take into account the fact that it is cheaper to borrow for shorter periods than for long periods as previously was the case. It also took into account that there was a net benefit to be gained from internal borrowing, where surplus cash is utilised to fund capital expenditure, compared to borrowing externally. This approach reduces surplus cash balances but produces a net benefit as the cost of borrowing is higher than the returns from investing the additional surplus cash.

#### a) Credit Risk

##### Treasury Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £2m is placed on the amount of money that can be invested in unsecured investments with a single counterparty (other than the UK government) for the majority of the Authority's activities (for more details see the Treasury Strategy).

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

Balance Long-term 31st March 2020	Balance Short-term 31st March 2020	Counterparty Group	Investment Vehicle	Average	Country	Balance Long-term 31st March 2021	Balance Short-term 31st March 2021
£'000	£'000			rating		£'000	£'000
0	3,000	UK Government	Term Deposit with DMADF	AA+	United Kingdom	0	20,000
0	0	Local Authority	Term Deposit	AA+	United Kingdom	0	0
0	0	Bank	Term Deposit	A+	United Kingdom	0	16,015
0	3,000					0	36,015
		<b>Credit risk Not applicable *</b>					
0	2,658	Pooled funds			United Kingdom	0	2,986
91	0	Unquoted Equity			United Kingdom	1,239	274
91	5,658	<b>Total Investments</b>				1,239	39,275

\* Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money.



Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 131% (2020: 365%) to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent. At 31st March 2021, £nil of loss allowances related to treasury investments.

#### Trade & Lease receivables and Contract assets

Credit risk also arises from the Authority's customers and other contractual debtors. Customers for goods and services are assessed taking into account their financial position, past experience and other factors such as the current economic climate. Risk of default and uncollectability is assessed based on the nature of the underlying debt and historic collection rates. Receivables as at the year-end are illustrated in note 13.5 to the accounts, together with any associated impairment age.

Trade receivables are normally written off to the Surplus or Deficit on the Provision of Services when over due, but steps are still taken to collect sums owing until all economic avenues have been explored. The amount provided for but still subject collection processes and its age profile is provided in note 13.5.

The Council has one finance lease receivable as a result of a lease disposal of a piece of land, which is held on the balance sheet at amortised cost. The Council's credit risk on lease receivables is mitigated by its legal ownership of the asset leased, which can be repossessed if the debtor defaults on the lease contract, so no loss allowance has been applied. At the 31st March 2021 the carrying value was £2,657,000. The fair value was £2,799,000 reflecting the difference in interest rates used for the two estimates.

#### Loans, Financial Guarantees and Loan Commitments

The Council has not made any material Loans, Financial Guarantees and Loan Commitments.

#### 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 occur, the authority has ready access to borrowing at favourable rates from the Public Works Loans Board, other local authorities. There is no significant risk that it will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will be bound to replenish a significant proportion of its borrowings at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and ensuring net short term borrowing is no more than 50% of the Council's net total borrowing.

The maturity analysis of financial instruments is as follows:

31st March 2020				31st March 2021		
£000	£000	£000		£000	£000	£000
Borrowings	Investments	Net		Borrowings	Investments	Net
			<b>The Loans Mature as follows:-</b>			
0	(2,718)	(2,718)	No defined maturity	0	(3,626)	(3,626)
95,201	(3,000)	92,201	Less than one year	98,595	(20,000)	78,595
7,921	0	7,921	Between one and two years	3,013	0	3,013
13,207	0	13,207	Between two and five years	13,448	0	13,448
13,739	(32)	13,708	Between five and ten years	11,510	(1,179)	10,331
12,717	0	12,717	Between ten and twenty years	12,924	0	12,924
44,928	0	44,928	More than twenty years	43,976	0	43,976
<b>187,714</b>	<b>(5,750)</b>	<b>181,965</b>	<b>Total</b>	<b>183,466</b>	<b>(24,806)</b>	<b>158,660</b>

The Counterparty analysis of Borrowing is shown below:

31st March 2020		31st March 2021
£000		£000
89,627	Public Works Loan Board	74,647
13,816	Market Loans & Bank loans	13,812
5,248	Welsh Government	5,062

76,023	Local Government bodies	86,944
3,000	Special Purpose Vehicle	3,000
<b>187,714</b>	<b>Total</b>	<b>183,466</b>

The financial liabilities due to Welsh Government at the 31st March 2021 are the outstanding balances from interest free loans provided to fund energy saving Street Lighting capital schemes and a loan which funded the Oak Grove solar farm construction. Accounting requirements require financial liabilities in the form of loans to be carried at amortised cost. However, some of these interest free loans have not been carried at amortised cost on the grounds that the figures quoted are not materially different.

Market loans are considered long term loans based on the remaining time to maturity, but it should be noted that they are currently within their call period. If a lender should exercise a call option on one of these loans, Monmouthshire County Council has the right to repay the loan immediately.

### c) Market Risk

#### i) Interest rate risk

The Authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise
- Borrowings at fixed rates – the fair value of the borrowing liabilities will fall
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- Investments at fixed rates – the fair value of the assets will fall

Investments measured at amortised cost and loans borrowed are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the Council Fund Balance. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

The Authority has a number of strategies for managing interest rate risk. The current 2020/21 treasury strategy includes a limit on the Authority's exposure to interest rate risk. This limit of 50% applies to the percentage of net variable rate debt to total net debt, where net debt is debt net of investments.

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

The interest payable and interest receivable during 2021/22, on borrowings and investments held at the 31st March 2021, with all other variables held constant, would increase / (decrease), if interest rates were 1% higher. The most significant impact would relate to variable rate and short term loans & investments, with long term instruments not being affected:

31st March 2020	Effect of a 1% increase in interest rates	31st March 2021
£000		£000
650	Increase in interest payable on borrowings	829
(29)	Increase in interest receivable on investments	(190)
0	Decrease in fair value of investments held at FVP&L	0
<b>621</b>	<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>639</b>
(13,459)	Decrease in fair value of fixed rate borrowing *	(12,630)

\* No impact on Comprehensive Income and Expenditure

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

## ii) Price risk

The market prices of the bond component in the Council's multi asset pooled funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk. It is carrying a £60,000 investment in shares of SRS Limited, a company set up with and jointly owned by Torfaen Borough Council & Gwent Police Authority. The property element of the Council's multi asset pooled funds is subject to the risk of falling commercial property prices. The equity element of the Council's multi asset pooled funds is subject to the risk of falling share prices. These risks were limited by the Council's maximum exposure to strategic pooled funds of £6m. A 5% fall in the value of the property component or equity component held within these funds could result in a charge to Other Comprehensive Income and Expenditure. The due diligence carried out before these investments purchased would indicate that any such loss is expected to be either temporary or compensated for by the dividend income. One advantage of a multi asset pooled funds is that property, equity and bonds prices are not fully correlated with each other reducing the risk of losses.

## iii) Foreign exchange risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## 13.5 Debtors

The nature and value of payments due to the Council for the year but not received as at 31st March 2021, repayable in the short term (within 12 months of the balance sheet date) and long term (after 12 months of the balance sheet date), is summarised below:

31st March 2020					31st March 2021			
Long Term £000	Short Term £000	Impairment £000	Net £000		Long Term £000	Short Term £000	Impairment £000	Net £000
				<b>Central Government Bodies:</b>				
0	3,671	0	3,671	Welsh Government		9,444		9,444
0	1,274	0	1,274	HM Customs & Excise		1,083		1,083
0	1,238	0	1,238	NNDR Debtor		2,306		2,306
0	708	0	708	Council Tax and Housing Benefit Subsidy		406		406
0	0	0	0	Other				0
				<b>Other entities and individuals:</b>				
0	4,871	(22)	4,849	Other Local Authorities		4,956	(4)	4,952
0	2,655	0	2,655	Deferred Capital receipts				0
2,710	195	0	2,905	Finance Lease	2,557	100		2,657
0	6,657	(55)	6,602	Revenue debtors		7,542	(55)	7,487
0	2,671	(1,667)	1,004	Council tax arrears		3,925	(1,895)	2,031
0	842	(154)	688	Corporate sundry debtors		1,323	(235)	1,088
0	1,540	(664)	876	Housing benefit overpayments		1,284	(649)	635
0	2,729	(2)	2,727	NHS Bodies		1,756		1,756
0	901	(168)	733	Social Services debtors		784	(154)	630
0	256	(172)	84	Rent arrears		275	(204)	71
0	752	0	752	Capital debtors		16		16
204	0	0	204	Housing Advances	201			201
79	455	0	534	Other	109	1,043		1,152
2,993	31,416	(2,904)	31,505	<b>Total Debtors</b>	2,867	36,244	(3,196)	35,914

The aged analysis of short term debtors outstanding as at 31st March 2021 is as follows:

	Not Overdue £000	Up to 3 Months £000	3 Months - 12 Months £000	Over 12 Months £000	Over 24 Months £000	Total £000
<b>Central Government Bodies:</b>						
Welsh Government	9,035	409	0	0	0	9,444
HM Customs & Excise	1,083					1,083
NNDR Debtor	1,025		969	300	12	2,306
Council Tax and Housing Benefit Subsidy	406					406
Other						0
<b>Other entities and individuals:</b>						
Other Local Authorities	1,893	2,545	210	307	0	4,956
Deferred Capital receipts						0
Finance Leases	100					100
Revenue debtors	7,447		34	27	34	7,542
Council tax arrears	0		2,333	700	892	3,925
Corporate sundry debtors	67	673	369	123	92	1,323
Housing benefit overpayments			333	296	655	1,284
NHS Bodies	9	1,492	245	10	0	1,756
Social Services sundry debtors	64	170	247	123	181	784
Capital debtors	16					16
Rent arrears	33	21	43	33	145	275
Housing Advances						0
Other	883					883
<b>Total</b>	<b>22,061</b>	<b>5,310</b>	<b>4,783</b>	<b>1,919</b>	<b>2,010</b>	<b>36,084</b>

The associated impairment for potential default and uncollectability for debtors outstanding as at 31st March 2021 is as follows:

	Not Overdue £000	Up to 3 Months £000	3 Months - 12 Months £000	Over 12 Months £000	Over 24 Months £000	Total £000
Other Local Authorities	0	0	0	0	0	0
NHS Bodies	0	0	4	0	0	4
Revenue debtors	0	0	17	14	24	55
Council Tax Arrears	0	0	516	487	892	1,894
Social Services sundry debtors	48	24	33	5	44	154
Corporate sundry debtors	0	0	89	79	67	235
Rent arrears	0	4	23	33	144	204
Housing benefit overpayments	0	0	66	64	519	649
<b>Total</b>	<b>48</b>	<b>28</b>	<b>748</b>	<b>682</b>	<b>1,690</b>	<b>3,196</b>

### 13.6 Creditors

It is the Authority's policy to pay creditors promptly, without undue delay and within mutually agreed terms. 97.88% of payments were paid within a 30 day target settlement date (93.44% in 2019/20).

The nature and value of payments due to be made by the Council in the year but not actually made as at 31st March 2021 is summarised below:

31st March 2020 £000		31st March 2021 £000
2,852	Central Government Bodies	10,222
3,383	Other Local Authorities	2,874
409	NHS Bodies	411
2,307	Capital Creditors	4,922
15,817	Other entities & individuals	17,975
<b>24,768</b>	<b>Total</b>	<b>36,405</b>

### 13.7 Provisions and Contingent Liabilities

The value of provisions as at 31st March 2021, together with their movement for the year, is summarised below:

	Note	As at 1st April 2020 £000	Additional Provisions Made £000	Amounts Used £000	Unused Amounts Reversed £000	As at 31st March 2021 £000
Insurance Claims	13.7a	794	851	(794)	0	851
Insurance Claims - MMI	13.7b	32	0	0	0	32
Accumulating Compensated Absences	13.7c	3,553	557	0	0	4,109
Shared Resource Service (Public) Debt	13.7d	86	0	0	0	86
School Redundancies		482	0	(482)	0	0
CCRCDC Consolidation		89	38	0	0	127
<b>Total</b>		<b>5,036</b>	<b>1,446</b>	<b>(1,276)</b>	<b>0</b>	<b>5,205</b>

The analysis of provisions between those that are short-term and long-term where it is expected that the provision will be settled within 12 months or greater than 12 months of the balance sheet date respectively, are summarised below:

Current 31st March 2020 £000	Long Term 31st March 2020 £000		Current 31st March 2021 £000	Long Term 31st March 2021 £000
397	397	Insurance Claims	546	305
16	16	Insurance Claims - MMI	16	16
3,553	0	Accumulating Compensated Absences	4,109	0
86	0	Shared Resource Service (Public) Debt	86	0
482	0	School Redundancies	0	0
0	89	CCRCDC Consolidation	0	127
<b>4,534</b>	<b>502</b>	<b>Total</b>	<b>4,757</b>	<b>448</b>

#### a) Insurance Claims

The Authority maintains insurance policies to cover itself against claims made. The effect of these policies is to limit the Council's costs in relation to successful claims made against it. Annual insurance premiums have been recharged to services during the financial year along with costs of claims incurred.

To satisfy IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a full actuarial assessment of open insurance claims was carried out at 30th September 2015 by the Authority's insurance brokers. The Authority has used this data to project future potential liabilities on the basis of current claims received, policy excesses and stop losses (the capped loss we can incur in any policy year). This assessment has allowed the Authority to reflect the estimated cost of liabilities at 31 March 2021. Provision has only been made where the Authority's insurers indicate a settlement is likely. The result is that the total provision is at the most likely level to be paid out in the future. Any movement in provisions has been charged against the services to which the claims relate.

The Authority maintains the insurance and risk management reserve to assist in the control of the Authority's insurance risks. The balance in the reserve is reviewed annually as part of the assessment on the adequacy of reserves by the Section 151 Officer. The reserve is required to cover potential claims not yet reported as well as recorded claims, which do not merit a provision, referred to above. It therefore represents additional cover, over and above the provision, to cover all foreseeable claims as at the balance sheet date.

The provision in place at 31st March 2021 was £851,000 (£794,000 at 31st March 2020) and the balance on the insurance and risk management reserve as at 31st March 2021 was £846,000 (£846,000 as at 31st March 2020). These balances are deemed to provide sufficient cover for the Authority's claims exposure.

A breakdown of the provision made across policy types is provided below:

31st March 2020		31st March 2021
£000		£000
622	Public Liability	632
172	Employer's Liability	219
794	Total	851

#### b) Municipal Mutual Insurance (MMI)

For the policy years before 1992/93, the local authority is exposed to an insurance liability relating to the closure of the MMI Fund on 30th September 1992. MMI had insufficient funds to meet existing and future claims and its liquidators exercised the option of recovering an initial levy from each scheme member of 15% via a levy notice on 1st January 2014. The levy was increased to 25% by way of a second notice on the 1st April 2016.

In addition to the levy paid for settled claims, a percentage payment is also applied to outstanding claims which are subsequently settled against the Authority. As at the 31st March 2021, a provision of £31,137 has been made for outstanding claims of this nature, unchanged from 2019/20.

#### c) Accumulating Compensated Absences

Short-term accumulating compensated absences comprise employee benefits in the form 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 and are due to be settled within 12 months of the year-end.

A provision is made as a result of the earned benefit not taken before year-end being established on a sample basis of employees, extrapolated to establish the estimated total accrued benefit. The provision 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 provision is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement as required by regulations in place, so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

The value of the provision made in respect of such employee benefits at the 31st March 2021 was £4,109,744 (£3,552,832 at 31st March 2020).

#### d) Shared Resource Service (SRS) Public Debt

Financial administration of the Shared Resource Service (Public) transferred to Torfaen CBC on 1st April 2019. As part of the winding up of the administration it is possible that Monmouthshire CC may incur a write off for unrecoverable debt relating to bills raised by SRS Public up to and including the 31st March 2019. The probability and timing of these write offs still remains uncertain at the balance sheet date and therefore an FRS12 provision of £86,254 has been maintained as at 31st March 2021.

#### e) Asbestos Indemnity (Contingent Liability)

As part of the process of transferring the Authority's council housing stock in 2007/08, Council approved changes to the Stock Transfer Agreement to include an asbestos indemnity.

It was a standard requirement of stock transfers that the local authority provides an indemnity to the funders and new landlord, in this case Monmouthshire Housing Association, with respect to the presence of asbestos in the property transferring. The indemnity does not apply in respect of the first £2.55million of costs incurred in relation to such works, as updated annually by RPI.

The resultant indemnity is one where the authority has negotiated an initial limited contingent liability of £6.003million, to be updated annually by RPI, for a period of 15 years from the date of transfer of 20th January 2008. 2 years remain of this period.

There are no immediate financial implications and professional advice suggests a low risk of future liability arising. Low risk does not however equate to “no risk” and the potential future liability, after updating for RPI is £6.679 million (£6.582 million as at 31st March 2020) , in the event the asbestos indemnity is called upon.

The latest available information indicates spend to date by Monmouthshire Housing Association (for the period 21st January 2008 to 31st March 2021) is £124,456 (previously £124,456 for the period 21st January 2008 to 31st March 2020).



## 14 POST-EMPLOYMENT BENEFIT NOTES

### 14.1 Participation in Pension Schemes

The council is required to account for its pension costs in accordance with IAS19 - employee benefits.

The Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The Council participates in two separate pension schemes; the Greater Gwent Pension Fund (Local Government Pension Scheme (LGPS)) and the Teachers' Pensions Scheme (TPS), both of which provide defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council.

#### *Teachers Pension Scheme (TPS) – Unfunded Defined Benefit Scheme Accounted for as a Defined Contribution Scheme*

Whilst this is an unfunded multi-employer defined benefit scheme it is required to be accounted for as if it were a defined contribution scheme, because the arrangements are such that the liabilities cannot ordinarily be identified specifically to the Council. A notional fund is used as the basis for calculating the employer's contribution rate paid by local authorities and valuations of the notional fund are undertaken every four years. This scheme is administered by the Teachers' Pensions Agency (TPA). No liability for future payments of these benefits is recognised in the Council's Balance Sheet.

The Authority's payments to the scheme relating to 2020/21 totalled £5,991,000 (£4,992,000 in 2019/20) in respect of teachers' retirement benefits.

Under this scheme there are separate arrangements for the award of discretionary post employment benefits upon early retirement – these are unfunded defined benefit arrangements, under which liabilities are recognised when awards are made.

There were £495,227 of contributions remaining payable to the scheme at the year end (£479,000 at 31st March 2020). The Council is not responsible for any other employers' obligations under this pension plan.

#### *Greater Gwent Pension Fund*

The Authority participates in two pension schemes administered by Torfaen County Borough Council:

- The Local Government Pension Scheme - 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 pension liabilities with investment assets in the long term. Pension benefits accrued up until March 2014 are based on pensions being a percentage of final salary. Benefits since that time have accrued on an average salary basis.
- Unfunded Teachers Discretionary Benefits - the Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme above. This is unfunded, meaning that there are no investment assets built up to meet pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The following sections of the notes provide further supporting information covering the Authority's interest in the Greater Gwent Pension Fund.

14.2 Pension Fund Stakeholders

14.3 Entries in the comprehensive income and expenditure statement

14.4 Expected future pension contributions

14.5 Actuarial Assumptions

14.6 Sensitivity analysis

14.7 Investments held by the pension fund



14.8 The movement in the authority's share of the assets and liabilities within the Fund

14.9 A summary explanation of the movement in assets and liabilities

## 14.2 Pension Fund Stakeholders

The total defined benefit obligation for the Authority's share of the Greater Gwent Pension fund (excluding unfunded liabilities) as at the 31st March 2021 is split as follows, along with the weighted average duration of each group:

2019/20			2020/21		Average Age 31st Mar 2021 in Years
£000's	%		£000's	%	
242,171	44%	Active	367,088	51%	51
101,334	19%	Deferred	138,897	19%	51
202,078	37%	Pensioners	216,972	30%	68
<b>545,583</b>	<b>100%</b>	<b>Total</b>	<b>722,957</b>	<b>100%</b>	<b>19.6</b>

A breakdown of the investments held by the Greater Gwent pension fund, quoted and unquoted is given in 14.7 giving an indication of the level of diversification and therefore risk within the Investment Portfolio.

## 14.3 Entries in the comprehensive income and expenditure statement

The Authority recognises retirement benefits in the net cost of services, as they are earned by employees not 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 to the pension fund in the year, so the real cost of post-employment/ retirement benefits is reversed out of the Council Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Council Fund Balance via the Movement in Reserves Statement during the year.

An allowance was made for the McCloud judgement in last year's results Schedule and no further adjustment has been made within this year's result Schedule. The previous allowance within the balance sheet will simply be rolled forward and therefore included within the closing position at the accounting Date. No explicit additional adjustment for McCloud has been added to the current service cost for 2020/21 (or the projected service cost for 2021/22).

Finance is only required to be raised to cover teachers unfunded discretionary benefits when the pensions are actually paid.

Local Government Pension Scheme	Teachers' Unfunded Discretionary Benefits		Local Government Pension Scheme	Teachers' Unfunded Discretionary Benefits
2019/20 £000's	2019/20 £000's		2020/21 £000's	2020/21 £000's
		<b>Comprehensive Income and Expenditure Account</b>		
		<b>Net Cost of Services:</b>		
24,341	0	current service cost	20,168	0
1,357	0	past service cost / (gain) including curtailments	91	0
0	0	settlement gain	0	0
<b>25,698</b>	<b>0</b>	<b>Total Net Cost of Services</b>	<b>20,259</b>	<b>0</b>
		<b>Financing and Investment Income and Expenditure:</b>		
14,982	109	interest cost on pension liabilities	12,905	(86)
(8,505)	0	interest income on plan assets	(7,449)	0
0	0	Impact of asset ceiling on net interest	0	0
<b>32,175</b>	<b>109</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>25,715</b>	<b>(86)</b>
		<b>Other Comprehensive Income and Expenditure:</b>		

(56,332)	(484)	(Gains) and losses on remeasurement	64,244	331
0	0	Effect of business combinations and disposals	0	0
(56,332)	(484)	<b>Total Other Comprehensive Income and Expenditure</b>	<b>64,244</b>	<b>331</b>
(24,157)	(375)	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>89,959</b>	<b>245</b>
		<b>Movement in Reserves Statement</b>		
(32,175)	(109)	reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	(25,715)	86
		<b>Actual amount charged against the Council Fund for pensions in the year:</b>		
12,724	431	employers' contributions payable to scheme	13,617	409

#### 14.4 Expected future pension contributions

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2021 is £12,905,000. Expected contributions for Teachers Unfunded Discretionary Benefits scheme in the year to 31 March 2021 are £418,000.

Statutory arrangements are in place to ensure that the financial position of the fund remains healthy. In the 31 March 2016 Actuarial Valuation, a shortfall of 28% of the fund's liabilities was identified. The Fund's 'funding target' is to achieve and maintain a funding level of 100% of liabilities. The maximum deficit recovery period has been set at 25 years. At each Actuarial Valuation, a contribution rate is set to meet the funding target over the deficit recovery period.

#### 14.5 Actuarial Assumptions

A draft report of the results of the latest full actuarial valuation of the Greater Gwent (Torfaen) Pension Scheme, based on the position of the fund at 31st March 2019, was released in December 2019. In between formal valuations which occur every three years the actuary assesses the extent of the employers pension assets and liabilities. The Actuaries report for 31st March 2020 including the projections for 20/21 is therefore based on this 31st March 2019 full valuation.

Both the Teachers unfunded discretionary benefits and the County Council fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries. The actuary has used the projected unit credit method to arrive at their valuation. This is dependent on the underlying assumptions which have been made about mortality rates, salary levels, discount rates etc. Any differences which arise between these assumptions and actual trends will cause an associated change in the net pension liability arising.

The principal assumptions used by the actuary in their calculations have been:

Financial Assumptions	Local Government Pension Scheme & Teachers Unfunded Discretionary Benefits		
	31st March 2021	31st March 2020	31st March 2019
Rate of increase in salaries	3.2%	2.2%	2.9%
Rate of increase in pensions (inline with CPI)	2.9%	1.9%	2.5%
Rate for discounting scheme liabilities	2.0%	2.3%	2.4%
<b>Life Expectancy:</b>			
Current male pensioner aged 65 (years)	20.7	20.6	21.5
Current female pensioner aged 65 (years)	23.4	22.9	23.9
Future male pensioner aged 65 in 20 years' time (years)	22.1	21.6	23.6
Future female pensioner aged 65 in 20 years' time (years)	25.4	24.6	26.1

The discount rate used to value fund liabilities is based on market yields on high quality corporate bonds over appropriate terms. To facilitate this, Hymans Robertson produce a corporate bond yield curve based on the constituents of the iBoxx AA corporate bond index.

#### 14.6 Sensitivity Analysis

As noted above, changes to the financial assumptions disclosed in 14.5 will result in movements in the key pension related financial outcomes. An estimation of the results of such movements are given below.

Change in assumption at 31st March 2021	Approximate % increase to Employer	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	10%	75,080
0.5% increase in the Salary Increase Rate	1%	7,381
0.5% increase in the Pension Increase Rate	9%	66,132

In addition the actuary estimates that a one year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%. In practice this is dependent on the age groups predominantly affected.

#### 14.7 Investments held by the pension fund

Teachers unfunded discretionary payments have no assets to cover its liabilities. The Local Government Pension Scheme's assets are valued at fair value, and consist of the following categories, by proportion of the total assets held:

31st March 2020		Category	Quoted in Active markets	31st March 2021	
£000	%			£000	%
47,772	14.8%	Equities	Yes	62,764	14.8%
		<b>Investment funds &amp; Unit Trusts</b>			
186,585	57.8%	Equities	No	245,139	57.8%
54,190	16.8%	Bonds	No	71,196	16.8%
23,466	7.3%	Other	No	30,830	7.3%
8,129	2.5%	Property	No	10,680	2.5%
2,838	0.9%	Cash accounts	No	3,729	0.9%
0	0.0%	Alternatives	No	0	0.0%
322,980	100.0%	<b>Total</b>		424,338	100.0%

#### 14.8 The movement in the authority's share of the assets and liabilities within the fund

##### The Movement in Fund Assets

Local Government Pension Scheme 2019/20 £000	Teachers Unfunded Discretionary Benefits 2019/20 £000		Local Government Pension Scheme 2020/21 £000	Teachers Unfunded Discretionary Benefits 2020/21 £000
353,171	0	As at 1st April	322,980	0
0	0	Settlement costs	0	0
8,505	0	Interest on plan assets	7,449	0
12,724	431	Employers contributions	13,617	409
3,352	0	Contributions by scheme participants	3,539	0
(39,633)	0	Gains / (losses) on remeasurement of assets	91,626	0
0	0	Administration expenses of plan assets	0	0
(15,139)	(431)	Benefits paid	(14,873)	(409)

322,980	0	As at 31st March	424,338	0
<b>The Movement in Fund Liability</b>				
(616,635)	(4,749)	As at 1st April	(549,563)	(3,943)
(24,341)	0	Current service cost	(20,168)	0
(1,357)	0	Past service (cost) / gain (including curtailments)	(91)	0
0	0	Settlement gains	0	0
0	0	Curtailment costs	0	0
(14,982)	(109)	Interest on pension liabilities	(12,733)	(86)
(3,352)	0	Contributions by scheme participants	(3,539)	0
95,965	484	Gains / (losses) on remeasurement of liabs	(155,870)	(331)
15,139	431	Benefits paid	14,873	409
0	0	Effect of business combinations & disposals	0	0
(549,563)	(3,943)	As at 31st March	(727,091)	(3,951)

There were £1,124,000 of contributions remaining payable at the year end for the Local Government Pension Scheme (at 31 March 2020 £1,119,000 was payable) and £2,000 was owed to the Authority for the Teachers unfunded discretionary benefits scheme (£2,000 at 31 March 2020).

Within the £727,091,000 of pension liabilities for the Local Government Pension Scheme at 31 March 2021 (£549,563,000 31 March 2020), there are £3,957,000 of unfunded liabilities (£3,993,000 as at 31st March 2020). £328,000 of employer contributions were made in respect of these liabilities during the year.

#### 14.9 Summary of the movement in assets and liabilities

Over the five years ending the 31 March 2021, the fund's actuaries have estimated that the Authority had the following assets and liabilities:

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<b>Local Government Pension Scheme</b>					
Present value of scheme liabilities	(531,153)	(544,485)	(616,635)	(549,563)	(727,091)
Fair value of scheme assets	319,333	331,910	353,171	322,980	424,338
<b>Surplus / (deficit) in the scheme</b>	<b>(211,820)</b>	<b>(212,575)</b>	<b>(263,464)</b>	<b>(226,583)</b>	<b>(302,753)</b>
<b>Teachers Unfunded Discretionary Benefits</b>					
Present value of scheme liabilities	(5,417)	(5,070)	(4,749)	(3,943)	(3,951)
Fair value of scheme assets	0	0	0	0	0
<b>Surplus / (deficit) in the scheme</b>	<b>(5,417)</b>	<b>(5,070)</b>	<b>(4,749)</b>	<b>(3,943)</b>	<b>(3,951)</b>
<b>Total</b>					
Present value of scheme liabilities	(536,569)	(549,555)	(621,384)	(553,506)	(731,042)
Fair value of scheme assets	319,333	331,910	353,171	322,980	424,338
<b>Surplus / (deficit) in the scheme</b>	<b>(217,236)</b>	<b>(217,645)</b>	<b>(268,213)</b>	<b>(230,526)</b>	<b>(306,704)</b>
<b>Year on year increase in net liability (or deficit)</b>		<b>(409)</b>	<b>(50,568)</b>	<b>37,687</b>	<b>(76,178)</b>

There is a increase in the combined net liability of the Greater Gwent pension funds of £76,178,000 from 1 April 2020 to 31 March 2021. This has resulted from a increase in the value of scheme liabilities of £177m offset by a increase in the value of scheme assets. The increase in liabilities is due to changes in financial assumptions (e.g. increased inflation, decreased discount rate, increased longevity/age presumptions).

## 15 NOTES TO THE CASH FLOW STATEMENT

### 15.1 Reconciliation of Comprehensive Income & Expenditure Account to Net Cash Flows from Operating Activities

2019/20 £000		2020/21 £000
23,195	Net (surplus) or deficit on the provision of services	6,946
	<b>Non-cash transactions:</b>	
(11,498)	Depreciation of non-current assets	(12,684)
(3,732)	Impairment and downward valuations	(7,539)
(186)	Amortisation of intangible non-current assets	(79)
229	Increase/decrease in impairment for provision for bad debts	(409)
52	Increase/(decrease) in inventories	(40)
(1,309)	Increase/(decrease) in debtors	4,417
2,267	(Increase)/decrease in creditors	(11,438)
(850)	(Increase)/decrease in provisions	(132)
(19,129)	Pension liability	(11,775)
51	CCRCD: Capital & Revenue Grants recognised	201
(1,290)	Carrying amount of non-current assets, assets held for sale and investment properties which are sold or derecognised	(4,593)
(560)	Movement in the value of investment properties	2,412
	<b>Items classified in another classification in the cash flow statement</b>	
(2,085)	Other payments for investing activities	2,909
10,487	Other receipts from investing activities	9,811
(31)	Other payments for financing activities	(34)
(921)	Other receipts for financing activities	(753)
7,274	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	10,193
1,963	<b>Net cash flows from Operating Activities</b>	<b>(12,585)</b>

### 15.2 Returns on Investments and Servicing of Finance

Returns on Investments received and Servicing of Finance paid during the year are made up of the following elements:

2019/20 £000		2020/21 £000
	<b>Returns on Investments received:</b>	
(448)	Interest received	(219)
(33)	Other interest and investment income	(25)
	<b>Servicing of Finance paid:</b>	
4,301	Interest paid	3,801
18	Interest element of finance lease rental payments	15
3,838		3,572

### 15.3 (Increase)/decrease in Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	At 31st March 2020	In Year Movement	At 31st March 2021
	£000	£000	£000
<b>Current Assets</b>			
Cash held by the Authority	424	(251)	172
Bank current accounts	0	0	0
Short-term call account deposits	21,953	(2,967)	18,986
<b>Current Liabilities</b>			
Bank current account overdrafts	(1,475)	854	(621)
<b>Total</b>	<b>20,902</b>	<b>(2,365)</b>	<b>18,538</b>

## 16 OTHER NOTES TO THE ACCOUNTS

### 16.1 Members Allowances

Information on members' allowances is available on request from the Payroll Manager, Payroll Section, Monmouthshire County Council, @Innovation House, Wales 1, Magor, NP26 3DG.

The Authority paid the following amounts to Councillors and co-optee members of the council during the year:

2019/20 £000		2020/21 £000
595	Basic allowance	608
202	Special responsibility allowance	208
26	Travel allowance	2
0	Subsistence allowance	0
6	ICT Costs	4
829	<b>Total</b>	<b>822</b>

### 16.2 Audit Costs

The Authority has incurred the following costs during 2020/21 in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and to non-audit services provided by the Authority's external auditors:

2019/20 £000		2020/21 £000
176	Fees payable to the appointed auditor with regard to external audit services - financial audit	176
103	Fees payable to the appointed auditor with regard to external audit services - Local Government Measure	103
55	Fees payable to the appointed auditor for certification of grant claims & returns	40
334	<b>Total</b>	<b>319</b>

### 16.3 S31 and S33 Pooled Budget Arrangements

Section 31 of the Health Act 1999 and Section 33 of the NHS (Wales) Act 2006 enables the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable bodies to work collaboratively to address specific local health issues. A key feature of the pool is that the use of resources contributed to the pool should be dictated by the need of clients who meet the criteria established for the pool, rather than the respective contributions by the partners. Thus, it is to be expected that health service resources could be used to deliver local authority services and vice versa.

Pooled funds are not legal entities. The partners in the pool will nominate one partner to be the host to the pool. That host has responsibility for the administration of the pool.

#### a) Mardy Park Rehabilitation Scheme

The Authority had previously entered into a pooled budget arrangement with the Aneurin Bevan Local Health Board for the provision of a Rehabilitation Scheme at Mardy Park which came into effect from the 1st April 2004, with the Authority being host for the partnership.

The Purpose of the scheme was to reduce the time spent in hospital for rehabilitation patients who have no need for in-patient care, undertaken through the assessment of individuals needs and on how community based schemes could adapt to manage the risk of non-residential care effectively.

The income and expenditure for the pooled fund arrangements for the financial year ended 31st March 2021 was:

2019/20 £000		2020/21 £000
	<b>Funding</b>	
(257)	Monmouthshire County Council	(262)
(194)	Monmouthshire Local Health Board	(197)



(451)	<b>Total Funding</b>	(459)
	<b>Expenditure</b>	
326	Employee related	326
72	Premises related	78
3	Transport related	1
30	Supplies & Services	35
40	Agency & Contracted	39
471	<b>Total Expenditure</b>	479
20	<b>Net (Under)/over spend</b>	20

#### **b) Gwent Integrated Community Equipment Store (GWICES)**

The Authority has entered into a pooled budget arrangement with the Aneurin Bevan Local Health Board and four other local authorities in the Gwent area, namely Blaenau Gwent, Caerphilly, Newport and Torfaen. Under the arrangement funds are pooled under Section 33 of the NHS (Wales) Act 2006. This agreement came into effect on 1st October 2008.

The Purpose of the scheme is to provide an efficient and effective integrated equipment store to service users who are resident in the partnering localities.

Torfaen County Borough Council is the host for the Partnership, who recorded gross expenditure of £4,106,000 (£3,398,000 for 2019/20) and gross income of £4,106,000 (£3,398,000 for 2019/20) for the financial year ended 31st March 2021. Monmouthshire County Council's contribution for the year was £382,000 (£323,000 for 2019/20).

#### **c) Monmouth Health & Social Care Facility (Monnow Vale)**

The Authority has entered into a pooled budget arrangement with the Aneurin Bevan University Health Board. Under the arrangements funds are pooled under Section 33 of the NHS (Wales) Act 2006 to provide health and social care in the form of inpatient, outpatient, clinic and day care facilities to individuals who have medical, social, community or rehabilitation needs. This agreement came into effect from the 1st June 2006.

The Facility is a unique project that replaced a number of out dated or separate facilities scattered throughout the County with a new building that has been financed by a private finance partner over a period of 30 years. Further information is contained in note 12.4 to the accounts.

Aneurin Bevan University Health Board is the host for the Partnership, who recorded gross expenditure of £3,768,000 (£3,687,000 for 2019/20) and gross income of £3,612,000 (£3,489,000 for 2019/20) for the financial year ended 31st March 2021. Monmouthshire County Council's total contribution for the year was £1,171,000 (£1,166,000 for 2019/20).

#### **d) Gwent Frailty Programme**

A Section 33 Partnership Agreement exists between five Local Authorities in the former Gwent area and Aneurin Bevan Local Health Board for the provision of Frailty services to service users who are resident within each of the Partner Localities. This service became operational from the 4th April 2011 and the agreement came into effect from this date.

The Gwent Frailty programme has created a Community based integrated model of care through the establishment of Community Resource Teams (CRT's) delivering a range of services to avoid hospital admissions, facilitate early discharge and help individuals remain 'happily independent'. The CRT's provide integrated Urgent Response, Reablement, Falls Services within each Locality in line with agreed Locality Commissioning Plans (LCPs).

The programme has attracted Welsh government Invest to Save funding totalling £7.3m which is being used to pump prime the establishment of CRTs and to fund the IT infrastructure. Partners have also committed recurring budgets to the programme totalling £8.9m per annum and have agreed savings targets to ensure on-going financial stability.

Caerphilly County Borough Council is the host for the Partnership, who recorded gross expenditure of £16,623,000 (£16,458,000 for 2019/20) and gross income of £16,637,000 (£16,571,000 for 2019/20) for the financial year ended 31st March 2021. Monmouthshire County Council's total contribution for the year was £1,411,000 (£1,361,000 for 2019/20).

#### **e) Pooled Fund for Care Home Accommodation Functions for Older People**

Under section 169 and Part 9 Statutory Guidance of the Social Services and Wellbeing Act (Wales) 2014, Welsh Government has directed the forming of a pooled arrangement across Wales for Care Home Accommodation Functions for Older People.



The Gwent Regional Partnership Board decided to establish a pooled fund and service, by establishing a 'Gwent' section 33 agreement from the 6 organisations being 5 Local Authorities comprising of Monmouthshire, Newport, Torfaen, Blaenau Gwent and Caerphilly, along with Aneurin Bevan University Health Board.

Torfaen County Borough Council is the host for the Partnership, who recorded gross expenditure of £95,841,580 (£104,976,167 for 2019/20) and funding of £95,841,580 (£104,976,167 for 2019/20) for the financial year ended 31st March 2021. Monmouthshire County Council's total contribution for the year was £8,870,266 (£9,737,712 for 2019/20).

## 16.4 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 allow 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 & Welsh Government

Central & 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 core and specific grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. housing benefits). Details of grant income received from Central & Welsh Government and other government departments are set out in note 11.6 to the Accounts and balances owing to/from these parties is outlined in notes 13.5 & 13.6.

### Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2020/21 is shown in Note 16.1. During 2020/21, works and services to the value of £17,892m (£19.118m in 2019/20) were commissioned from other public bodies and companies in which nine members had an interest. Contracts were entered into in full compliance with the council's standing orders. In addition, grants totalling £96,809 (£117,743 in 2019/20) were made to voluntary organisations in which three members had positions on the governing body. No grants were made to organisations whose senior management included close members of the families of members. In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the register of members' interest, open to public inspection at the Council headquarters during office hours at its offices at County Hall, Usk, Monmouthshire, NP15 1GA.

### Companies and Joint Ventures

The Authority has interests in companies and joint ventures and relevant transactions are disclosed in note 16.6 to the Accounts about such interests.

### Senior Officers

Section 117 of the Local Government Act 1972 requires officers to declare any pecuniary interests that they may have regarding any transactions being entered into by the Authority in which they have a direct or indirect involvement.

The Monitoring Officer for the Authority, Chief Officer for Children & Young People, Chief Officer Social Care Safeguarding & Health and the Head of Policy and Governance have no pecuniary interests.

The Chief Executive was the Acting Returning Officer and Electoral Registration Officer for Monmouthshire during 2020/21 and held the following position during the year:

- **Member of the Cardiff Capital Region Investment Committee**
- **Shared Resource Services - Board Member**
- **Innovation Point Wales - Non-Executive Director**

The Head of Operations held the following position during the year:

- **Non-Executive Director to Dragon Waste Limited**

The Chief Officer for Enterprise held the following position during the year:

- **Shared Resource Services - Business Solutions - Director**

The Deputy Chief Executive (Chief Officer for Resources) has an indirect involvement with:

- **Cardiff Capital Region - City Deal**
- **Science and Innovation Advisory Council**
- **UKRI's Research England Board**
- **Prince's Trust - Wales**

Any transactions and balances held with these parties are shown within note 16.6 to the accounts.

## 16.5 Trust Funds

The Council acts as sole or custodian trustee for a number of trust funds. The funds do not represent assets of the Council and they have not been included in the Consolidated Balance Sheet. The below balances are based upon unaudited figures for the year ended 31st March 2021:

2019/20					2020/21			
Income £000	Expend £000	Assets £000	Liabilities £000		Income £000	Expend £000	Assets £000	Liabilities £000
(209)	618	5,143	(178)	<b>Welsh Church Act Fund</b>	(604)	258	5,542	(230)

The primary objective of the Charity is to assist groups and individuals for educational, social, recreational and other charitable purposes. The Trust owns tangible fixed assets comprising eight parcels of land. Five of these are agricultural, two are grazing and one is forestry.

0	0	114	(114)	<b>Llanelly Hill Social Welfare Centre</b>	(3)	3	129	(61)
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The primary objective of the fund is the provision of a Social welfare centre to the residents of Llanelly hill. The Trust's fixed assets comprise the social welfare centre premises and land upon which it is situated.

(5)	0	6	(1)	<b>Chairman's Charity</b>	(0)	0	7	0
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The Chairman's Charity supports and raises funds for the Chairman's nominated Charity of the year.

				<b>Funds for which Monmouthshire County Council acts as custodian trustee:</b>				
(27)	54	636	(4)	<b>Monmouthshire Farm School Endowment</b>	(42)	16	656	(2)
(1,094)	930	833	(669)	<b>Appointeeship - Personal Monies</b>	(1,332)	1,119	1,045	0

## 16.6 Related Businesses and Operations

The Council has a number of interests in other entities which fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code.

In respect of the Cardiff Capital Region City Deal (CCRC), the Authority has included its share of income, expenditure, assets, liabilities, reserves and cash flows relating to the arrangement within the single entity accounting statements and disclosures. Further details of the arrangement are outlined below.

The Council's remaining interests in other entities, in aggregate, are not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. For this reason, group accounts are not deemed necessary for these entities within these statements. In order to ensure compliance with the Code, a range of narrative disclosures have been made as follows:

### Dragon Waste Limited

The Company was formed to carry out the Council's waste disposal function. The Council holds a 19% share holding in the company. The Company's latest available trading results are the accounts for the year ending 31st March 2020.

31st March 2020		31st March 2021
£000 Final		£000 Draft
168	Net Assets/(Liabilities)	Not available
183	Profit/(Loss) before Taxation	Not available
183	Profit/(Loss) after Taxation	Not available
0	Dividends	Not available

No assets or liabilities of the Company are reflected in the Consolidated Balance Sheet. The remaining 81% of the Company is owned by Viridor Waste Exeter Limited, which is a wholly owned subsidiary of Viridor Waste Limited. The ultimate parent company

Net payments of £1,597,524 were made to Dragon Waste Limited during 2020/21 (£2,166,743 during 2019/20).

The Authority owed £281,345 to Dragon Waste Limited at the 31st March 2021 (£177,005 owed to Dragon Waste as at 31st March 2020) in respect of Waste Management contract income.

Once published, further information can be found in the Dragon Waste Limited Financial Statements for the year ended 31 March 2021 which will be available from the Company Secretary, Pennon Group Plc, Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

#### SRS Public

The Authority entered into a public sector collaborative arrangement, known as the Shared Resource Service, with Torfaen County Borough Council (TCBC) and Gwent Police Authority in May 2011, Newport City Council and Blaenau Gwent Borough Council have joined the partnership subsequently. The arrangement has resulted in a Shared Resources Centre (SRC) being set up for the purpose of providing IT services to each member authority. A memorandum of understanding is in place to provide robust governance arrangements. The arrangement is not a separate legal entity and ownership of the SRS premises resides with TCBC. The arrangement is funded by core contributions from partners, income from desk licences and rack rentals from schools and external income. Monmouthshire's core contribution during 2020/21 included in the Council's Accounts totalled £2.133m (£2.169m in 2019/20).

The Authority owed £3,541 to SRS Public at the 31st March 2021 (£2,933 owed as at 31st March 2020).

Financial administration of the Shared Resource Service (Public) was transferred to Torfaen CBC on 1st April 2019. As part of the winding up of the administration it is possible that Monmouthshire CC may incur a write off for unrecoverable debt relating to bills raised by SRS Public up to and including the 31st March 2019. The probability and timing of these write offs remains uncertain at the balance sheet date and therefore an FRS12 provision of £86,254 has been maintained as outlined in note 13.7.

#### SRS Business Solutions Limited

SRS Business Solutions Limited, a company limited by shares, was incorporated on 11th June 2011. The company was set up with £40,000 share capital from the Authority and TCBC, in order to facilitate trading in ICT related services with the private and third sector.

The Company's latest available trading results are the draft estimates for the year ending 31st March 2021.

31st March 2020		31st March 2021
£000 Final		£000 Draft
139	Net Assets/(Liabilities)	133
(139)	Profit/(Loss) before Taxation	(3)
(139)	Profit/(Loss) after Taxation	(3)
0	Dividends	0

There were no transactions between Monmouthshire County Council and SRS (BS) during 2020/21 (nil in 2019/20).

Financial administration of SRS (BS) transferred to Torfaen Borough Council on the 19th October 2019.

### Melin Homes & Y Prentis

Y Prentis is a business set up by Monmouthshire County Council and Melin Homes with a 50/50 share to actively promote the provision of technical and vocational secondary education.

The Company's latest available trading results are the financial statements for the period ending 31st May 2021.

The company is exempt from audit under section 477 of the companies act 2006 for the financial year ending May 2021.

30th Sept 2019		31st May 2021
£000		£000
Final		Draft
313	Total Assets/(Liabilities)	308
12	Profit/(Loss) before Taxation	8
12	Profit/(Loss) after Taxation	8
0	Dividends	0

There were no transactions between Monmouthshire County Council and Y Prentis during 2020/21 (nil in 2019/20). A capital receipt of £2.7m was received by Monmouthshire County Council during the year from Melin Homes as part of the sale of land relating to Crick Rd development.

### Education Achievement Service (EAS)

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

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

The Company's latest available trading results are the draft estimates for the period ending 31st March 2021.

31st March 2020		31st March 2021
£000		£000
Final		Draft
280	Total Assets/(Liabilities)	244
27	Profit/(Loss) before Taxation	(2)
27	Profit/(Loss) after Taxation	(2)
0	Dividends	0

Payments of £43,000 were made to the EAS during 2020/21 (£1,049,000 during 2019/20). There were no balances owing to/from the EAS at 31st March 2021 (nil at 31st March 2020).

### Gwent Archives

The five local Councils of Monmouthshire, Caerphilly, Blaenau Gwent, Torfaen and Newport are included in the Gwent Archives Service. The integrated service collects, preserves, and makes accessible to the public, documents relating to the area it serves.

The Company's latest available trading results are the draft estimates for the period ending 31st March 2020.

31st March 2020		31st March 2021
£000		£000
Final		Draft

307	Total Assets/(Liabilities)	305
39	Profit/(Loss) before Taxation	(2)
39	Profit/(Loss) after Taxation	(2)
0	Dividends	0

Payments of £182,244 were made to Gwent Archives during 2020/21 (£182,244 during 2019/20). There were no balances owing to/from Gwent Archives at 31st March 2021 (nil at 31st March 2020).

#### Gwent Crematorium

The five local Councils of Monmouthshire, Caerphilly, Blaenau Gwent, Torfaen and Newport are included in the Gwent Crematorium Service. The integrated service provides crematorium services to the public relating to the area it serves.

The Company's latest available trading results are the draft estimates for the period ending 31st March 2021.

31st March 2020		31st March 2021
£000 Final		£000 Draft
2,247	Total Assets/(Liabilities)	2,363
138	Profit/(Loss) before Taxation	63
138	Profit/(Loss) after Taxation	63
0	Dividends	0

A payment of £210,382 was received from Gwent Crematorium during the 2020/21 financial year (£140,255 during 2019/20). There were no balances owing to/from Gwent Crematorium at 31st March 2021 (nil at 31st March 2020).

#### Project Gwyrdd

The five local Councils of Monmouthshire, Caerphilly, Newport, Cardiff and the Vale of Glamorgan are included within the Project Gwyrdd. The integrated service collects, processes, and disposes of household waste that is suitable for recycling.

The Company's latest available trading results are the draft estimates for the period ending 31st March 2020.

31st March 2020		31st March 2021
£000 Final		£000 Draft
322	Total Assets/(Liabilities)	308
(8)	Profit/(Loss) before Taxation	(12)
(8)	Profit/(Loss) after Taxation	(12)
0	Dividends	0

Payments of £27,000 were made to Project Gwyrdd during 2020/21 (£27,000 during 2019/20). There was £27,000 owing to Project Gwyrdd at 31st March 2021 (nil at 31st March 2020).

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

A Joint Working Agreement formally established the Cardiff Capital Region Joint Committee (the Regional Cabinet) as a Joint Committee, with delegated functions, from 1st March 2017. It is a partnership between the 10 councils in South East Wales and its aim is to oversee the Region's economic growth and to deliver the commitments set out in the CCR City Deal, specifically in relation to the Wider Investment Fund, which amounts to £495 million, with £120 million being contributed by the 10 councils on a pro rata population basis.

In accordance with the Code requirements, the Authority has included its share of income, expenditure, assets, liabilities, reserves and cash flows relating to the arrangement within the single entity accounting statements and disclosures.

In terms of capital spending a contribution of £122k was made in 2020/21 (Nil contribution in 2019/20). There were no balances owing to/from the joint committee at 31st March 2021 (nil at 31st March 2020).

### CSC Foundry

During 2020/21 MCC had 'Significant Influence' over CSC Foundry Ltd which is a subsidiary of CCRCD. As at 31st March 2021 CSC Foundry had £3.0m invested with the Authority which is classified within Short term borrowing in the Balance sheet (£3.0m in 2019/20).

## 16.7 Senior Officer Remuneration

The remuneration paid to the Authority's senior employees, where annualised salary is equal to or more than £60,000 per year, is as follows:

Year ended 31st March 2021						
Post Holder	Salary including fees and allowances £	Compensation for loss of employment £	Expense Allowances £	Total Remuneration excluding Pension contributions £	Pension Contributions (Based on Common Rate from Actuary) £	Total Remuneration including Pension contributions £
Chief Executive Officer	119,955	0	0	<b>119,955</b>	27,710	<b>147,665</b>
Chief Officer - Children and Young People	88,095	0	0	<b>88,095</b>	20,350	<b>108,445</b>
Chief Officer - Enterprise	86,871	0	0	<b>86,871</b>	20,067	<b>106,938</b>
Chief Officer - Social Care, Safeguarding	88,095	0	0	<b>88,095</b>	20,350	<b>108,445</b>
Chief Officer - Resources & Acting Section 151 Officer	88,095	0	0	<b>88,095</b>	20,350	<b>108,445</b>
Head of Law & Monitoring Officer	75,859	0	0	<b>75,859</b>	17,523	<b>93,382</b>
Head of Policy & Governance	70,353	0	0	<b>70,353</b>	16,252	<b>86,605</b>
<b>Total</b>	<b>617,323</b>	<b>0</b>	<b>0</b>	<b>617,323</b>	<b>142,602</b>	<b>759,925</b>

Year ended 31st March 2020						
Post Holder	Salary including fees and allowances £	Compensation for loss of employment £	Expense Allowances £	Total Remuneration excluding Pension contributions £	Pension Contributions (Based on Common Rate from Actuary) £	Total Remuneration including Pension contributions £
Chief Executive Officer	116,744	0	0	<b>116,744</b>	26,968	<b>143,712</b>
Chief Officer - Children and Young People	85,737	0	0	<b>85,737</b>	19,805	<b>105,542</b>
Chief Officer - Enterprise	83,355	0	0	<b>83,355</b>	19,255	<b>102,610</b>
Chief Officer - Social Care, Safeguarding	84,546	0	0	<b>84,546</b>	19,530	<b>104,076</b>
Chief Officer - Resources & Acting Section 151 Officer	81,959	0	0	<b>81,959</b>	18,851	<b>100,810</b>
Head of Law & Monitoring Officer	72,638	0	0	<b>72,638</b>	16,779	<b>89,417</b>
Head of Policy & Governance	66,089	0	0	<b>66,089</b>	15,267	<b>81,356</b>
<b>Total</b>	<b>591,068</b>	<b>0</b>	<b>0</b>	<b>591,068</b>	<b>136,455</b>	<b>727,523</b>

Senior Officers are defined for the purposes of this disclosure as the Chief Executive, together with those senior officers that the Chief Executive is either directly responsible for or senior officers who are directly accountable to the Chief Executive. If they meet this definition any time during the year, their annual salary has been reported.



Senior staff can act in an ancillary capacity as Returning Officers overseeing the administration of periodic referenda and elections. Commonly the fee for such work is nationally set. For the avoidance of any doubt, any such costs are not included in this analysis.

Employers' pension contributions were paid at a rate of 23.1% of pensionable pay for staff within the Local Government Pension Scheme (23.1% for 2019/20). Expense allowances are defined as those additional costs that are chargeable to income tax and no such costs are reported in respect of 2020/21 (Nil in 2019/20).

In satisfying the requirement to report the Chief Executive's remuneration as a proportion of the full time equivalent median salary of Monmouthshire County Council employees. In 2020/21, the median employee position has been calculated as £24,012, equating to spinal point 16 and resulting in a median ratio when compared with the Chief Executive Officer salary of 5:1

In 2019/20, the median employee position was calculated as £22,911, equating to spinal point 15 and resulting in a median ratio when compared with the Chief Executive Officer salary of 5.10:1

For the purposes of reporting remuneration, voluntary aided schools' employees have been included in the remuneration notes 16.7 to 16.9, where appropriate, as if they were employees of the council even though their contract of employment is with their respective governing body.

## 16.8 Officers' Emoluments

The number of employees whose remuneration was £60,000 or more in bands of £5,000, during the year ended 31st March 2021, was:

2019/20		Remuneration Band	2020/21	
Number of employees	(Of which are teaching staff)		Number of employees	(Of which are teaching staff)
0	0	£130,000 - £134,999	1	1
0	0	£125,000 - £129,999	0	0
0	0	£120,000 - £124,999	0	0
1	0	£115,000 - £119,999	2	0
2	1	£110,000 - £114,999	0	0
0	0	£105,000 - £109,999	0	0
0	0	£100,000 - £104,999	0	0
0	0	£95,000 - £99,999	1	1
1	1	£90,000 - £94,999	1	1
2	1	£85,000 - £89,999	5	1
5	2	£80,000 - £84,999	0	0
2	0	£75,000 - £79,999	5	2
8	3	£70,000 - £74,999	12	2
14	8	£65,000 - £69,999	12	11
14	9	£60,000 - £64,999	17	15
49	25	Total	56	34

Remuneration is defined as gross salary and expenses and the effect of any severance costs e.g. redundancy, termination and compromise agreements. Remuneration also excludes pension contributions.

Bandings above include the effect of senior officers shown in note 16.7.

Employers' pension contributions were paid at a rate of 23.1% of pensionable pay for staff within the Local Government Pension Scheme (23.1% for 2019/20) and 23.68% of pensionable pay for staff within the Teachers' Pension Scheme (20.7% in 2019/20).

## 16.9 Termination Benefits

The Code does not set out a precise definition of exit packages and authorities need to consider the relevant departure costs that have been recognised in the financial statements in accordance with the Code's requirements on termination benefits.

Termination benefits are defined as amounts payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Code sets out that the form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment.

Total Cost of Exit packages reflects redundancy payments, settlement agreements to terminate employment, and any strain costs associated with the agreed enhancement of post-employment pension benefits.

2019/20			Exit package Cost band	2020/21		
No. of Compulsory Redundancies agreed	No. of other departure costs agreed	Total Cost of Exit Packages in each payband £000's		No. of Compulsory Redundancies agreed	No. of other departure costs agreed	Total Cost of Exit Packages in each payband £000's
47	8	388	£0 - £20,000	29	8	203
14	1	409	£20,001 - £40,000	1	0	27
0	0	0	£40,001 - £60,000	1	3	193
2	0	129	£60,001 - £80,000	2	1	194
1	1	170	£80,001 - £100,000	0	2	169
2	0	268	£100,001 - £150,000	0	0	0
2	0	314	£150,001 - £200,000	0	0	0
68	10	1,678	Total	33	14	786

## 16.10 Events after the Balance Sheet date

Events after the Balance Sheet date are those events that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. There are two types:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts are 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.

No such unadjusting events have been identified subsequent to the balance sheet date.



## 17 STATEMENT OF ACCOUNTING POLICIES

### 17.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2020/21 financial year and its position at the year-end of 31st March 2021.

The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014 (as amended), which those Regulations require to be prepared in accordance with proper accounting practices.

These practices, under Section 21 of the Local Government Act 2003, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, 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. They are prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Unless otherwise stated the convention used in this document is to round to amounts the nearest thousand pounds. All totals are the rounded totals of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables. Throughout the Statements all credit balances are shown with parentheses e.g. (£1,234).

### 17.2 Accounting Standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard which has been issued but is yet to be adopted by the 2020/21 Code.

- **Definition of a Business: Amendments to IFRS 3 Business Combinations**
- **Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7**
- **Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

These changes are not expected to have a material impact on the Councils financial statements.

- **IFRS 16 – Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2022. The adoption of IFRS 16 will likely have a material impact to the accounts but the exact impact is not yet known.

### 17.3 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place rather than when cash payments are made or received. In particular:

- Revenue from the sale of goods or services is recognised in accordance with the terms and conditions of the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses 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 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.
- A discretionary deminimus level of £1,000 is applied to accruals of both income and expenditure with the exception of automatically system generated accruals or those required where it is necessary to ensure accuracy for grant claims or agency work.

## 17.4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on the next banking day. Cash equivalents are investments that are readily convertible on the next banking day 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.

## 17.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

## 17.6 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in this note, 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:

- The Council is deemed to control the services provided under its PFI arrangements and also to control the residual value of the assets at the end of the contract. The accounting policy for PFIs and similar contracts has been applied to these arrangements and the assets are recognised as Property, Plant and Equipment in the Council's Balance Sheet.

- Council Tax Reduction Scheme (CTRS) – a number of points are considered relevant in determining to present this item of expenditure as gross in the Cost of Services segment of the Comprehensive Income and Expenditure Statement rather than netting it off Council Tax income in the Taxation and Non-Specific Grant Income segment. The most persuasive and significant of these being that, as there is no specific reference to the proper accounting treatment of CTRS in the CIPFA Accounting Code of Practice or Guidance Notes, reliance has been placed on IPSAS 23 - Revenue from Non-Exchange Transactions (taxes and transfers). This standard is relevant to public sector bodies, and states that taxation revenue shall be determined at a gross amount; it shall not be reduced for expenses paid through the tax system.

## 17.7 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 31st March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequences if actual results differ from assumption
Revaluation of Property, plant & equipment and Investment Property	The valuations carried out for the Council by its valuers this year recognises that the Covid-19 pandemic and the measures & restrictions implemented to tackle it continue to impact economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, the valuations are not reported as being subject to 'material valuation uncertainty' as they were last year. It is recognised however that there is potential for market conditions to move rapidly in response to changes in the control or future spread of Covid-19 and the valuers therefore simply highlight the importance of the valuation date.	If the actual results differ from the assumptions the value of PPE and Investment Property will be over or understated. This would be adjusted when the assets were next revalued.
Revaluation of Property, plant & equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. The impairment tests include examination of capital expenditure incurred in the financial year to ascertain whether it has resulted in an increase in value or an impairment of an asset.	If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when the assets were next revalued.

Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. Further information is provided in note 14 concerning the risks and sensitivity of changes in the pension assets and liabilities.
Provisions	The Council has included provisions for known insurance claims as at 31st March 2021. The value of these claims is based on information provided by our Insurance brokers on the number of claims outstanding at the end of the financial year, the average settlement amount for each type of claim and the likelihood of each type of claim being settled. However the outcome of these cases is still uncertain as outstanding legal cases and negotiations remain on going.	The Authority maintains the insurance and risk management reserve to assist in the control of the Authority's insurance risks. The provisions in place and the balance on the insurance and risk management reserve at 31st March 2021 are deemed to provide sufficient cover for the Authority's claims exposure. Notes 13.7(a) & 13.7(b) provide further information on the types of claims the Authority is exposed to.
Arrears	At 31st March 2021, the Authority had an outstanding balance of short term debtors totalling £36.2m. Against this debtors balance, there is an impairment allowance of £3.2m. It is not certain that this impairment allowance would be sufficient as the Authority cannot assess with certainty which debts will be collected or not.	If collection rates were to deteriorate, there would be a consequential increase in the impairment of doubtful debts.

## 17.8 Employee Benefits

### *Benefits Payable During Employment*

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. A provision 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 provision 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 provision 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 and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Council 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' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pensions Scheme, administered by Torfaen County Borough Council

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees when they worked for the Authority and related to final salary and length of service.

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

All other staff, subject to certain qualifying criteria, are entitled to become members of the Local Government Pension Scheme which is administered by Torfaen County Borough Council. The pension costs charged to the Authority's accounts in respect of this group of employees is determined by the fund administrators and represents a fixed proportion of employees' contributions to this funded pension scheme.

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

- The Liabilities of the 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 such as mortality rates, employee turnover rates, etc., and projections of earning for current employees.

- Liabilities are discounted to their value at current prices, using a single discount rate which is derived from the spot rates on a selection of AA rated corporate bonds of various durations which match the liabilities within the Authority's pension fund. This is known as the yield curve approach.
- The assets of the Greater Gwent (Torfaen) Pension Fund attributable to the Authority are included in the balance sheet at their fair value as determined by the Fund's actuary.
- The change in the net pensions liability is analysed into seven components:
  - 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 arising from current year decisions 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 as part of Non-Distributed Costs.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Interest on plan assets – this is the interest on assets held at the start of the period and cashflows occurring during the period, calculated using the discount rate at the start of the year.
  - Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
  - Gains or losses on remeasurement – changes in the net pensions liability (Liabilities less assets) 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.
  - Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the Council Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the 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 are earned by employees.

Further details are given in section 14 of the notes to the Financial Statements.

### **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.

## **17.9 Events After the Balance Sheet Date**

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.

## **17.10 Exceptional Items**

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

## **17.11 Financial Instruments**

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

### ***Financial Liabilities***

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

### ***Financial Assets***

Financial assets are held as amortised cost where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows. This is the majority of our treasury investments such as term deposits, certificate's of deposit and call accounts and also trade debtors for goods and services provided contractually and also lease receivables. This excludes council tax debtors and grants receivable as they are non-exchange transactions.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council. For most assets, this is 12 month expected credit losses until the risk increases significantly, then it is lifetime expected losses. For trade debtors expected lifetime losses are always used.

Financial assets are held at fair value through other comprehensive income where cashflows are solely payments of principal and interest and it is the Council's business model to collect these cashflows and sell the instruments before maturity. The authority does not hold any such investments. The standard also allows the authority to elect to account for equity investments through other comprehensive income if they are being held for strategic investment purposes.

All other financial assets are held at fair value through Profit & Loss.

## **17.12 Government Grants and Contributions**



Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when 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 Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Council Fund Balance 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.

## **17.13 Heritage Assets**

Heritage assets are assets that are held by the authority principally for their contribution to knowledge or culture.

Heritage assets were previously shown in community assets but are now recorded in a separate category on the balance sheet as a non-current asset class. The Authority does not classify any operational assets as heritage assets.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and as a result the Authority has chosen not to value heritage assets if the cost is deemed to be excessive.

A further condition for expenditure to be capitalised is that it exceeds the relevant de minimus limit in place. A de-minimus limit has been put in place of £10,000 for heritage assets.

The Authority considers that the heritage assets held by the Authority will have indeterminate lives and a high residual value, hence the Authority does not consider it appropriate to charge depreciation for the assets.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, for example where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. The trustees of the Authority's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

## **17.14 Intangible Assets**



Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority for more than one financial year.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £10,000, the Capital Receipts Reserve.

## **17.15 Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the latest price paid, with an allowance made for obsolescent and slow moving items. This is a departure from the requirements of the Code which require inventories to be shown at the lower of actual cost and net realisable value. However, the amounts concerned are not considered material.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## **17.16 Investment Property**

Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end.

Revaluation gains and losses are recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement. However, regulations do not permit unrealised gains and losses to impact the General Fund balance. Therefore, gains and losses are reversed via the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Net rental income together with any revaluation gains and losses or impairments are recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

## **17.17 Fair value measurement**

The Council measures its assets held for sale, surplus assets, investment properties and available-for-sale financial instrument at fair value at each reporting date. Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Measurement will be at highest and best use from the perspective of a market participant. The fair value of an investment property held under a lease is the lease interest.

It is assumed that any fair value measurement of an asset or liability uses the same assumptions that market participants acting in their economic best interest would use and that the transaction takes place in the principal market or failing that in the most advantageous market for the asset or liability.

Appropriate valuation techniques are used for which sufficient data is available. Inputs to the techniques are categorised within the fair value hierarchy that consists of three levels as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Council at the measurement date
- Level 2 inputs are quoted prices other than quoted prices within Level 1 that are observable either directly or indirectly
- Level 3 inputs are unobservable inputs for an asset or liability.

The use of relevant observable inputs is maximised and the use of unobservable inputs is minimised.

Any transfers between valuation levels will take place at the valuation date at the end of the reporting period.

## **17.18 Interests in companies and other entities**

The Council has a number of interests in other entities which fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code.

In respect of the Cardiff Capital Region City Deal (CCRCDD), the Authority has included its share of income, expenditure, assets, liabilities, reserves and cash flows relating to the arrangement within the single entity accounting statements and disclosures.

However the Council's remaining interests in other entities, in aggregate, are not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. For this reason, group accounts are not deemed necessary for these entities within these statements. In order to ensure compliance with the Code, a range of narrative disclosures have been made in other sections of the accounts (See note 16.6 for further information).

## **17.19 Leases**

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

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

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

### ***The Authority as Lessee - Finance Leases***

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Assets of less than £10,000 Current value, the de minimus for capitalisation of Fixed assets, will not be treated as Finance leases.

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).
- A revenue provision (MRP) equal to the principal repayments made, taken to the Capital Adjustment Account via the Movement in Reserves Statement.

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

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

### *The Authority as Lessee - Operating Leases*

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting 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 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. Again, 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), 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 Council 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.

### *The Authority as Lessor - Operating Leases*

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Where material, initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **17.20 Overheads and Support Services**

The costs of overheads and support services are no longer charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Code of Practice. The Statement of Accounts are now presented in the same way as the management reporting structure of the Council, so overheads are now reported in the budget areas where they are managed.

## **17.21 Property, Plant and Equipment**

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

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.

It is not a requirement for expenditure outside of the capital programme to be capitalised if it does not exceed the de minimus limit of £10,000 for all asset categories.

### *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.

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- All other operational assets – Current value based on existing use value (EUV) for operational assets where there is an active market, or if there is no market-based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold ( i.e. EUV cannot be determined), depreciated replacement cost (DRC) using the 'instant build' approach.
- Non-operational assets – Fair value based on 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.

Adopted roads built by developers are in many respects seen as donated assets. Whilst donated assets are required to be measured at fair value at recognition, infrastructure assets are measured initially at historical cost and subsequently at depreciated historical cost rather than fair value. The authority have taken the view that the historical cost of such adopted roads is zero.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value. Vehicles, plant and equipment are categories of asset treated in this manner.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

### **Impairment**

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

### Depreciation

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

Depreciation is calculated on the following bases:

- **Dwellings and other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer
- **Vehicles, plant, furniture and equipment** – straight-line allocation over the life of the asset as advised by a suitable qualified officer
- **Infrastructure:**
  - Carriageways** – Straight Line over 27 years
  - Street Lighting** – Straight Line over 20 years
  - Principal Rights of Way** – Straight Line over 15 years
  - Green Infrastructure** – Straight Line over 20 years
  - Bridges & Major Retaining Walls** – Straight Line over 30 years
  - Abergavenny & Caldicot Town Centre** – Straight Line over 20 years
  - Flood Alleviation & Land Slip** – Assessed on a case by case basis.

Useful lives of Infrastructure assets are reviewed annually.

No depreciation is charged in the year of acquisition with a full year charge applied in the disposal year.

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.

### Components

An asset may consist of several different and significant physical components. If an item of property, plant and equipment comprises two or more significant components with substantially different useful lives, then each component is treated separately for depreciation purposes and depreciated over its individual useful life.

When a component is replaced or restored, the old component is written off to avoid double counting and the new component capitalised. Where a component does not have its own carrying amount because it has not previously been accounted for separately the cost of the new component is used as an indication of the cost of the replaced part. A component is derecognised where no future economic benefits are expected from its use.

The Authority has established thresholds for the separation of significant components. As a result components of an item of property, plant or equipment that make up a significant part of the cost of the item would only need to be separated where the item itself is material individually or when aggregated with like items.

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



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

Assets held for Sale Assets are assets where the:

- asset is immediately available for sale
- sale is highly probable
- asset is actively marketed
- sale is expected to be completed within 12 months

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously 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. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Council Fund Balance in the Movement in Reserves Statement.

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

## **17.22 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

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

## **17.23 Private Finance Initiative (PFI) and Similar Contracts**

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

## **17.24 Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

### **Contingent Liabilities**



A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

### **Contingent Assets**

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **17.25 Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Council Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the Council Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

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

Legislation requires defined items of revenue expenditure charged to services within the Comprehensive Income and Expenditure Statement to be treated as capital expenditure. All such expenditure is transferred from the General Fund balance via the Movement in Reserves Statement to the Capital Adjustment Account.

## **17.27 VAT**

The Comprehensive Income and Expenditure Account excludes amounts relating to VAT and will be included as an expense only if it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income within the Council's Income and Expenditure account.

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## Audit of Accounts Report – Monmouthshire County Council

Audit year: 2020-21

Date issued: October 2021

Document reference: 2652A2021-22

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

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@audit.wales](mailto:infoofficer@audit.wales).

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

# Contents

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

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2020-21 Statement of Accounts in this report.
- 2 We have already discussed these issues with the Finance Manager for Central Accountancy and the Acting Section 151 Officer.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £3.15 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
  - Senior officer remuneration: £1,000
  - Related party transactions (for individuals): £5,000
- 6 We have now substantially completed this year's audit, although at the time of issue of this report some work remained outstanding. We do not expect any outstanding work to affect the financial statements, but we will provide a further verbal update to the Governance and Audit Committee when presenting this report.
- 7 In our professional view, we have complied with the ethical standards that apply to our work. We remain independent of yourselves and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this year's audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the ongoing challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit.
- 9 The pandemic continues to affect our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

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

<b>Timetable</b>	<p>Given the continuing impact of COVID-19, the Welsh Government provided flexibility in terms of both the accounts preparation deadlines and the audit deadlines:</p> <ul style="list-style-type: none"><li>• The timescale for completing your accounts was revised by the Welsh Government from 31 May 2021 to 31 August 2021.</li><li>• We received the approved draft accounts on 21 July 2021.</li><li>• Our deadline for completing our audit was extended by the Welsh Government from 31 July to 30 November 2021.</li><li>• We expect your audit report to be signed on 5 November 2021.</li></ul> <p>As stated previously, officers should be commended for the timely completion of the draft financial statements.</p>
<b>Electronic signatures</b>	<p>Given ongoing Welsh Government guidance to work from home where possible, we will continue to use electronic signatures to certify the final Statement of Accounts. We will liaise with management to arrange this.</p>
<b>Audit evidence</b>	<p>Due to social distancing measures, Audit Wales staff are currently working remotely from home. As a result, we have not had direct access to certain systems such as the Council's financial ledger, associated systems and shared drives. We normally use this access to directly review financial records and obtain invoices where possible.</p> <p>Consequently, we have had to request all such information and working papers from Council staff for the 2020-21 audit, although all information requested has been provided to us.</p>

- 10 We will continue to review what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt to enhance that process.

## Proposed audit opinion

- 11 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 14 Our proposed audit report is set out in **Appendix 2**.

## Significant issues arising from the audit

### Uncorrected misstatements

- 15 We set out below the misstatements we identified in the accounts, which have been discussed with management but remain uncorrected. We request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons in writing for not correcting them.

#### **Overstatement of year-end creditors (£973,000)**

Our testing of year-end creditors identified 4 out of 25 sampled transactions where services were incorrectly accrued for in the 2020-21 accounts, despite not being delivered to the Council until 2021-22. The errors all arose as part of year-end accounts closedown and related specifically to capital items.

The errors identified in our testing are below our materiality threshold. We have performed further audit procedures to provide assurance that there is no likely material misstatement arising in the remaining creditors population and are satisfied that this is the case.

Given the tight timescale in place to approve the final accounts and the immaterial value of the amendments required, the Council has informed us that they do not wish to correct these items. Furthermore, the corrections required for three of the four transactions would result in reclassification of the balances into other creditor types, meaning that the total creditor balance would be unaffected by their correction.

#### **Overstatement of 2020-21 income (£191,000)**

During the audit, management notified us that revenue due relating to prior periods from a tenant of Castlegate Business Park had been incorrectly recorded as revenue in 2020-21, as opposed to offsetting a debtor that had been established in a prior accounting period. This had the effect of overstating income and debtors in the year by £191,000.

Given the tight timescale in place to approve the final accounts and the immaterial value of the amendments required, the Council has informed us that they do not wish to correct this item.



## Corrected misstatements

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

## Other significant issues arising from the audit

- 17 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you, such as:
- concerns about the qualitative aspects of accounting practices and financial reporting;
  - any significant difficulties during the audit;
  - significant matters discussed and corresponded upon with management which we need to report to those charged with governance;
  - Any other matters significant to the oversight of the financial reporting process that we need to report;
  - Any identified material weaknesses in internal controls; and
  - Any other matters specifically required by auditing standards to be communicated to those charged with governance.
- 18 There are no such matters to report to you for your consideration from this year's audit.

## Recommendations

- 19 One recommendation arising from our audit is set out in **Appendix 4**. Management has responded to it and we will follow up progress against it during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

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

4 November 2021

## Representations regarding the 2020-21 financial statements

This letter is provided in connection with your audit of the financial statements of Monmouthshire County Council for the year ended 31 March 2021 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020-21; in particular, the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

## Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Monmouthshire County Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

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

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

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

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

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

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

### **Overstatement of year-end creditors (£973,000)**

The 2020-21 financial year end process corresponded with many unbudgeted grants being notified and received during a short period in March 2021. As a result, finance teams were managing many conflicting demands on staff resources and consequently they were required to use greater estimation and judgement in carrying out many year-end calculations. This included basing their calculations on the information provided to them by budget holders and external suppliers who in many instances were under similar pressure given the ongoing COVID-19 pandemic impact. As a result, assurances received by the finance teams of the timings of goods/services received proved to be inaccurate upon further investigation.

For future closure periods, where material accruals are being calculated finance teams will look to obtain additional evidence to support the information put forward by budget holders and external suppliers.

### **Overstatement of 2020-21 income (£191,000)**

It is fully accepted that despite staff turnover in the financial management of this area, that the established systems and procedures in place should have proved adequate to maintain the robust and accurate recording of income.

A review of the procedures in place for recording of this rental income stream, along with a review of the sections business continuity arrangements will be carried out fully prior to the next closure period as to ensure that this remains an isolated error.

## **Representations by Monmouthshire County Council**

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Monmouthshire County Council on 4 November 2021.

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

#### **Signed by:**

Paul Matthews  
Chief Executive

#### **Signed by:**

Cllr. Richard John  
Leader, Monmouthshire County Council

Date: 4 November 2021

Date: 4 November 2021

# Appendix 2

## Proposed Audit Report

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

#### Opinion on financial statements

I have audited the financial statements of Monmouthshire County Council for the year ended 31 March 2021 under the Public Audit (Wales) Act 2004.

Monmouthshire County 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.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

In my opinion the financial statements:

- give a true and fair view of the financial position of Monmouthshire County Council as at 31 March 2021 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

## **Other Information**

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

## **Report on other requirements**

### **Opinion on other matters**

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

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

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

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

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

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

## 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, the Council's Chief Internal Auditor and those charged with governance, including obtaining and reviewing supporting documentation relating to the Council's policies and procedures concerned with:

- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud.
  - Obtaining an understanding of the Council's framework of authority as well as other legal and regulatory frameworks that the Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Council;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Council's controls, and the nature, timing and extent of the audit procedures performed.

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.



## **Certificate of completion of audit**

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

**Adrian Crompton**  
**Auditor General for Wales**  
**5 November 2021**

**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

# Appendix 3

## Summary of Corrections Made

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

There are no corrections which affect the Council's General Fund balance. The two tables below set out:

- corrections to the financial statements which have no effect on the Council's General Fund; and
- corrections to disclosure notes or other presentational items in the accounts.

### Exhibit 2: financial statement corrections that do not affect the General Fund

Area of correction	Nature of correction	Reason for correction
<b>Balance Sheet:</b> classification of cash and debtors	To ensure that cash and debtor balances are accurately presented.	Our audit identified that an adjustment made to correct for late cash receipts in March 2021 had been incorrectly entered into the ledger, omitting one bank account. £572,000 had been received into this account late in March 2021, meaning that cash needed to be increased (and debtors decreased) by this amount. This has now been corrected in the final accounts.
<b>Note 12.1 (Property, Plant and Equipment):</b> Valuation of one land and building asset and assets held for sale (AHFS).	To ensure that asset revaluations are correctly recorded in line with the CIPFA Code.	Our audit identified that: <ul style="list-style-type: none"><li>• the valuation of one 'other land and buildings' asset had not been completed in time for inclusion in the draft accounts. The valuation (once complete) resulted in a reduction in value of £2.2 million.</li><li>• the revaluation of new AHFS in the year had been incorrectly treated in the draft accounts, with the valuation impact (a net revaluation gain of £641,000) recorded after transfer within Note 12.6, as opposed to before transfer within Note 12.1.</li></ul> These revaluation impacts have now been correctly recorded within the final accounts.
<b>Note 12.5 (Investment Properties):</b>	To ensure that assets are correctly valued	The CIPFA Code requires that investment properties are revalued annually. During the audit we were informed that four asset valuations were not completed

Overstatement of asset valuations.	in line with the CIPFA Code.	in time for inclusion in the draft accounts. The impact of these valuations reduces the overall carrying value of investment properties by £464,000. These valuations have now been appropriately recorded within the final accounts.
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### Exhibit 3: corrections relating to presentational/disclosure matters only

Area of correction	Nature of correction	Reason for correction
<b>Note 11.2 (Income and Expenditure Analysed by Nature):</b> Treatment of various elements of grant income.	To ensure that the note accurately reflects the nature of income and expenditure incurred by the Council in the year.	Our audit identified that: <ul style="list-style-type: none"> <li>COVID-19 Hardship Grant funding of £21.3 million had been incorrectly classified within 'fees, charges and other service income' (FCOSI) rather than 'external grants and contributions'.</li> <li>Bus Services Support Grant funding of £27.3 million (received by the Council but passed on to other bodies) has been removed from FCOSI rather than 'external grants and contributions'.</li> </ul> The above matters have now been corrected, the net effect of which is to increase FCOSI and reduce 'external grants and contributions' by £6.0 million.
<b>Note 12.5 (Investment Properties):</b> Inclusion of Cardiff Capital Region City Deal (CCRCD) properties.	To ensure that the note correctly includes CCRCD balances.	Our audit identified that investment properties in this disclosure note were recorded at £1.8 million below the total included in the Balance Sheet. The difference related to CCRCD investment properties which had been omitted from the disclosure note. This amount has now been included in the final disclosure note, correctly classified as 'Level 3-Significant Unobservable Inputs').
<b>Note 12.8 (Capital Expenditure and Capital Financing):</b> Correction to value of 'revenue expenditure funded from capital under statute'.	To ensure that 'revenue expenditure funded from capital under statute' is consistently disclosed.	Our audit identified that the various disclosures for 'revenue expenditure funded from capital under statute' were inconsistent throughout the accounts. We confirmed that the correct values should be: <ul style="list-style-type: none"> <li>Note 10.2 and 10.8: £1.5 million;</li> <li>Note 11.6: £1.3 million;</li> <li>Note 12.8: £2.9 million;</li> </ul> Disclosures in the final accounts are now consistent.

<b>Note 12.9 (Capital Commitments):</b> Understatement of commitment totals.	To ensure that this disclosure note is complete.	Our audit identified that two capital commitments with a total value of £1.1 million had not been disclosed within the draft accounts. These commitments have now been included within the final accounts disclosure.
<b>Note 12.12 (Leases – Authority as Lessee):</b> Understatement of commitments.	To ensure that all commitments are accurately disclosed.	Our audit identified that an error within the working paper behind this disclosure note resulted in an understatement of lease commitments of £308,000. This has now been corrected within the final accounts disclosure.
<b>Note 13.1 (Financial Instruments):</b> Classification of long and short-term borrowings.	To ensure that borrowings are correctly classified in line with the CIPFA Code.	Our audit identified that £183.5 million of borrowings was inconsistently classified throughout Notes 13.1 and 13.4, with neither amount agreeing to the carrying value in the Balance Sheet. In all above disclosure notes in the final accounts, amounts have now been corrected to: <ul style="list-style-type: none"> <li>Long-term borrowings: £98.6 million</li> <li>Short-term borrowings: £84.9 million</li> <li>Total borrowings: £183.5 million</li> </ul>
<b>Note 16.4 (Related Parties):</b> Corrections to disclosures.	To ensure that related party disclosures are complete and accurate.	Our audit identified that: <ul style="list-style-type: none"> <li>the disclosures for Members (the value of interests and the number of Members involved) were incorrect; and</li> <li>figures for Dragon Waste Ltd. were all entered as 'TBC' in the draft accounts, due to delays in receiving the company's draft 2020-21 accounts.</li> </ul> These details have now been corrected in the final disclosure note.
<b>Note 16.7 and 16.8 (Senior Officer Remuneration and Emoluments):</b> Corrections to disclosures.	To ensure that this disclosure note is presented in line with the requirements of the Accounts & Audit Regulations (Wales) 2014.	Our audit identified: <ul style="list-style-type: none"> <li>Within Note 16.7, an offsetting correction of £5,367 between 'salary' and 'pension contributions' was required for the Chief Officer for Enterprise.</li> <li>Within Note 16.8, one employee was incorrectly banded within '£80,000 - £84,999', rather than '£85,000 - £89,999'.</li> </ul>

<p><b>Note 11.4 (Agency Income and Expenditure):</b> Disclosure of agency transactions and balances.</p>	<p>To ensure that agency transactions and balances are disclosed in line with the CIPFA Code.</p>	<p>Our audit identified that the draft accounts included no disclosure of agency transactions and balances (i.e. amounts which the Council received and paid on behalf of others, with no discretion over the transactions themselves). The CIPFA Code requires material agency transactions and balances to be disclosed, and the Council received material amounts of funding for COVID-19 related activity in 2020-21. A further disclosure note to record this activity has now been included in the final accounts, and we are satisfied that the disclosures meet the requirements of the CIPFA Code.</p>
<p><b>Various:</b> Other presentational changes to supporting notes.</p>	<p>To ensure that all disclosures are accurately presented.</p>	<p>A number of other narrative, presentational and minor amendments were made to supporting notes throughout the final accounts.</p>

# Appendix 4

## Recommendations

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

### Exhibit 4: matter arising 1

Matter arising 1 – review of capital expenditure	
<b>Findings</b>	<p>Our cut-off testing identified an item of capital expenditure (£102,000) that was not accrued for in the 2020-21 accounts, despite the works involved being delivered within the financial year.</p> <p>The Finance Manager for Central Accountancy informs us that while there is a process in place for identifying year-end capital accruals, the service area involved in this case (Children and Young People) relies heavily on support from the central finance team when completing capital year-end procedures, as the schemes involved are invariably complex in nature. As a result of the resourcing issues within the central finance team during the accounts closure period there was a shortage of support provided in this instance.</p> <p>The amount involved here is below our trivial threshold, and so has not been corrected in the final accounts. We have also performed additional audit procedures to provide assurance that there is no potential material cut-off error remaining due to similar issues and are satisfied that this is the case.</p>
<b>Priority</b>	Medium
<b>Recommendation</b>	We recommend that the Council review its close-down procedures and looks to ensure adequate central finance support for the Children and Young people service area to identify future capital accruals.
<b>Benefits of implementing the recommendation</b>	This should reduce the risk of future capital accruals not being accounted for in the correct accounting period.
<b>Accepted in full by management</b>	Agreed.

<b>Management response</b>	Finance resources were severely restricted during the closure period and in prioritising higher risk areas it is fully accepted that the central finance support provided to the CYP directorate fell short in this lower risk area. Closure procedures will be reviewed with a view to ensuring adequate central finance support is planned for future closure periods.
<b>Implementation date</b>	2021-22 financial year-end.



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.





## REPORT

**SUBJECT:** TREASURY OUTTURN REPORT 2020/21  
**MEETING:** Governance & Audit Committee  
**DATE:** 3<sup>rd</sup> November 2021  
**DIVISIONS/WARD AFFECTED:** All

### 1. **PURPOSE:**

- 1.1. During 2020/21, the Council's treasury management activity was underpinned by CIPFA's Code of Practice on Treasury Management 2011 ("the Code"), which required local authorities to annually produce Prudential Indicators and a Treasury Management Strategy Statement on their likely financing and investment activity. The Code also recommended that members are informed of treasury management activities at least twice a year. The S151 Officer reports twice a year (mid-year report and this year-end report) on Treasury activity to the Governance & Audit Committee who provide scrutiny of treasury policy, strategy and activity on behalf of the Council.

### 2. **RECOMMENDATIONS:**

- 2.1. That Governance & Audit Committee note the results of treasury management activities and the performance achieved in 2020/21 as part of their delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of the Council.

### 3. **SUMMARY OF ISSUES:**

- 3.1. In respect of external influences, the COVID-19 pandemic dominated 2020/21 and was the driving influence behind economic conditions experienced during the year. Alongside this, and for the first three quarters of the year Brexit negotiations continued to add to the uncertainty experienced in the UK economy, with a trade deal only being agreed in December 2020.
- 3.2. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting.
- 3.3. Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants for various sectors continued during the year with the Authority itself benefiting from £20m of grant funding from the Welsh Governments Local Government Hardship Fund whilst also passporting more than £41m to other businesses and individuals in the County.
- 3.4. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

- 3.5. In a local context the treasury strategy of the Authority remained as keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce counterparty risk and keep interest costs low.
- 3.6. At the 31<sup>st</sup> March 2021 the Authority had a borrowing Capital Financing Requirement (CFR) of £186.8m and gross external borrowing of 182.8m. Borrowing has reduced year-on-year by £4.1m which primarily relates to the temporary high borrowing balance at the previous year end due to the pandemic outbreak alongside the delay in expending budgeted capital expenditure during the year.
- 3.7. In year, the Authority's total treasury investments increased by £11.4m to £39m primarily due to higher temporary year end balances relating to the receipt of large amounts of grant towards the end of March 2021. The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive).
- 3.8. £3m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return 15.72%, comprising a 4.59% income return which is used to support services in year, and 11.13% of unrealised capital loss. It is important to note that the high capital return during the year merely represents the recovery of the funds capital losses following the severe depressions in their value at the end of March 2020 due to the pandemic outbreak. These capital gains therefore reverse the unrealised prior year losses which were held on the Authorities balance sheet.
- 3.9. As shown in section 11 the Authority achieved a saving of £236,000 against net treasury budgets of £3.75m primarily due to lower overall borrowing costs than budgeted as rates remained at extremely low levels during the year.
- 3.10. As reported in sections 12 and 13, the Authority complied with the Cipfa code of practice on treasury management and the approved 2020/21 Treasury management strategy, during the year.
- 3.11. The ongoing COVID-19 pandemic will continue to have a significant financial impact on the Authority and consequently its treasury management activity during the 2021/22 financial year. At the time of writing it is felt that the existing Treasury Strategy approved for the 2021/22 financial year provides the required flexibility both in terms of investment and borrowing approach to respond the challenges faced. The mid-year treasury report for 2021/22 will give a further update on the dynamic situation.

### **Impact of the Covid-19 pandemic on treasury activities**

- 3.12. Since the outbreak of the pandemic the Council has needed to monitor the impact on cash flow closely. Throughout 2020/21 the Authority received significant amounts of Welsh Government funding to support small and medium businesses during the pandemic through grant schemes. £41m was received throughout the financial year and temporarily invested in short-dated, liquid instruments and invested with other Local Authorities. In addition to the business grants, the Council has seen an increase in Covid related expenditure, a reduction in income across services, and a decrease in the collection of Council Tax and Non-Domestic Rates (NDR) and the Council has also implemented the NDR Relief Scheme for retail, leisure and hospitality businesses who received 100% relief.
- 3.13. All of the above has had a significant impact on cash flow, however aside from the beginning of the year when temporary additional short-term borrowing was required, Welsh Government have mitigated the impact by reimbursing increased expenditure and income losses through the Hardship fund. Welsh Government have also reimbursed the business grants in a timely manner, and front-loaded a significant portion of the Revenue Support Grant payments to the Council in April 2020, as well as providing a grant to support the cash flow of the 100% rate reliefs. In addition slippage on the capital

programme and a net revenue underspend during the year also assisted with cash flow and delayed the need to borrow longer term within 2020/21.

#### 4. **INTRODUCTION**

- 4.1. The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 4.2. The Authority's treasury management strategy for 2020/21 was approved by Council on 5th March 2020. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the risk of loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 4.3. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 4.4. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by Council on 19<sup>th</sup> September 2019 and has subsequently been updated and approved by Council on 11th March 2021.

#### 5. **External Context**

- 5.1. **Economic background (as at 31<sup>st</sup> March 2021):** The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.
- 5.2. Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31<sup>st</sup> March.
- 5.3. A Brexit trade deal was agreed with only days to spare before the 11pm 31<sup>st</sup> December 2020 deadline having been agreed with the European Union on Christmas Eve.
- 5.4. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

- 5.5. Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have helped protect more than 11 million jobs.
- 5.6. Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.
- 5.7. Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).
- 5.8. After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.
- 5.9. After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over \$5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46<sup>th</sup> US president after defeating Donald Trump.
- 5.10. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.
- 5.11. **Financial markets:** Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.
- 5.12. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.
- 5.13. The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.
- 5.14. 1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.
- 5.15. The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of

period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

- 5.16. German bund yields continue to remain negative across most maturities.
- 5.17. **Credit review:** After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.
- 5.18. Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.
- 5.19. The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

## 6. LOCAL CONTEXT

- 6.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

**Table 1: Balance Sheet Summary**

	31.3.20 Actual £m	Movement Actual £m	31.3.21 Actual £m
General Fund CFR	189.5	(0.2)	189.2
Less: *Other debt liabilities	(2.4)	(0.0)	(2.4)
<b>Borrowing CFR</b>	<b>187.0</b>	<b>(0.2)</b>	<b>186.8</b>
External borrowing	(186.9)	4.1	(182.8)
<b>Internal borrowing</b>	<b>0.1</b>	<b>3.9</b>	<b>4.1</b>
Less: Usable reserves	(18.5)	(10.0)	(28.5)
Less: Working capital	(9.3)	(5.3)	(14.6)
<b>(Net Investments) at 31<sup>st</sup> March 2021</b>	<b>(27.6)</b>	<b>(11.4)</b>	<b>(39.0)</b>

\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

- 6.2. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce counterparty risk and keep interest costs

low. Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing.

6.3. The treasury management position at 31<sup>st</sup> March 2021 and the change during the year is shown in Table 2 below.

**Table 2: Treasury Management Summary**

	<b>31.3.20 Balance £m</b>	<b>31.3.20 Rate %</b>	<b>Movement £m</b>	<b>31.3.21 Balance £m</b>	<b>31.3.21 Rate %</b>
Long-term borrowing	93.2	3.5	(7.6)	85.5	3.6
Short-term borrowing	93.7	1.0	3.5	97.2	0.3
<b>Total borrowing</b>	<b>186.9</b>	<b>2.2</b>	<b>(4.1)</b>	<b>182.8</b>	<b>1.9</b>
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(3.0)	0.5	(17.0)	(20.0)	0.03
Pooled Funds	(2.7)	4.3	(0.3)	(3.0)	4.59
Cash and cash equivalents	(21.9)	Included in ST above	5.9	(16.0)	0.1
<b>Total investments</b>	<b>(27.6)</b>	<b>0.9</b>	<b>(11.4)</b>	<b>(39.0)</b>	<b>0.4</b>
<b>Net Borrowing</b>	<b>159.3</b>		<b>(15.5)</b>	<b>143.8</b>	

6.4. The balance of short term investments at the 31<sup>st</sup> March 2021 was significantly higher than the previous year end reflecting the fact that at 31<sup>st</sup> March 2020 the majority of cash balances were being held in very liquid instruments (Cash & cash equivalents) as a direct result of the uncertainty created by the outbreak of the pandemic. At 31<sup>st</sup> March 2021 treasury circumstances had returned to a comparatively more stable footing and consequently cash balances were being held in investments that reflected the future expected cash flow requirements of the Authority.

## **7. BORROWING UPDATE**

- 7.1. In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.
- 7.2. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.
- 7.3. Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

- 7.4. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate if considered cost effective.
- 7.5. *Municipal Bonds Agency (MBA)*: The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates.
- 7.6. If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.
- 7.7. *UK Infrastructure Bank*: In his March 2021 budget the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However other “high value and complex economic infrastructure projects” may also be considered.

## 8. **BORROWING STRATEGY**

- 8.1. At 31<sup>st</sup> March 2021 the Authority held £182.8m of loans, a decrease of £4.1m from 31<sup>st</sup> March 2020, as part of its strategy for funding previous and current years’ capital programmes. Outstanding loans on 31<sup>st</sup> March are summarised in Table 3 below.

**Table 3: Borrowing Position**

	31.3.20 Balance	31.3.20 Weighted Average	31.3.20 Weighted Average	Balance movement	31.3.21 Balance	31.3.21 Weighted Average	31.3.21 Weighted Average
	£m	Rate %	Maturity (years)	£m	£m	Rate %	Maturity (years)
Public Works Loan Board	89.1	3.2	15.5	(14.9)	74.2	3.5	17.4
Banks (LOBO)	13.6	4.8	21.8	0.0	13.6	4.8	20.8
Welsh Gov Interest Free	5.2	0.0	4.2	(0.2)	5.1	0.0	3.4
Local authorities/Other	78.9	0.9	0.3	11.0	89.9	0.1	0.2
<b>Total borrowing</b>	<b>186.9</b>	<b>2.2</b>	<b>9.2</b>	<b>(4.1)</b>	<b>182.8</b>	<b>1.9</b>	<b>8.8</b>

- 8.2. The Authority’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective.
- 8.3. With short-term interest rates remaining much lower than long-term rates, the Authority considered it more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term

loans instead where possible. The net movement in temporary / short-term loans is shown in table 3 above.

- 8.4. The Authority has slipped forward £27m of its capital expenditure plans financed from borrowing due to delays in the 2020/21 capital programme which has subsequently resulted in a temporary lower funding requirement and is the primary reason for the overall reduction in borrowing year-on-year.
- 8.5. The Authority over the medium term has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided not to enter into any medium to longer term borrowing during the financial year.
- 8.6. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and longer-term borrowing was maintained.
- 8.7. PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.
- 8.8. **LOBO loans:** The Authority continues to hold £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

## 9. TREASURY INVESTMENT ACTIVITY

- 9.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £10m and £69m due to timing differences between income and expenditure. The investment position at year end is shown in table 4 below.

**Table 4: Treasury Investment Position**

	31.3.20 Balance £m	Net Movement £m	31.3.21 Balance £m	31.3.21 Income Return %	31.3.21 Weighted Average Maturity days
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	Average 0.13%	Up to 180 days
Government (incl. local authorities)	(10.9)	(9.1)	(20.0)		
Money Market Funds	(12.0)	(2.0)	(14.0)		
Multi asset income, Pooled funds	(2.7)	(0.3)	(3.0)	4.59%	N/A
<b>Total investments</b>	<b>(27.6)</b>	<b>(11.4)</b>	<b>(39.0)</b>		



- 9.2. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 9.3. Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.
- 9.4. Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.
- 9.5. The net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns.
- 9.6. Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has continued to diversify into more secure and/or higher yielding asset classes as shown in table 5 above. Consequently investment risk has continued to be diversified but the average income return has deteriorated year-on-year reflecting a falling interest rate environment.
- 9.7. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

**Table 5: Investment Benchmarking – Treasury investments managed in-house**

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return</b>
					<b>%</b>
31.03.2020	AA-	4.01	64%	2	0.44
31.03.2021	AA-	4.26	44%	11	0.00
<b>Similar LAs</b>	AA-	4.12	34%	70	0.1
<b>All LAs</b>	A+	4.63	63%	14	0.15

- 9.8. £3m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of 15.72%, comprising a 4.59% income return which is used to support services in year, and 11.13% of unrealised capital gain.
- 9.9. During the initial phase of the pandemic in March 2020, the sharp falls corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with most funds registering negative capital returns over a 12 month period. Since March 2020 there has been improvement in market sentiment which is reflected in an increase in capital values of these short-dated, strategic bond, equity and multi-asset income funds in the Authority's portfolio. It is important to note that these capital gains therefore reverse unrealised prior year capital losses which were held on the Authorities balance sheet.

- 9.10. Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities' Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.
- 9.11. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.
- 9.12. Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the Authority had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020/21, as rates on cash investments are close to zero percent. Income from most of the Authority's externally managed funds were also expected be lower than in 2019/20 and earlier years. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities. However despite these factors it was pleasing to note that when comparing 2021/22 to 2020/21, the Council received 0.30% more by way of income distribution on its portfolio of £3m.

## 10. **NON-TREASURY INVESTMENTS**

- 10.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 10.2. The Authority held a book value of £30.6m of such non-financial asset investments at the 31<sup>st</sup> March 2021 (£31.0m as at 31<sup>st</sup> March 2020) made up of:
- Oak Grove Solar Farm £5.1m NBV
  - Castlegate Business Park & service loan £7.5m NBV
  - Newport Leisure Park & service loan £18.0m NBV
- 10.3. The rest of the Authority's Investment Properties have been held for over a decade and are retained purely for income or capital gain :
- Agricultural Properties £29.8m NBV
  - Industrial Properties and Retail Units £3.2m NBV
- 10.4. Returns on the Newport leisure park investment were severely impacted by the COVID-19 restrictions in place and consequently the Authority looked to legitimately recover the income losses it suffered from the Welsh Government Local Government hardship fund. The remaining investments were largely unaffected by the restrictions in place. Overall, non-treasury investments continued to generate approximately £1.7m of investment income for the Authority after taking account of direct costs and contributes to supporting the Authority's ongoing revenue budget.

## 11. TREASURY PERFORMANCE

11.1. The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in the table below:

**Table 6: Performance**

<b>Interest Payable</b>	<b>Actual £'000</b>	<b>Budget £'000</b>	<b>Over/ (under)</b>
PWLB	2,717	2,849	(132)
Market loans	651	653	(2)
Short term loans	355	504	(149)
<b>Total Interest payable on borrowing</b>	<b>3,723</b>	<b>4,006</b>	<b>(282)</b>
<b>Interest Receivable</b>	<b>Actual £'000</b>	<b>Budget £'000</b>	<b>Over/ (under)</b>
Invested cash short term	(18)	(252)	234
Pooled Funds	(124)	Included above	(124)
Finance lease income	(64)	Included above	(64)
<b>Total income from Investments</b>	<b>(206)</b>	<b>(252)</b>	<b>46</b>
<b>Net Over/(Under)spend</b>	<b>3,518</b>	<b>3,754</b>	<b>(236)</b>

## 12. COMPLIANCE

12.1. The Section 151 officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in tables below.

12.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below:

**Table 7: Debt Limits**

	<b>2020/21 Maximum during year £m</b>	<b>31.3.21 Actual £m</b>	<b>2020/21 Operational Boundary £m</b>	<b>2020/21 Authorised Limit £m</b>	<b>Complied? Yes/No</b>
Borrowing	195.8	182.8	210.8	230.0	Yes
PFI, Finance Leases & Other LT liabs	2.4	2.4	3.9	5.4	Yes
<b>Total debt</b>	<b>198.2</b>	<b>185.2</b>	<b>214.7</b>	<b>235.4</b>	<b>Yes</b>

12.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

**Table 8: Investment Limits**

	<b>31.3.21</b>	<b>2020/21</b>	<b>Complied?</b>
	<b>Maximum</b>	<b>Limit</b>	<b>Yes</b>
Local Authorities per counterparty	£2m or 10%	£2m or 10%	Yes
Banks per counterparty, rating A- or above	£2m	£2m	Yes
Any group of pooled funds under the same management	£2m	£2m	Yes
Limit per non-UK country	£2m	£4m	Yes
Money Market Funds	£2m or 10%	£2m or 10%	Yes
Investments over 1 year	£0m	£6m	Yes

### 13. **TREASURY MANAGEMENT INDICATORS**

13.1. The Authority measures and manages its exposures to treasury management risks using the following indicators.

13.2. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

**Table 9: Credit Risk**

	<b>31.3.21 Actual</b>	<b>2020/21 Target</b>	<b>Complied?</b>
Portfolio average credit	AA-/4.26	A-/5.0	Yes

13.3. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

**Table 10: Maturity Structure of borrowing**

	<b>31.3.21 Actual</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Complied?</b>
Under 12 months	53%	0%	60%	Yes
12 months and within 24 months	1%	0%	20%	Yes
24 months and within 5 years	6%	0%	30%	Yes
5 years and within 10 years	7%	0%	30%	Yes
10 years and above	5%	0%	100%	Yes
20 years and above	27%	0%	30%	Yes

- 13.4. **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

**Table 11: Principal invested for period longer than a year**

	2020/21	2021/22	2022/23
Actual principal invested for 365 days & beyond year end	£0m	£0m	£0m
Limit	£6m	£6m	£6m
Complied?	Yes	Yes	Yes

#### 14. **OTHER ISSUES**

- 14.1. **CIPFA consultations:** In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.
- 14.2. In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.
- 14.3. Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.
- 14.4. IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

#### 15. **REASONS**

- 15.1. The Authority's Treasury Management Strategy for 2020/21 was underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011.
- 15.2. The code requires the Authority to set a treasury strategy each financial year for financing and investment activities and recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

#### 16. **RESOURCE IMPLICATIONS**

16.1. The outturn position is explained in the report, there are no other resource implications arising directly from this report.

17. **CONSULTEES**

17.1. Deputy Chief Executive, Chief Officer - Resources (Section 151 officer)  
Arlingclose – Treasury Management Advisors to Monmouthshire CC

18. **BACKGROUND PAPERS**

Glossary of treasury terms

19. **AUTHORS:**

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## Background paper: Glossary of Treasury Terms

<b>Authorised Limit</b>	The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.  (see also <i>Operational Boundary</i> , below)
<b>Balances and Reserves</b>	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
<b>Bail-in</b>	Refers to the process which the banking regulatory authorities will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local authority investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
<b>Bank Rate</b>	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
<b>Bond</b>	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
<b>Capital Expenditure</b>	Expenditure on the acquisition, creation or enhancement of capital assets
<b>Capital Financing Requirement (CFR)</b>	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
<b>Capital growth</b>	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
<b>Capital receipts</b>	Money obtained on the sale of a capital asset.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>Constant Net Asset Value (CNAV)</b>	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US\$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.
<b>Collective Investment Schemes</b>	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.



<b>Corporate Bonds</b>	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
<b>Corporate Bond Funds</b>	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
<b>CPI</b> <i>Also see RPI</i>	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
<b>Credit Default Swap (CDS)</b>	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
<b>Credit Rating</b>	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
<b>Cost of carry</b>	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
<b>Credit default swaps</b>	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
<b>Diversification / diversified exposure</b>	The spreading of investments among different types of assets or between markets in order to reduce risk.
<b>Derivatives</b>	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
<b>ECB</b>	European Central Bank
<b>Federal Reserve</b>	The US central bank. (Often referred to as "the Fed")
<b>Floating Rate Notes</b>	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
<b>GDP</b>	Gross domestic product - also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
<b>General Fund</b>	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
<b>Gilts (UK Govt)</b>	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
<b>Housing Revenue Account (HRA)</b>	A ring-fenced account of all housing income and expenditure, required by statute



<b>IFRS</b>	International Financial Reporting Standards
<b>Income Distribution</b>	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'
<b>Investments</b> - Secured - unsecured	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default  Unsecured investments do not have underlying collateral. Such investments made by local authorities with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
<b>Liability Benchmark</b>	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
<b>LOBOs</b>	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
<b>LVNAV (Low Volatility Net Asset Value)</b>	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
<b>Maturity</b>	The date when an investment or borrowing is repaid.
<b>Maturity profile</b>	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
<b>MiFID II</b>	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
<b>Money Market Funds (MMF)</b>	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
<b>Minimum Revenue Provision</b>	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
<b>Non-Specified Investments</b>	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
<b>Net Asset Value (NAV)</b>	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
<b>Operational Boundary</b>	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.

<b>Permitted Investments</b>	Term used by Scottish Authorities as those the Authority has formally approved for use.
<b>Pooled funds</b>	See Collective Investment Schemes (above)
<b>Premiums and Discounts</b>	<p>In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest.</p> <p>PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.</p> <p>*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.</p>
<b>Private Finance Initiative (PFI)</b>	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
<b>Prudential Code</b>	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
<b>Prudential Indicators</b>	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
<b>PWLB</b>	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
<b>Quantitative Easing</b>	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It "does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions - that could be insurance companies, pension funds, banks or non-financial firms - and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy". Source: Bank of England
<b>Registered Provider of Social Housing</b>	Formerly known as Housing Association
<b>Revenue Expenditure</b>	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges

<b>RPI</b>	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
<b>SORP</b>	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
<b>Specified Investments</b>	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
<b>Supported Borrowing</b>	Borrowing for which the costs are supported by the government or third party.
<b>Supranational Bonds</b>	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
<b>Treasury Management Code</b>	CIPFA's Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in autumn 2011.
<b>Temporary Borrowing</b>	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
<b>Term Deposits</b>	Deposits of cash with terms attached relating to maturity and rate of return (interest)
<b>Unsupported Borrowing</b>	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
<b>Usable Reserves</b>	Resources available to finance future revenue and capital expenditure
<b>Variable Net Asset Value (VNAV)</b>	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
<b>Working Capital</b>	Timing differences between income/expenditure and receipts/payments
<b>Yield</b>	The measure of the return on an investment instrument

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**SUBJECT: MID-YEAR TREASURY REPORT 2021/22**

**MEETING: Governance & Audit Committee**

**DATE: 3<sup>rd</sup> November 2021**

**DIVISION/WARDS AFFECTED: Whole Authority**

## **1 PURPOSE**

- 1.1 To provide an interim update on treasury management activity for the first 6 months of 2021/22 in accordance with best practice and the requirements of the Authority's Treasury Management Strategy Statement for 2021/22.

## **2 RECOMMENDATIONS**

- 2.1 That Governance & Audit Committee review the treasury management activities in the first half of 2021/22 using this report and discuss with officers any changes to the process that should be considered for incorporation into the 2022/23 Treasury Management Strategy Statement which will be considered at the January G&AC meeting.

## **3 KEY ISSUES**

- 3.1 In March 2005 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports to allow scrutiny of the treasury management process. The Cipfa Code requires the Authority to have regard to the security & liquidity of its investments before seeking additional investment returns.
- 3.2 The Authority's treasury management strategy for 2021/22 was approved at Council on the 11th March 2021. The Authority has since borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 3.3 The Treasury Management Code which was revised in 2017/18 now covers non-treasury investments as well as treasury investments requiring Authorities to show how they provide due diligence on these investments in the same way as it does for treasury investments (see Section 8). Given the current economic uncertainty the Authority has not increased its holding of non-treasury investments in the first half of 2021/22.
- 3.4 With short-term interest rates continuing to remain much lower than long-term rates and temporary investments earning Bank Rate or even zero return, the Authority considers it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead.
- 3.5 The current economic environment is unprecedented and continues to very much represent the bottom of the treasury cost curve for an Authority like Monmouthshire who is a net borrower. Despite this, it remains very difficult to currently justify locking into longer term borrowing to provide additional

certainty to long term treasury costs and budgets. The continued margin between PWLB and market borrowing in particular is a significant barrier to this in an environment where the cost of carry is so substantial.

- 3.6 At the 31<sup>st</sup> March 2021 the Authority had a borrowing Capital Financing Requirement (CFR) of £186.8m and gross external borrowing of £182.8m. As detailed in table 2, gross borrowing reduced considerably by £26.6m to £156.2m in the six months to the 30<sup>th</sup> September 2021 but net borrowing only fell by £8.8m due to an overall reduction in investments. This can be explained by the comparatively high investment balance that the Authority was carrying at the start of the year driven by receipt of significant grant funding during March and April 2021. This has resulted in the temporary borrowing requirement reducing until such time that the grant funding is expended. Alongside this reduced activity in the Authorities capital programme during the first six months of the year has reduced the overall temporary borrowing requirement.
- 3.7 The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive).
- 3.8 £3m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. As at 30<sup>th</sup> September 2021 it is pleasing to note that these funds continue to generate an average annualised income return of 5.57% which is used to support services in year, and -0.25% of unrealised capital losses.
- 3.9 As shown in section 9, the Authority is forecasting a saving against budget of £219,000 for 2021/22 in the areas of interest payable and interest receivable against a total net budget of £3.5m.
- 3.10 As reported in section 10, the Authority complied with the Cipfa code of practice on treasury management and the 2021/22 Treasury management strategy, during the year.
- 3.11 The ongoing coronavirus pandemic will continue to have a significant financial impact on the Authority and consequently its treasury management activity for the remainder of the 2021/22 financial year. At the time of writing it is felt that the existing Treasury Strategy approved for the 2021/22 financial year provides the required flexibility both in terms of investment and borrowing approach to respond the challenges faced.

## 4 EXTERNAL CONTEXT

- 4.1 **Economic background (as at 30<sup>th</sup> September 2021):** The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.
- 4.2 The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

- 4.3 Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.
- 4.4 The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.
- 4.5 Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.
- 4.6 The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.
- 4.7 The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.
- 4.8 The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.
- 4.9 Financial markets: Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.
- 4.10 Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.
- 4.11 The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10 year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.
- 4.12 The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.
- 4.13 **Credit review:** Credit default swap spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of the period

Santander UK was trading the highest at 53bps and Lloyds Banks Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

- 4.14 Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.
- 4.15 Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.
- 4.16 The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.
- 4.17 At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.
- 4.18 As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

## 5 LOCAL CONTEXT

- 5.1 On 31<sup>st</sup> March 2021, the Authority had net investments of £39m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

**Table 1: Balance Sheet Summary (Start of year)**

	<b>31.3.21 Actual £m</b>
General Fund capital financing requirement	189.2
Less: *Other debt liabilities	(2.4)
<b>Borrowing capital financing requirement</b>	<b>186.8</b>
External borrowing	(182.8)
<b>Internal borrowing</b>	<b>4.1</b>
Less: Usable reserves	(28.5)
Less: Working capital	(14.6)
<b>Investments at 31<sup>st</sup> March 2021</b>	<b>(39.0)</b>

\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

- 5.2 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal



borrowing, in order to reduce counterparty risk.

- 5.3 The treasury management position on 30<sup>th</sup> September 2021 and the change over the six months is shown in Table 2 below.

**Table 2: Treasury Management Summary**

	<b>31.3.21 Balance £m</b>	<b>31.3.21 Rate %</b>	<b>Net Movement £m</b>	<b>30.09.21 Balance £m</b>	<b>30.09.21 Rate %</b>
Long-term borrowing	85.5	3.6	(0.5)	85.0	3.6
Short-term borrowing	97.2	0.3	(26.0)	71.2	0.1
<b>Total borrowing</b>	<b>182.8</b>	<b>1.9</b>	<b>(26.6)</b>	<b>156.2</b>	<b>2.0</b>
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(20.0)	0.03	17.0	(3.0)	0.01
Strategic Pooled Funds	(3.0)	4.59	0.0	(3.0)	5.57
Cash and cash equivalents	(16.0)	0.1	0.8	(15.3)	0.01
<b>Total investments</b>	<b>(39.0)</b>	<b>0.4</b>	<b>17.7</b>	<b>(21.2)</b>	<b>0.4</b>
<b>Net Borrowing</b>	<b>143.8</b>		<b>(8.8)</b>	<b>135.0</b>	

\*\* Annualised return

## **6 BORROWING UPDATE**

- 6.1 Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.
- 6.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 6.3 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.
- 6.4 The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB.
- 6.5 Revised PWLB Guidance
- 6.6 HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:
- 6.7 Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an 'investment asset primarily for yield'.
- 6.8 Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.

- 6.9 An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- 6.10 Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- 6.11 Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.
- 6.12 Changes to PWLB Terms and Conditions from 8th September 2021
- 6.13 The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.
- 6.14 Municipal Bonds Agency (MBA): The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.
- 6.15 If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.
- 6.16 UK Infrastructure Bank: £4bn has been earmarked for of lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.
- 6.17 **Borrowing Strategy during the period**
- 6.18 At 30<sup>th</sup> September 2021 the Authority held £156.2m of loans, (a decrease of £26.6m from 31<sup>st</sup> March 2021), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30<sup>th</sup> September are summarised in Table 3 below.

**Table 3: Borrowing Position**

	31.3.21 Balance £m	31.3.21 Weighted Average Rate %	31.3.21 Weighted Average Maturity (years)	Net Movement £m	30.09.21 Balance £m	30.09.21 Weighted Average Rate %	30.09.21 Weighted Average Maturity (years)
Public Works Loan Board	74.2	3.5	17.4	(4.4)	69.7	3.5	17.9
Banks (LOBO)	13.6	4.8	20.8	0.0	13.6	4.8	20.3
Welsh Gov Interest Free	5.1	0.0	3.4	(0.1)	4.9	0.0	3.0
Local authorities/Other	89.9	0.1	0.2	(22.0)	67.9	0.1	0.4
<b>Total borrowing</b>	<b>182.8</b>	<b>1.9</b>	<b>8.8</b>	<b>(26.6)</b>	<b>156.2</b>	<b>2.0</b>	<b>10.1</b>

- 6.19 Gross borrowing reduced considerably by £26.6m to £156.2m in the six months to the 30<sup>th</sup> September 2021 but net borrowing (as shown in table 2) only fell by £8.8m due to an overall reduction in investments. This can be explained by the comparatively high investment balance that the Authority was carrying at the start of the year driven by receipt of significant grant funding during

March 2021. This has resulted in the temporary borrowing requirement reducing until such time that the grant funding is expended. Alongside this reduced activity in the Authorities capital programme during the first six months of the year has reduced the overall borrowing requirement.

- 6.20 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 6.21 In keeping with these objectives, no new long term borrowing was undertaken, while existing loans maturing were replaced with rolling temporary / short terms loans, or internal resources. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, the Authority considers it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans.
- 6.22 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.
- 6.23 LOBO loans: The Authority continues to hold £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the quarter.

## 7 INVESTMENT UPDATE

- 7.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £10.0m and £51.7m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

**Table 4: Treasury Investments**

	<b>31.3.21 Balance £m</b>	<b>Net Movement £m</b>	<b>30.09.21 Balance £m</b>	<b>30.09.21 Capital Return %</b>	<b>30.09.21 Income Return %</b>
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	n/a	0.00%
Government (incl. local authorities)	(20.0)	17.0	(3.0)	n/a	0.01%
Money Market Funds	(14.0)	0.8	(13.3)	n/a	0.01%
Strategic Pooled funds	(3.0)	0.0	(3.0)	-0.25%	5.57%
<b>Total investments</b>	<b>(39.0)</b>	<b>17.9</b>	<b>(21.3)</b>		

\*\* Annualised return

- 7.2 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 7.3 Ultra low short-dated cash rates which have been a feature since March 2020 when Bank Rate was

cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.

- 7.4 Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.
- 7.5 Given the continuing risk and low returns from short-term unsecured bank investments, the Authority has continued to diversify into more secure and/or higher yielding asset classes as shown in table 4 above.
- 7.6 The progression of risk and return metrics are shown in the quarterly investment benchmarking in Table 5 below.

**Table 5: Investment benchmarking - Treasury investments managed in-house**

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2021	AA-	4.26	44%	11	0.00
30.09.2021	A+	4.95	84%	17	0.02
<b>Similar LAs</b>	A+	4.73	58%	48	0.07
<b>All LAs</b>	A+	4.69	69%	10	0.08

- 7.7 **Externally Managed Pooled Funds:** £3m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. As at 30<sup>th</sup> September 2021 these funds had generated an average annualised income return of 5.57% which is used to support services in year, and -0.25% of unrealised capital losses.
- 7.8 The improved market sentiment in the first six months of the year is reflected in equity, property and multi-asset fund valuations and, in turn, maintained comparably stable capital values to the Authority's multi-asset income funds in the Authority's portfolio, when compared to prior periods. The prospect of higher inflation and rising bond yields resulted in muted bond fund performance.
- 7.9 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

## **8 NON-TREASURY INVESTMENTS**

- 8.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the

definition of investments is further broadened to also include all such assets held partially for financial return.

8.2 The Authority held a book value of £30.6m of such non-financial asset investments at the 31<sup>st</sup> March 2021 (£31.0m as at 31<sup>st</sup> March 2020) made up of:

- Oak Grove Solar Farm £5.1m NBV
- Castlegate Business Park & service loan £7.5m NBV
- Newport Leisure Park & service loan £18.0m NBV

8.3 The rest of the Authority's Investment Properties have been held for over a decade and are retained purely for income or capital gain:

- Agricultural Properties £29.8m NBV
- Industrial Properties and Retail Units £3.2m NBV

8.4 These investments are budgeted to generate approximately £1.7m of investment income for the Authority in 2021/22 after taking account of direct costs and contributes to supporting the Authority's ongoing revenue budget.

8.5 Returns on the Newport leisure park investment were severely impacted by the COVID-19 restrictions in place and consequently the Authority has looked to legitimately recover the income losses it suffered from the Welsh Government Local Government hardship fund. The remaining investments were largely unaffected by the restrictions in place and continued to generate investment income for the Authority.

## 9 TREASURY PERFORMANCE

9.1 The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

**Table 6: Performance**

	<b>Forecast 2021/22 £'000</b>	<b>Budget 2021/22 £'000</b>	<b>Over/(under) Spend</b>
PWLB	2,597	2,597	0
Market loans	697	697	0
Short term loans	171	401	(230)
<b>Total Interest payable on borrowing</b>	<b>3,465</b>	<b>3,695</b>	<b>(230)</b>
Invested cash	(5)	0	(5)
Pooled Funds	(118)	(134)	16
Finance lease income	(62)	(62)	0
<b>Total interest from Investments</b>	<b>(185)</b>	<b>(196)</b>	<b>11</b>
<b>Net Over/(Under)spend</b>	<b>3,280</b>	<b>3,499</b>	<b>(219)</b>

## 10 COMPLIANCE

10.1 The Section 151 officer reports that all treasury management activities undertaken during the first

six months of the year have complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated below.

- 10.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

**Table 7: Debt limits**

	<b>2021/22 Maximum during year £m</b>	<b>30.09.21 Actual £m</b>	<b>2021/22 Operational Boundary £m</b>	<b>2021/22 Authorised Limit £m</b>	<b>Complied? Yes/No</b>
Borrowing	182.8	161.2	216.3	246.5	Yes
PFI, Finance Leases & Other LT liabilities	2.4	2.4	2.9	4.4	Yes
<b>Total debt</b>	<b>185.2</b>	<b>163.6</b>	<b>219.2</b>	<b>250.9</b>	

- 10.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

- 10.4 Compliance with agreed Investment limits is shown below:

**Table 8: Investment limits**

	<b>2021/22 Maximum</b>	<b>2021/22 Limit</b>	<b>Complied? Yes</b>
The UK Government	£19.2m	Unlimited	Yes
Local authorities & other government entities	£0	£4m	Yes
Secured investments	£0	£4m	Yes
Banks (unsecured)	£2m	£2m	Yes
Building societies (unsecured)	£0	£2m	Yes
Registered providers (e.g. Housing Associations (unsecured)	£0	£2m	Yes
Money market funds (individually)	£4m	£4m	Yes
Strategic pooled funds	£3m	£5m	Yes
Real estate investment trusts	£0	£5m	Yes
Other Investments	£0	£2m	Yes

#### 10.5 Treasury Management Indicators

- 10.6 The Authority measures and manages its exposures to treasury management risks using the following indicators.

- 10.7 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

**Table 9: Security**

	<b>30.09.21 Actual</b>	<b>2020/21 Target</b>	<b>Complied?</b>
Portfolio average credit	A+/4.95	A-/5.0	Yes

- 10.8 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

**Table 10: Maturity structure of borrowing**

	<b>30.09.21 Actual</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Complied?</b>
Under 12 months	46%	0%	60%	Yes
12 months and within 24 months	3%	0%	30%	Yes
24 months and within 5 years	5%	0%	30%	Yes
5 years and within 10 years	8%	0%	30%	Yes
10 years and within 20 years	13%	0%	30%	Yes
20 years and within 30 years	14%	0%	30%	Yes
30 years and within 40 years	11%	0%	30%	Yes
40 years and within 50 years	0%	0%	30%	Yes
50 years and above	0%	0%	30%	Yes

- 10.9 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

**Table 11: Invested beyond 1 Year**

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Actual principal invested for 365 days & beyond year end	£0	£0	£0
Limit on principal invested for 365 days & beyond year end	£6m	£6m	£6m
Complied?	Yes	Yes	Yes

#### 10.10 **Other issues**

##### 10.11 Revisions to CIPFA Codes

- 10.12 In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation.

- 10.13 In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes. The changes include:

- Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.
- Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.
- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.



- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- Prudential Indicators
  - New indicator for net income from commercial and service investments to the budgeted net revenue stream.
  - Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.
  - Excluding investment income from the definition of financing costs.
- Incorporating ESG issues as a consideration within TMP 1 Risk Management.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making

#### 10.14 Arlingclose's Economic Outlook for the remainder of 2021/22 (based on the October 2021 interest rate forecast)

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

- 10.15 Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.
- 10.16 Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.
- 10.17 The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.
- 10.18 While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.
- 10.19 Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.
- 10.20 The supply imbalances are apparent in the labour market. While wage growth is currently elevated



due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.

- 10.21 Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.
- 10.22 The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

## **11 REASONS**

- 11.1 The Treasury Management Strategy for the Authority is underpinned by its adherence to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, which includes the requirement that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

## **12 RESOURCE IMPLICATIONS**

- 12.1 There are no resource implications arising directly from this report.

## **13 CONSULTEES**

Deputy Chief Executive, Chief Officer - Resources (Section 151 officer)  
Arlingclose – Treasury Management Advisors to Monmouthshire CC

## **14 BACKGROUND PAPERS**

Glossary of treasury terms

## **15 AUTHOR**

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## Background paper: Glossary of Treasury Terms

<b>Authorised Limit</b>	The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.  (see also <i>Operational Boundary</i> , below)
<b>Balances and Reserves</b>	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
<b>Bail-in</b>	Refers to the process which the banking regulatory authorities will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local authority investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
<b>Bank Rate</b>	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
<b>Bond</b>	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
<b>Capital Expenditure</b>	Expenditure on the acquisition, creation or enhancement of capital assets
<b>Capital Financing Requirement (CFR)</b>	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
<b>Capital growth</b>	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
<b>Capital receipts</b>	Money obtained on the sale of a capital asset.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>Constant Net Asset Value (CNAV)</b>	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US\$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.
<b>Collective Investment Schemes</b>	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.

<b>Corporate Bonds</b>	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
<b>Corporate Bond Funds</b>	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
<b>CPI</b> <i>Also see RPI</i>	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
<b>Credit Default Swap (CDS)</b>	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
<b>Credit Rating</b>	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
<b>Cost of carry</b>	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
<b>Credit default swaps</b>	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
<b>Diversification / diversified exposure</b>	The spreading of investments among different types of assets or between markets in order to reduce risk.
<b>Derivatives</b>	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
<b>ECB</b>	European Central Bank
<b>Federal Reserve</b>	The US central bank. (Often referred to as "the Fed")
<b>Floating Rate Notes</b>	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
<b>GDP</b>	Gross domestic product - also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
<b>General Fund</b>	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
<b>Gilts (UK Govt)</b>	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
<b>Housing Revenue Account (HRA)</b>	A ring-fenced account of all housing income and expenditure, required by statute

<b>IFRS</b>	International Financial Reporting Standards
<b>Income Distribution</b>	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'
<b>Investments</b> - Secured - unsecured	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default  Unsecured investments do not have underlying collateral. Such investments made by local authorities with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
<b>Liability Benchmark</b>	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
<b>LOBOs</b>	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
<b>LVNAV (Low Volatility Net Asset Value)</b>	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
<b>Maturity</b>	The date when an investment or borrowing is repaid.
<b>Maturity profile</b>	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
<b>MiFID II</b>	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
<b>Money Market Funds (MMF)</b>	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
<b>Minimum Revenue Provision</b>	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
<b>Non-Specified Investments</b>	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
<b>Net Asset Value (NAV)</b>	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
<b>Operational Boundary</b>	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.

<b>Permitted Investments</b>	Term used by Scottish Authorities as those the Authority has formally approved for use.
<b>Pooled funds</b>	See Collective Investment Schemes (above)
<b>Premiums and Discounts</b>	<p>In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest.</p> <p>PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.</p> <p>*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.</p>
<b>Private Finance Initiative (PFI)</b>	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
<b>Prudential Code</b>	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
<b>Prudential Indicators</b>	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
<b>PWLB</b>	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
<b>Quantitative Easing</b>	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It "does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions - that could be insurance companies, pension funds, banks or non-financial firms - and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy". Source: Bank of England
<b>Registered Provider of Social Housing</b>	Formerly known as Housing Association
<b>Revenue Expenditure</b>	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges

<b>RPI</b>	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
<b>SORP</b>	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
<b>Specified Investments</b>	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
<b>Supported Borrowing</b>	Borrowing for which the costs are supported by the government or third party.
<b>Supranational Bonds</b>	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
<b>Treasury Management Code</b>	CIPFA's Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in autumn 2011.
<b>Temporary Borrowing</b>	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
<b>Term Deposits</b>	Deposits of cash with terms attached relating to maturity and rate of return (interest)
<b>Unsupported Borrowing</b>	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
<b>Usable Reserves</b>	Resources available to finance future revenue and capital expenditure
<b>Variable Net Asset Value (VNAV)</b>	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
<b>Working Capital</b>	Timing differences between income/expenditure and receipts/payments
<b>Yield</b>	The measure of the return on an investment instrument



<b>SUBJECT:</b>	<b>INTERNAL AUDIT</b> <b>Progress Report for 6 Months into 2021/22</b>
<b>DIRECTORATE:</b>	<b>Resources</b>
<b>MEETING:</b>	<b>Governance and Audit Committee</b>
<b>DATE:</b>	<b>3<sup>rd</sup> November 2021</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>All</b>

## 1. PURPOSE

To consider the adequacy of the internal control environment within the Council based on the outcomes of audit reviews and subsequent opinions issued to the 30<sup>th</sup> September 2021.

To consider the performance of the Internal Audit Section over the first 6 months of the current financial year.

## 2. RECOMMENDATION(S)

That the Committee note the audit opinions issued.

That the Committee note the progress made by the Section towards meeting the 2021/22 Operational Audit Plan and the Section's performance indicators at the 6 month stage of the financial year.

## 3. KEY ISSUES

- 3.1 As reported previously to the Governance & Audit Committee, the Internal Audit staff were redeployed to support the 'test trace protect' initiative, business support grants process and undertake counter fraud checks from March 2020 as a result of the national pandemic, Covid-19. Therefore there are no year on year comparison figures for the Team's performance.
- 3.2 One member of the team had been seconded out of the team to support the Covid-19 business grants administration. This member of staff has subsequently left the team. The team has gone through a recruitment exercise and the post will be filled mid November.
- 3.3 Although audit work has started in line with the 2021/22 agreed audit plan, approved by the Governance & Audit Committee in July 2021, the majority of site visits were still on hold in Q1 & Q2 due to Covid-19 restrictions



- 3.4 This report gives brief details of the work undertaken in the year to date. The report also gives details of the Section's performance indicators for the 6 months to 30<sup>th</sup> September 2021.
- 3.5 The Public Sector Internal Audit Standards came into force in April 2013 (updated March 2017) which the Internal Audit team needs to demonstrate it is compliant with; these replaced the former Code of Practice for Internal Audit within Local Government.
- 3.6 A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Monmouthshire's peer review took place during 2017/18 with the outcome being that the team is generally compliant; no significant areas of non compliance. The next review will be due in 2023
- 3.7 The year end opinion for 2021/22 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems where necessary, along with any assurance gained from other parties where relevant.

#### **4. REASONS**

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 23 audit jobs to draft stage from its 2021/22 Operational Audit Plan; 6 of these being opinion related and are shown in the table at Appendix 1. The team was involved with ongoing grant claim certification and some additional counter fraud work regarding Welsh Government Covid grants.
- 4.2 In relation to the normal audit opinion related reports issued in draft by the end of the 2<sup>nd</sup> Quarter:
- 2 had a *Substantial Assurance opinion*,
  - 2 had a *Considerable Assurance opinion* and
  - 2 had a *Reasonable Assurance opinion*.
  - No *Limited Assurance opinions* issued to date.

Work was also undertaken on the National Fraud Initiative (NFI), verifying data matches and the preparation of the Annual Governance Statement.

- 4.3 Work has also been undertaken on the progress of the implementation of Internal Audit Recommendations from previously issued audit reports to schools, Finance and Corporate functions, along with the provision of financial advice across directorates. Progress will be



reported to the Governance & Audit Committee and the Strategic Leadership team (SLT) later in the year for consideration and action.

- 4.4 The team have not been able to undertake audits at schools as they ordinarily involve site visits which have been restricted due to Covid-19, as have other site visits. Follow up audits of MonLife tourist sites have not been able to have been undertaken as many of these are seasonal and have not been open as a result of Covid-19. Other work has not been progressed as intended as some service managers are still dealing with the pressures of Covid-19.
- 4.5 At the time of writing this report, the call on Internal Audit resources to support TTP has stopped; the audit resource can therefore be used to work through the audit programme which will concentrate on opinion related audit jobs and getting draft reports out by the year end.
- 4.6 The definitions of the four internal audit opinions and the finding ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.7 Finalisation work from 2020/21 continued; of the 6 reviews at draft report stage at 31 March 2021, all 6 have subsequently been finalised.
- 4.8 There has been minimal work undertaken on special investigations and unplanned work during 2021/22 so far by the team. Extensive work was undertaken previously on counter fraud relating to the issue of the Welsh Government business grants. Where the team was involved in frauds resulting from this work these were not identified as separate special investigations.
- 4.9 Appendix 3 of the report gives details of the Section's performance indicators as at 30<sup>th</sup> September 2021.
  - 28% of the 2021/22 Audit Plan has been completed as at 30<sup>th</sup> September 2021
  - Draft reports are being issued within 5 days, against a target of 15 days
  - Final report are being issued within 4 days, against a target of 10 days.
- 4.10 The team co-ordinates the administration of the National Fraud Initiative (NFI) data sets on behalf of the Council.

## **5. SERVICE MANAGEMENT RESPONSIBILITIES**

- 5.1 Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by including their management responses within the audit reports. When management agree the audit action plans they are accepting

responsibility for addressing the issues identified within the agreed timescales.

- 5.2 Ultimately, managers within MCC are responsible for maintaining adequate internal controls within the systems they operate and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Chief Officers and Heads of Service for information and appropriate action where necessary.

## **6. FOLLOW UP AUDIT REVIEWS**

- 6.1 Where 'Limited Assurance' opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These will be reported separately to the Governance & Audit Committee.

## **7. RESOURCE IMPLICATIONS**

None.

## **8. CONSULTEES**

Deputy Chief Executive / Chief Officer Resources

### **Results of Consultation:**

N/A

## **9. BACKGROUND PAPERS**

Operational Audit Plan 2021/22

## **10. AUTHORS AND CONTACT DETAILS**

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## GOVERNANCE & AUDIT COMMITTEE NOVEMBER 2021

### INTERNAL AUDIT SECTION PROGRESS REPORT 2021/22 – 6 MONTHS

#### APPENDIX 1

Internal Audit reviews from the 2021/22 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/21 are listed in the table below.

Internal Control Opinions give the auditor's overall conclusion on the control environment operating in each system/establishment under review. Opinions range from Substantial Assurance through to Limited Assurance.

Draft issued indicates that a draft report has been issued and a response is awaited from the client before the report can be finalised.

#### Internal Audit Services - Management Information for 2021/22 – Quarter 2 September 2021

Opinion Summary	
Substantial	2
Considerable	2
Reasonable	2
Limited	0
Total	6

Job number	Directorate	Service	Job Name	Risk Rating / Priority	DRAFT or FINAL	Opinion given
P2122/36	Enterprise	Placemaking, Housing, Highways & Flood	Local Development Plan	Medium	Draft	Substantial
P2122/57	Resources	Finance	Housing Benefits	High	Draft	Substantial
P2122/25	Corporate	Cross Cutting	National Fraud Initiative	High	Final	Considerable
P2122/35	Enterprise	Placemaking, Housing, Highways & Flood	Civil Enforcement	Medium	Draft	Considerable
P2122/80	Resources	Commercial, Property, Facilities & Fleet	Investments	High	Draft	Reasonable
P2122/81	Enterprise	Enterprise & Community Animation	Disabled Facilities Grants	Medium	Final	Reasonable

## Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name
P2122/01	Chief Executive's	Policy, Performance & Scrutiny	Audit Advice
P2122/05	Children & Young People	Achievement & Extended Services	Monitoring Implementation of Audit Recommendations
P2122/11	Children & Young People	Schools	Audit Advice
P2122/18	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations
P2122/21	Corporate	Cross Cutting	Annual Governance Statement
P2122/27	Enterprise	Enterprise & Community Animation	Audit Advice
P2122/34	Enterprise	Placemaking, Housing, Highways & Flood	Audit Advice
P2122/38	Enterprise	Strategic Projects	Audit Advice
P2122/41	Mon Life	Mon Life	Audit Advice
P2122/47	People & Governance	People	Audit Advice
P2122/49	Resources	Commercial, Property, Facilities & Fleet	Audit Advice
P2122/56	Resources	Finance	Audit Advice
P2122/61	Resources	Finance	Monitoring Implementation of Audit Recommendations
P2122/63	Resources	Payroll	Audit Advice
P2122/64	Resources	Payroll	Monitoring Implementation of Audit Recommendations
P2122/65	Social Care & Health	Children's Services	Audit Advice
P2122/67	Social Care & Health	Integrated Services	Audit Advice

**Internal Audit Opinions**

Each report contains an opinion which is an overall assessment of the control environment reviewed.

<b>SUBSTANTIAL</b>	Substantial level of assurance.  Very well controlled, with numerous strengths identified and any risks being less significant in nature.
<b>CONSIDERABLE</b>	Considerable level of assurance  Generally well controlled, although some risks identified which should be addressed.
<b>REASONABLE</b>	Reasonable level of assurance.  Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.
<b>LIMITED</b>	Limited level of assurance.  Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.

The table below summarises the finding ratings used during our audits:

RATING	RISK DESCRIPTION	IMPACT
1	Significant	(Significant) – Major / unacceptable risk identified.  Risks exist which could impact on the key business objectives. Immediate action required to address risks.
2	Moderate	(Important) – Risk identified that requires attention.  Risks identified which are not business critical but which require management attention as soon as possible.
3	Minor	(Minimal) – Low risk partially mitigated but should still be addressed.  Audit comments highlight a suggestion or idea that management may want to consider.
4	Strength	(No risk) – Good operational practices confirmed.  Well controlled processes delivering a sound internal control framework.

**For grant claim audits:**

**Unqualified** opinion - the terms and conditions of the grant were generally complied with;

**Qualified** opinion - the terms and conditions of the grant were not fully complied with; the identified breaches of terms and conditions will be reported to the grantor and internally to relevant Head of Service/Chief Officer.

# GOVERNANCE & AUDIT COMMITTEE NOVEMBER 2021

## INTERNAL AUDIT SECTION PROGRESS REPORT 2021/22 – 6 MONTHS

### APPENDIX 3

#### Performance Indicators

N / A – not available

	2020/21	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	N/A	N/A	25%		50%
2	Average no. of days from audit closing meeting to issue of a draft report	N/A	N/A	N/A		N/A
3	Average no. of days from receipt of response to draft report to issue of the final report	N/A	N/A	N/A		N/A
4	Percentage of recommendations made that were accepted by the clients	N/A	N/A	N/A		N/A
5	Percentage of clients at least 'satisfied' by audit process	N/A	N/A	N/A		N/A
6	Percentage of directly chargeable time (actual v planned)	N/A	N/A	N/A		N/A
7	Number of special investigations	N/A	N/A	N/A		

	2021/22	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	11%	28%			30% in Q2 80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	9 days	5 days			15 days
3	Average no. of days from receipt of response to draft report to issue of the final report	3 days	4 days			10 days
4	Percentage of recommendations made that were accepted by the clients	97%	97%			95%
5	Percentage of clients at least 'satisfied' by audit process	100%	100%			95%
6	Percentage of directly chargeable time (actual v planned)	77%	90%			60%
7	Number of special investigations	1	1			

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**Date issued:** October 2021

Dear Paul

### **Waste procurement review feedback**

Between April and July 2021, we followed the Council's waste service as it procured a new contract to manage and operate the Council's three Household Waste Recycling Centres and two Waste Transfer Stations. The aim of the review (as noted in our Project Brief of 20 January 2021) was to seek assurance that the Council had included all relevant and reasonable considerations as part of its procurement arrangements for waste, to ensure a sustainable service.

To inform the review we undertook document reviews, observed meetings and interviewed the key Council officers involved in the procurement process. We'd like to take this opportunity to thank the Neighbourhood Services team for giving us the opportunity to follow their procurement process in real time and for allowing us to observe their meetings.

We found that the procurement process went well overall and the small team involved worked hard to successfully issue the contract on time. However, we also noted some potential improvement areas for consideration. Given the review's focus on sustainability, we have grouped our observations during this process in line with the five ways of working that underpin the Well-being and Future Generations Act's sustainable development principle.

We hope that our observations in this letter will prove useful as the waste service goes out to tender for the haulage and treatment of dry mixed recycle materials. Similarly, many of the observations may apply to future procurement processes undertaken by other service areas.

## **Collaboration**

- The waste service collaborated effectively with several internal and external partners to support and strengthen the procurement process.
- Officers engaged the Council's procurement team and sought input from Council finance and legal officers where necessary.
- The Council also sourced external procurement expertise to support Council officers to prepare for and undertake the HWRC and Waste Transfer Stations procurement process. This appeared appropriate and proportionate given the small size of the Council's procurement team and the large value of the contract. To prepare for the procurement process, in 2018 officers worked with an independent consultancy, Eunomia. In 2020, following advice from the Council's procurement team, the Council engaged the services of Atebion Solutions (a Cardiff Council owned company who provide procurement services to the public sector) to help refine the contract, develop a suitable evaluation matrix that took into account both cost and quality measures, and provide support and advice throughout the procurement process.
- The arrangements allowed independent overview of the process and provided assurance to Neighbourhood Services staff that the tendering process was performed correctly and fairly.

## **Prevention**

- The Council recognises the need to monitor the HWRC and Waste Transfer Stations contract and at the time of our review, were putting in place arrangements to do so. For example, the Council has developed a suite of performance measures and there will be a dedicated contract manager to oversee and review performance against the contract. The Council will need to use accurate and real-time data to manage waste flow, identify problems in advance and take action accordingly.
- Although timescales for evaluating the tenders was compressed due to a tight schedule, we did not observe any shortcomings in the procedures followed and a decision was taken in a timely way to ensure the contract was awarded in sufficient time as to not disrupt future service delivery.
- Neighbourhood Services staff told us that it had held a 'lessons learned' session to consider learning from this process and to help inform the dry recycling tender process later this year.

## **Long-term**

- Officers inform us that Welsh Government's 'Towards Zero Waste' strategy and Collections Blueprint set the high-level strategic direction of the service. But we felt the Council would benefit from a local waste



management strategy setting out its long-term vision and priorities for waste and recycling services in Monmouthshire. A local strategy would allow the Council to articulate its own priorities for the service, e.g., a focus on service quality or cost, and how these fit into wider Council priorities. Without a local strategy in place, it was difficult for us to assess to what extent the procurement exercise was aligned to and helping achieve the waste service's vision beyond contributing to improving recycling rates.

- Without a strategy there is also a risk that decisions regarding waste and recycling are made without considering impacts on the whole service, or on other Council service areas. Undertaking procurement exercises in the context of a wider strategy would allow the Council to:
  - consider whether there are any 'knock-on' impacts of decisions;
  - understand the potential financial impact of implementing the strategy so this can inform the Council's Medium-Term Financial Plan, e.g. cost of fleet replacement, meeting future targets, potential new waste and recycling receptacles and services required etc.; and
  - ensure that evaluation criteria for future contract tenders are aligned with strategic aims for the service.

## **Involvement**

- The Council consulted with residents on Monmouthshire's HWRC provision in Spring 2020. The survey was widely promoted and received a good response rate. As well as seeking views on proposals to reduce the number of HWRCs and their opening hours, the survey also sought to understand what is important to HWRC users and how they use the sites. Some of the service users' priorities are reflected in the tender evaluation criteria. However, demonstrating clearer links between the outcome of the survey and the final contract design and evaluation process would further enhance the consultation process and make it easier for the public to see how their priorities informed the tender process.
- The wider proposals for changes to the HWRCs went through the democratic process, providing elected members with opportunity to scrutinise the plans before agreeing them. Whilst there was limited engagement with elected members and the public specifically in relation to the tender of the HWRC and Waste Transfer Station contract, this appears to be due to the nature of the contract rather than any unwillingness to engage. Although the value of the contract is large, it relates to the continued management and operation of the Council's three HWRCs and two Waste Transfer Stations rather than any fundamental service changes. It's therefore reasonable that the decision to award the contract was delegated to officers.
- The Council undertook a cost analysis of bringing the management of the HWRCs in-house based on 2019-20 financial assumptions. The in-house

model focussed solely on projected costs at the time and was not included in the 2021 evaluation of tenders. It also did not consider quality measures and so was not assessed against the same evaluation matrix as external tenders for this contract.

## **Integration**

- The Council clearly understands the Welsh Government's statutory targets for recycling and these were considered and incorporated into the procurement process.
- Despite the lack of a waste management strategy, there are some clear links between the aims of the HWRC contract and the Council's Corporate Plan and priorities. For example, the HWRC contract will help contribute towards increasing the percentage of waste recycled – one of the Council's corporate measures. A waste management strategy would further strengthen integration by helping identify potential 'clashes' in activities across the Council.

I hope that this summary of our work is useful to you; please get in touch if you would like to discuss further.

Yours sincerely,

Charlotte Owen  
Audit Lead

cc Gareth Lucey, Audit Manager  
Allison Rees, Senior Auditor

## **Audit Wales**

### **Waste Procurement Review: letter issued October 2021**

#### **Management Response**

Waste management would like to thank Audit Wales for working with us over the last year on “live” projects. This is a new way for us working with Audit Wales and allowed us to review and hopefully improve outcomes as part of the process rather than in a purely reflective way at post-project stage.

We also welcome the Audit Wales report and appreciate the observations and feedback within. We recognise that reflective reviews are equally important and will build on this feedback to make further improvements going forward.

With regard to an overarching strategy, Wales has set itself ambitious and challenging targets and Welsh Government have set out how these targets can be achieved. These strategic aims are captured in Towards Zero Waste and supported by detailed service delivery methodology through The Collections Blueprint. As part of the Welsh Government funding for recycling services there is a commitment by all local authorities to work towards improving recycling and move towards zero waste. Our aims and objectives are mirrored in the Welsh Government Strategies and we have always felt that this is sufficient in detail to provide MCC with an overarching strategic direction. When delivered in conjunction with Members and line with the Corporate Plan, Climate Change and Nature Emergency Plan and Service Plans it provides a localised solution but we will review the need for a MCC Waste Strategy in light of Audit Wales findings.

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<b>GOVERNANCE AND AUDIT COMMITTEE FORWARD WORK PLANNER 2021/22</b>			
<b>25TH NOV 2021</b>			
25.11.21	Audit Committee Self Evaluation - Verbal update		Andrew Wathan
25.11.21	Update on unfavourable Internal Audit Opinions		Andrew Wathan
25.11.21	Audit Wales Certificate of Compliance for the Audit of Monmouthshire County Councils Assessment of performance for 2020/1		Performance Manager/Audit Wales
25.11.21	Audited Trust fund Accounts (Welsh Church Fund/Mon Farms)	Annual Report and Financial Statements for the year ended the 31 March 2021	Dave Jarrett/Nikki Wellington
25.11.21	ISA 260 or equivalent for Trust Funds		Audit Wales
25.11.21	Internal Audit Progress report - quarter 2	This is a regular quarterly report which identified the performance of the IA team along with how well it is progressing against the agreed plan and the level of assurance it gives by way of opinions issued to service areas.	Andrew Wathan
25.11.21	Review of the Strategic Risk Register-6 monthly		Emma Davies
<b>13TH JAN 2022</b>			

13.01.22	Treasury Policy and Strategy report 2022-3	This suite of documents includes the Treasury Policy, The Treasury Management Strategy, the Minimum Revenue Provision Policy & the Investment and Borrowing strategies for 2023/4. If approved the targets and limits included will be used to guide and control the management of the Authority's treasury activities for the year and also non treasury Investment activity.	Jon Davies
13.01.22	Overview of Performance Management arrangements	To present an update on the current effectiveness of the Authority's performance management arrangements	Performance Manager
13.01.22	Anti bribery risk assessment		Peter Davies
13.01.22	Recovery Planning - Assurance & Risk Assessment Feedback Letter		Audit Wales
<b>17TH FEB 2022</b>			
17.02.22	WAO Annual Audit Summary		Audit Wales/Emma Davies
17.02.22	Whole Authority annual complaints report		Annette Evans
17.02.22	Assessment of the Robustness of the budget process and adequacy of reserves		Jon Davies
17.02.22	Internal Audit Progress report - quarter 3	This is a regular quarterly report which identified the performance of the IA team along with how well it is progressing against the agreed plan and the level of assurance it gives by way of opinions issued to service areas.	Andrew Wathan

<b>31ST MAR 2022</b>			
31.03.22	Whole Authority Strategic Risk Assessment	To provide Audit Committee with an overview of the current strategic risks facing the authority in the Whole Authority Strategic Risk Assessment.	Richard Jones
31.03.22	Annual Performance Review of Investment Committee		Deb Hill-Howells
31.03.22	6 month update on unfavourable opinions - Internal Audit	At the conclusion of Internal Audit jobs an opinion on the adequacy of the internal control environment, governance and risk management processes is given. This report provides Audit Committee with an update of how services are progressing in order to demonstrate improvements	Andrew Wathan
31.03.22	Annual Audit 22-23		Audit Wales
<b>May-22</b>			
	Annual Grants report		Audit Wales
	annual governance statement review 2020-1		Andrew Wathan

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# Public Document Pack Agenda Item 12

## MONMOUTHSHIRE COUNTY COUNCIL

**Minutes of the meeting of Governance and Audit Committee held  
at County Hall, Usk - Remote Attendance on Thursday, 2nd September, 2021 at 2.00 pm**

**PRESENT:** County Councillor P White (Chairman)  
County Councillor J. Higginson (Vice Chairman)

County Councillor: A. Easson, P. Murphy, V. Smith and  
B. Strong

### **OFFICERS IN ATTENDANCE:**

Nicola Perry	Senior Democracy Officer
Andrew Wathan	Chief Internal Auditor
Peter Davies	Deputy Chief Executive and Chief Officer, Resources
Wendy Barnard	Democratic Services Officer
Charlotte Owen	Audit Wales Officer
Richard Jones	Performance Manager
Jonathan Davies	Acting Assistant Head of Finance

### **APOLOGIES:**

County Councillors P. Jordan, M.Lane and J.Watkins

#### **1. Declarations of Interest**

No declarations of interest were made.

#### **2. Public Open Forum**

No members of the public were present.

#### **3. To note the Action List from the previous meeting**

The action list from the previous meeting was noted.

- Draft Statement of accounts: County Councillor Easson asked if changes to investments affected the liability e.g. green and eco decisions within the investment portfolio of the pension fund. A response was provided to Committee Members by the Acting Assistant Head of Finance on 8<sup>th</sup> August 2021. Councillor Easson confirmed that he was satisfied with the contents of the response.

#### **4. Audit Wales Financial Sustainability Assessment**

The Audit Wales Officer presented the Audit Wales Financial Sustainability Assessment for Monmouthshire County Council that particularly considered the financial impact of the pandemic in terms of additional costs incurred and income lost. The Deputy Chief Executive and Chief Officer for Resources responded to the report on behalf of the authority. Following presentation of the report, Members were invited to ask questions:

## **MONMOUTHSHIRE COUNTY COUNCIL**

### **Minutes of the meeting of Governance and Audit Committee held at County Hall, Usk - Remote Attendance on Thursday, 2nd September, 2021 at 2.00 pm**

- A Member referred to the need to replenish reserves when surpluses are available through cost saving measures. It was noted that the Welsh Government policy of continued low allocations of Revenue Support Grant to the County limits the opportunity to do so.
- A Member commented that reserves have always been an issue in the County and requested further information. The Deputy Chief Executive and Chief Officer for Resources agreed that the County holds low reserves. All councils in Wales continue to receive Covid Hardship funding and have also received further funding to allow them to reinforce their reserves so was possible to contribute £4m to earmarked reserves at the end of 20/21.

It was noted that headroom was built into the Council Fund at the end of 2019/20 as a result of VAT recovery. When the pandemic started, funding was set aside for the uncertainties ahead. £1.8m is still built in as Headroom plus the £4m Covid Hardship Funding.

Month 2 Budget monitoring highlighted non-Covid related service pressures in e.g. adult social care and additional learning needs and a £4m overspend was recorded that will have to be addressed. Further, the pressures noted at Month 2 for adult social care etc. are expected to rise and it is unknown if there will be further compensation from Welsh Government in this respect or if a contribution from reserves will be required.

The report was noted by the Governance and Audit Committee.

#### **5. Internal Audit Charter**

The report on the revised Internal Audit Charter was presented by the Chief Internal Auditor. Questions and comments were then invited from Committee Members.

There being no questions, the Committee, as per the report recommendations, endorsed and approved the updated Internal Audit Charter.

#### **6. Internal Audit Progress Report - Quarter 1**

The Chief Internal Auditor presented the Internal Audit Progress Report Quarter 1 (1<sup>st</sup> April – 30<sup>th</sup> June 2021). Following presentation of the report, questions and comments were invited from Committee Members.

A Member referred to previous reports to the Committee concerning fraud involving grants from Welsh Government. It was questioned, of the frauds uncovered, how many prosecutions have been made, how many were successful and if there is confidence that the root of the problem has been established. It was responded that the prosecutions are now outside the remit of the Council having been referred to the Police. It has been established that it is a nationwide issue not local. No feedback has been received on progress. It was added that where fraud was detected early, it was possible to recover some of the grants paid out back into the authority by contacting our bank's fraud team to freeze the relevant accounts. Some, but not all, money has been returned.

The Chair noted that site visits have not been possible during the pandemic and asked if this was a significant problem. It was confirmed that the main impact is lengthening the time needed to complete the work. As sites haven't been open, follow up work has little to examine. This work will be added into Quarter 4 or put back to the 2022/23 Audit Plan. Where school visits are concerned, Internal Audit has liaised with the School Support Officers to provide information through various electronic means.

## **MONMOUTHSHIRE COUNTY COUNCIL**

### **Minutes of the meeting of Governance and Audit Committee held at County Hall, Usk - Remote Attendance on Thursday, 2nd September, 2021 at 2.00 pm**

As per the report recommendations the Committee noted the audit opinions issued and noted the progress made by the Section towards meeting the 2021/22 Operational Audit Plan and the Section's performance indicators at the 3 month stage of the financial year.

#### **7. Forward Work Plan**

The Forward Work Plan was noted. The following points were made:

- The ISA260 Audited Statement of Accounts will be moved from 7<sup>th</sup> October 2021 to a special meeting in early November prior to consideration by County Council on 4<sup>th</sup> November 2021.
- The Overview of Performance Arrangements Report will be moved from the 7<sup>th</sup> October 2021 to a later meeting due to the changes required by the Local Government and Elections (Wales) Act 2021.

#### **8. To confirm minutes of the previous meeting**

The minutes of the previous meeting were confirmed as a true record subject to the following:

Item 7 - Draft Statement of Accounts 2020/21 - Charitable Trust Funds. The Audit Wales Officer presented the Audit Plan and the Assistant Finance Officer presented the draft accounts.

#### **9. To note the date of the next meeting as 7th October 2021 at 2.00pm**

#### **10. \*\*To note a Working Group meeting to review the Governance and Audit Committee on 2nd September 2021 at 3.00pm\*\***

**Meeting ended at 2.40 pm**

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