

# Public Document Pack



Neuadd y Sir  
Y Rhadyr  
Brynbuga  
NP15 1GA

County Hall  
Rhadyr  
Usk  
NP15 1GA

Wednesday, 7 September 2016

**Notice of meeting / Hysbysiad o gyfarfod:**

## **Audit Committee**

**Thursday, 15th September, 2016 at 2.00 pm,  
County Hall, The Rhadyr, Usk, NP15 1GA**

### **AGENDA**

<b>Item No</b>	<b>Item</b>	<b>Pages</b>
1.	Apologies for Absence	
2.	Declarations of Interest	
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4.	To confirm minutes of the previous meeting	1 - 10
5.	To note the Action List from 30th June 2016	11 - 12
6.	MCC Audited Accounts 2015/16 (formal approval)	13 - 120
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13.	To confirm the date and time of the next meeting as 2.00pm on Thursday 13th October 2016	
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**Paul Matthews**

**Chief Executive / Prif Weithredwr**

MONMOUTHSHIRE COUNTY COUNCIL  
CYNGOR SIR FYNWY

THE CONSTITUTION OF THE COMMITTEE IS AS FOLLOWS:

County Councillors:

P White  
J. Higginson  
D. Batrouni  
P. Clarke  
G. Down  
A. Easson  
D. Edwards  
P. Murphy  
P. Jordan  
B. Hayward  
J. Prosser  
B. Strong

## Public Information

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### Welsh Language

The Council welcomes contributions from members of the public through the medium of Welsh or English. We respectfully ask that you provide us with adequate notice to accommodate your needs.

# Aims and Values of Monmouthshire County Council

## Sustainable and Resilient Communities

### Outcomes we are working towards

#### **Nobody Is Left Behind**

- Older people are able to live their good life
- People have access to appropriate and affordable housing
- People have good access and mobility

#### **People Are Confident, Capable and Involved**

- People's lives are not affected by alcohol and drug misuse
- Families are supported
- People feel safe

#### **Our County Thrives**

- Business and enterprise
- People have access to practical and flexible learning
- People protect and enhance the environment

### Our priorities

- Schools
- Protection of vulnerable people
- Supporting Business and Job Creation
- Maintaining locally accessible services

### Our Values

- **Openness:** we aspire to be open and honest to develop trusting relationships.
- **Fairness:** we aspire to provide fair choice, opportunities and experiences and become an organisation built on mutual respect.
- **Flexibility:** we aspire to be flexible in our thinking and action to become an effective and efficient organisation.
- **Teamwork:** we aspire to work together to share our successes and failures by building on our strengths and supporting one another to achieve our goals.

# Nodau a Gwerthoedd Cyngor Sir Fynwy

## Cymunedau Cynaliadwy a Chryf

### Canlyniadau y gweithiwn i'w cyflawni

#### Neb yn cael ei adael ar ôl

- Gall pobl hŷn fyw bywyd da
- Pobl â mynediad i dai addas a fforddiadwy
- Pobl â mynediad a symudedd da

#### Pobl yn hyderus, galluog ac yn cymryd rhan

- Camddefnyddio alcohol a chyffuriau ddim yn effeithio ar fywydau pobl
- Teuluoedd yn cael eu cefnogi
- Pobl yn teimlo'n ddiogel

#### Ein sir yn ffynnu

- Busnes a menter
- Pobl â mynediad i ddysgu ymarferol a hyblyg
- Pobl yn diogelu ac yn cyfoethogi'r amgylchedd

### Ein blaenoriaethau

- Ysgolion
- Diogelu pobl agored i niwed
- Cefnogi busnes a chreu swyddi
- Cynnal gwasanaethau sy'n hygyrch yn lleol

### Ein gwerthoedd

- **Bod yn agored:** anelwn fod yn agored ac onest i ddatblygu perthnasoedd ymddiriedus
- **Tegwch:** anelwn ddarparu dewis teg, cyfleoedd a phrofiadau a dod yn sefydliad a adeiladwyd ar barch un at y llall.
- **Hyblygrwydd:** anelwn fod yn hyblyg yn ein syniadau a'n gweithredoedd i ddod yn sefydliad effeithlon ac effeithiol.
- **Gwaith tîm:** anelwn gydweithio i rannu ein llwyddiannau a'n methiannau drwy adeiladu ar ein cryfderau a chefnogi ein gilydd i gyflawni ein nodau.

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# Public Document Pack Agenda Item 4

## MONMOUTHSHIRE COUNTY COUNCIL

**Minutes of the meeting of Audit Committee held  
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 30th June, 2016 at 2.00 pm**

**PRESENT:** County Councillor P White (Chairman)  
County Councillor J. Higginson (Vice Chairman)

County Councillors: D. Batrouni, P. Clarke, G. Down, A. Easson,  
D. Edwards, P. Murphy, P. Jordan, J. Prosser and B. Strong

**ALSO PRESENT:** County Councillor V.E. Smith  
Mr. T. Lewis – Wales Audit Office  
Mr. D. Wilson – Wales Audit Office

### **OFFICERS IN ATTENDANCE:**

Peter Davies	Chief Officer, Resources
Joy Robson	Head of Finance/Section 151 Officer
Will McLean	Head of Democracy, Engagement and Improvement
Andrew Wathan	Chief Internal Auditor
Mark Howcroft	Assistant Head of Finance
Jonathan Davies	Finance Manager
Matthew Gatehouse	Policy and Performance Manager
Richard Jones	Improvement Support Officer
Richard Williams	Democratic Services Officer

### **APOLOGIES:**

None

#### **1. Declarations of Interest**

There were no declarations of interest made by Members.

#### **2. Public Open Forum**

There were no members of the public present.

#### **3. Confirmation of minutes**

The minutes of the meeting held on 26<sup>th</sup> May 2016 were confirmed and signed by the Chairman.

#### **4. Action List from the previous meeting**

We received the Action List from the meeting held on 26<sup>th</sup> May 2016. In doing so, the following points were noted:

- A progress report on unsatisfactory / Unsound Audit opinions will be presented to Audit Committee on a six monthly cycle.

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 30th June, 2016 at 2.00 pm

- The Chair had reported the Audit Committee Annual Report to Full Council on 16<sup>th</sup> June 2016.
- The Chair had sent a letter of response in respect of the issue raised by a member of the public regarding Chepstow School. However, County Councillor Easson had emailed the Chair indicating that he had some additional questions in respect of this matter. As the Committee would not be meeting again until September 2016, the Chair had agreed to present County Councillor Easson's motion as follows, with a view to the committee voting on whether to discuss this matter further.

County Councillor Easson's motion:

"I propose that in the light of my concerns raised below, that the Audit Committee invite the responsible officers to provide a response to these queries at a future meeting of this Committee."

Firstly, I questioned the phraseology used to illustrate the reduction of "6 FTE posts" at Chepstow School. It does not indicate the total FTE complement at the school which will demonstrate the actual % age reduction in posts. I request that this statistic be provided.

Secondly, in relation to the employment of an outside HR agency at Chepstow School, was the procurement process open and transparent? Were there opportunities for other applicants to apply via a tender process? Why was the Local Authority HR department not able to command such work?

I understand that the same agency has been employed to carry out the HR function at Monmouth School, if my understanding is correct, was the employment of such an agency also carried out under an open procurement process? Does this agency have any connection with organisations in England with links to schools with Academy status, for example "E S Management Services". Could this information be sourced?

Thirdly, does the Wales Audit Office have a view on the use of school finances to allow the use of interest free loans as "golden hellos" when employing teaching, or any other staff? Would the same criteria apply, for example, in the employment of ancillary staff? In the reported instance full repayment of the loan has, I understand, been accounted for, however, what legal measures are, or were in place, should such loans be defaulted upon?

The motion was seconded by County Councillor Batrouni.

County Councillor Murphy informed the Committee that he and County Councillor Hacket-Pain, as Cabinet Members, had called in the new Business Manager, the Chair of Governors, the Temporary Business Manager and some other representatives from Chepstow School and would be meeting them shortly with a view to obtaining further information in respect of a number of issues relating to the school and how the school's budget is likely to be brought under control.



## MONMOUTHSHIRE COUNTY COUNCIL

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County Councillor Murphy stated that he would be willing to put the points raised by County Councillor Easson to the representatives of Chepstow School at this meeting and report back to County Councillor Easson.

The Chair asked the Committee to indicate their support for the motion. In doing so, the following votes were recorded:

In favour of the motion:	2
Against the motion:	7
Abstentions:	2

The motion was denied.

We resolved that County Councillor Murphy presents the points raised by County Councillor Easson to the representatives of Chepstow School with a view to obtaining answers to these questions.

- Annual Governance Statement – The Chief Internal Auditor stated that a summary has been incorporated into the final version of the report. However, this had not been put onto the draft set of accounts yet. He informed the Committee that he will send a separate summary to Committee Members in the following days.

#### **5. 2015/16 Treasury Outturn Report**

We considered the Annual Treasury Outturn report for 2015/16. In doing so, the key aspects at outturn were as follows:

<u>Capital Financing Requirement</u>	£114.1 million	
<u>Funded by External Loans</u>		
Short Term	£23.0 million	Avg rate 0.57%
Long Term	£69.4 million	Avg rate 4.30%
Sub Total	£92.4 million	Reduction of £6.9 million on 2014-15 outturn  Average interest rate of 3.45%, with no change from the previous year profile

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<u>Other Long term Liabilities</u>	£3.8 million	PFI and finance lease obligations, plus contractor bonds and deposits
Total Debt	96.2 million	
<u>Investments</u>		
Short Term	(£11.4 million)	Reduction of £0.8 million on 2014-15 outturn  Avg rate 0.44%  Avg investment period 8 days
Long Term	0	
Net Investments @ outturn	(£11.4 million)	

Having received the report, the following points were noted:

- Annual updates are received by Treasury Advisors but dialogue was available throughout the year, if required.
- The Sovereign rate for the U.K. generally, has dropped one bracket. However, it was noted that Arlingclose would be content with continued investment in those companies not exceeding four years.

We resolved to note the results of the treasury management activities and performance achieved in 2015/16.

### **6. Statement of Accounts 2015-16**

We considered the annual accounts for the Authority for 2015-16. The accounts are presented for information. However, once the External Audit process is complete, the Audited Statement of Accounts will be approved by Council in September 2016.

Having considered the report, the following points were noted:

- A full complement of staff were now in place and were on target to meet the audit plan.

## MONMOUTHSHIRE COUNTY COUNCIL

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- In response to a Member's question regarding Modern.Gov, it was noted that Member's had been provided with a password to allow them to access the system. Access to Modern.Gov via Members' laptops was easily accessible. However, officers were working to overcome access issues via other devices. There will also be further additions to the Modern.Gov programme over the summer months.
- Concern was expressed that the risk management reserve might be a little high. However, it was noted that in the accounts last year, the auditors had highlighted issues. Officers had indicated that an actuary review had been undertaken. Therefore, last year's balance had a figure of £2.2m. This year, the balance against insurers of risk management is £1.2M.
- CMC2 £122,000 liability – Whilst CMC2 remains an active concern, Cabinet last year approved £140,000 to CMC2 in order to guarantee its overdraft. It is unlikely that that liability exists this year and its trading account is largely a break even account. However, the income figures are not yet available.
- Remuneration bands – This refers to pay and benefits for loss of office, i.e., redundancy costs.
- Monmouthshire's markets – The assistant Head of Finance would investigate whether any of the markets are making a profit.
- Business Rates Debtors – We, as an Authority collect these debts on behalf of the Welsh Government.

We resolved that the Statement of Accounts be forwarded to the Wales Audit Office.

#### **7. Review of Earmarked Reserves**

We reviewed the level of earmarked reserves held by the Council at the end of 2015/16, the rationale for each reserve and the protocols for using them.

Having received the report it was considered that the Audit Committee should receive a report on the review of earmarked reserves on a quarterly basis.

We resolved:

- (i) to receive the report and note its content;
- (ii) that the Audit Committee receives a report on the review of earmarked reserves on a quarterly basis.

## MONMOUTHSHIRE COUNTY COUNCIL

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### **8. Internal Audit Section Contract Procedure Rules - Exemptions**

We considered the adequacy and appropriateness of the exemption process from the Authority's Contract Procedure Rules since the previous report in December 2015.

In doing so, the following information was noted:

EXEMPTIONS – November 2015 to May 2016

- Of the 15 requested exemptions, 4 have not been returned to Internal Audit.
- All officers who request an exemption will be reminded to return the form to Internal Audit by the Chief Internal Auditor.
- 10 out of 11 returned forms had been appropriately authorised. This is reassuring in that the managers who are aware of the process are following the correct process. Exemption form 193 was requested and approved by the same officer and was signed off and dated prior to the form being sent out by the Internal Audit team.
- Although Heads of Service and operational managers were made aware of the revised Contract Procedure Rules at the time, the main concern is that current operational managers may be non-compliant because they are not seeking the appropriate exemptions.
- An additional 2 exemptions have been received which will be reported to the next Audit Committee meeting.

In response to a Member's question regarding £10,000 being spent to hire a Welsh speaking chef and compare for the Eisteddfod, the Chief Internal Auditor will investigate the matter with a view to seeking clarification.

We resolved:

- (i) to accept and acknowledge the justifications for the exemptions provided by operational officers;
- (ii) that the Committee receives an update report in six months' time to include any further responses obtained by the Chief Internal Auditor;
- (iii) that the additional two exemptions received will be reported to the next Audit Committee meeting.
- (iv) The Chief Internal Auditor will investigate why £10,000 has been spent to hire a Welsh speaking chef and compare for the Eisteddfod.

## MONMOUTHSHIRE COUNTY COUNCIL

**Minutes of the meeting of Audit Committee held  
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 30th June, 2016 at 2.00 pm**

### **9. Financial Resilience Assessment**

We received the Wales Audit Office (WAO) financial resilience assessment for Monmouthshire County Council. We were informed that a piece of work had been carried out by the Wales Audit Office across each Council in Wales. The focus was on answering the question is Monmouthshire County Council managing financial reductions effectively to ensure financial resilience?

In carrying out this piece of work, the WAO looked at financial planning, financial control and financial governance to assess whether the authority was effectively supporting financial resilience.

For each council, the WAO risk rated each of these three areas being low, medium and high and in the case of Monmouthshire County Council, each element was rated as follows:

Financial Planning	-	medium
Financial Control	-	medium
Financial Governance	-	low

The WAO concluded that Monmouthshire County Council has generally effective financial governance but its financial planning and control arrangements are not fully embedded or delivering effectively in the face of some significant financial challenges. In respect of the three themes, financial planning, it was concluded that the Council's financial planning arrangements continued to improve, although, the Medium Term Financial Plan was not fully balanced. Some budget mandates did not define how savings would be achieved and some planned savings were unlikely to deliver.

In terms of financial control, the Council has established financial control arrangements, but the Council was uncertain whether it would remain within its 2015/16 revenue budget due to pressures in Social Services and non-delivery of parts of the savings plan.

In respect of financial governance, the Council, generally has effective financial governance arrangements in place.

The Head of Finance informed the Committee that she welcomed the report and it was pleasing that there was only one recommendation arising from it. In terms of the Authority's risk rating in respect of financial control that was recorded at a time when the Authority didn't know whether the forecast would come in on budget. The 2015 financial year is now closed and the Authority drove a surplus out of that arrangement last year. The Authority will take on board the recommendation made by WAO.

Having received the report and the views expressed, the following points were noted:

- In response to a Member's question regarding the level of savings and the level of understanding of Members when they make such decisions, the WAO representative stated that the WAO would hope that Members had clear information so that they understood the impact of the decisions that they were

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 30th June, 2016 at 2.00 pm

undertaking. It was considered that Members did not have that level of understanding of the detail.

- In response to a Member's question regarding underspends and overspends, as outlined in paragraph 21 of the report, the WAO representative stated that what was being reflected in that paragraph was a considerable overspend in Social Services and considerable underspends in other services. Therefore, in terms of financial control there is a question for the WAO regarding the Council's level of financial control.
- It was noted that if a post had been vacant for some time, then it would not be unreasonable for councils to put this post forward as a potential saving.
- It had been recognised that some mandates had not been clear and the Authority had struggled last year in formulating its mandates. The Future Monmouthshire review will address these issues.

We resolved to receive the report and noted its content.

#### **10. Governance Corporate Assessment follow on review**

We received the Wales Audit Office (WAO) Governance - Corporate Assessment follow on Review for Monmouthshire County Council.

This review was a follow on from the Corporate Assessment made in 2015. The WAO had concluded that the Council has made progress in improving its Governance arrangements although more work is needed to strengthen the transparency of decision making and recording.

Officers welcomed the report and informed the Committee that the Authority was working to address the issues raised in the report.

Having received the report, the following points were noted:

- Pre-scrutiny of meetings – some concern has been raised that one of the Select Committees had been undertaking pre-decision scrutiny of a decision already taken by Cabinet. However, it was noted that it was a difficult process to map out because the decision was made in Cabinet with regard to the treatment of a specific issue, the subsequent review of the funding formula by the Select Committee which is an ongoing process annually. The Committee had taken the view to revisit this matter. Greater clarity will be made available in future.
- In response to questions raised by a Member of the Committee, it was noted that papers are presented to Audit Committee outlining progress. However, given the gaps in the receipt of reports the WAO expressed concern that Members might not be able to maintain the level of challenge. It was noted that reports were brought back to Committee on a regular basis if not frequently. A six monthly reporting cycle could be established if it was considered beneficial.

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- The font size on the fees and charges schedule was too small making it difficult for members to read the information and therefore it was unclear whether Members had had the appropriate information to come to a decision. However, it was noted that large hard copy versions have been made available for Members to aid in their decision making.
- Cabinet maintains its position that decision logs are appropriate to its decision making process with the addition of live streaming of its meetings.
- The WAO stated that the Council knew how it was going to make the savings in Education but were unsure of the impact that these savings would create and how the schools were going to deliver the savings.
- It was considered that the Council has no mechanism for reporting back to the public on issues having received the views of the public via consultation. Though the Council consults with the public on a regular basis there was a need to establish a better means of feeding back information to the public.

We resolved to receive the report and noted its content.

#### **11. Certificate of compliance and feedback on the Council's assessment of performance 2014/15**

We received a report in which the Committee received the Wales Audit Office certificate of compliance and feedback on the Council's assessment of performance 2014/15 contained in the Stage 2 Improvement Plan 2014/15 published in October 2015.

It was noted that there were discrepancies in the ranking data relating to Monmouthshire's position in Wales and the same data supplied by Data unit Wales. The reason for the discrepancy related to further information being made available whilst the plan was being written, which had not been identified in the Improvement Plan.

We resolved to receive the Wales Audit Office certificate and feedback for consideration in future improvement Planning.

#### **12. Corporate Assessment 2015 Action Plan Progress report**

We received a report outlining the progress made against the actions committed in response to the proposals for improvement issued in the Wales Audit Office Annual Improvement Report 2014-15, incorporating the Corporate Assessment.

Having received the report, the following points were noted:

- The majority of staff have had an appraisal with their line manager (Check in, Check out). However, the recording of some of the appraisals has not been undertaken. It was the Council's intention for all of its staff to undergo the Check in, Check out process.

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- A Select Committee has been established to scrutinise the Local Service Board (LSB). The first meeting had been held earlier this month.

We resolved to note the current progress against proposals for improvement and future actions committed in response to the proposals.

### **13. Audit Committee Work Plan 2016/17**

We resolved to receive and note the Audit Committee Work Plan 2016/17.

**The meeting ended at 3.51 pm**



# Agenda Item 5

## Audit Committee Actions 30<sup>th</sup> June 2016

Agenda Item:	Subject	Officer	Outcome
<b>Agenda Item 5 (Action list)</b>	Issue raised by a member of the public regarding Chepstow School. Councillor Easson raised questions.	Councillor Murphy	<b>County Councillor Murphy presents the points raised by County Councillor Easson to the representatives of Chepstow School with a view to obtaining answers to these questions.</b>
<b>Agenda Item 5 (Action list)</b>	Annual Governance Statement	Andrew Wathan	<b>The Chief Internal Auditor to send a copy of the final summary to Committee Members.</b>
<b>Agenda Item 8</b>	Review of Earmarked Reserves	Joy Robson	<b>The Audit Committee to receive a report on the review of earmarked reserves on a quarterly basis.</b>
<b>Agenda item 9</b>	Internal Audit Section Contract Procedure Rules - Exemptions	Andrew Wathan	<p><b>The Committee to receive an update report in six months' time to include any further responses obtained by the Chief Internal Auditor</b></p> <p><b>The additional two exemptions received will be reported to the next Audit Committee meeting.</b></p> <p><b>Investigate why £10,000 has been spent to hire a Welsh speaking chef and compare for the Eisteddfod.</b></p>

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**MONMOUTHSHIRE COUNTY COUNCIL**

**ANNUAL ACCOUNTS**

**2015/16**

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## **1 EXPLANATORY FOREWORD**

### **1.1 Introduction**

- 1.1.1 Monmouthshire County Council is a Welsh Unitary Authority and was created on 1st April 1996 by virtue of the Local Government (Wales) Act 1994.
- 1.1.2 Monmouthshire County Council was formed from a transfer of the services, assets and liabilities of the functions of the former Monmouth Borough Council and parts of the former Blaenau Gwent Borough and Gwent County Councils.
- 1.1.3 The purpose of this explanatory foreword is to offer a guide to the most significant matters appearing in the accounts and to explain the Authority's overall financial position. I hope it assists the reader in understanding the financial statements that follow.

### **1.2 The Accounting Statements**

- 1.2.1 The Authority's accounts for the year 2015/16 are set out in sections 5 to 16. 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 2016. The notes are sectioned to aid the user of the accounts to navigate the extensive supporting notes.

### **1.3 Code of Practice on Local Authority Accounting**

- 1.3.1 The accounts have been prepared in accordance with the latest code of practice applying to local authorities in England and Wales.
- 1.3.2 The Code requires authorities to enhance their statement of accounts with information about any material interest in subsidiaries, associates and jointly controlled entities in a set of group accounts. These accounting requirements result in the consolidation of the transactions and balances of subsidiaries and of interests in associates and joint ventures, thus ensuring group accounts provide a complete picture of the authority's control over other entities.
- 1.3.3 The Authority accounts for its respective contributions to joint committees within services in the Comprehensive Income and Expenditure Statement on an accruals basis. For 2015/16 the Authority has consolidated its respective shares of the income, expenditure, assets and liabilities into its financial statements. Where appropriate these adjustments have been shown under the heading of 'Adjustments relating to JANEs'.

### **1.4 2015/16 Net Revenue Expenditure**

- 1.4.1 The details of the Authority's revenue expenditure for the year are set out in the Comprehensive Income and Expenditure Statement and further transfers to and from the Council Fund have taken place within the Movement in Reserves Statement. These statements appear in sections 5 and 6 of the accounts.
- 1.4.2 The Authority manages against its budget requirement for the year based on its internal management and directorate structure. Schools are reported separately during the financial year and are consolidated as part of the production of the year end accounts.
- 1.4.3 Excluding JANEs, the Authority is reporting a £6,432,000 deficit for the year, the principal reasons for this being:
- £15,034,000 of depreciation (£8,910,000), revaluation losses (£2,753,000) and impairment charges (£3,371,000) on property, plant and equipment assets
  - £2,132,000 of revenue expenditure funded from capital under statute (REFCUS) charged to the Comprehensive Income & Expenditure Account
  - £1,515,000 of net revaluation losses relating to Investment properties; offset by:
  - £6,529,000 relating to the reversal of past impairment losses on property, plant & equipment assets
  - £6,190,000 of capital grants applied during the year that are recognised in full in the Comprehensive Income & Expenditure Account

- 1.4.4 These charges and credits are reversed or replaced in the Movement in Reserves Statement with other statutory charges, together with other adjustments required to move from an accounting basis to a funding basis under regulations. When combined with transfers to and from earmarked reserves the Authority has incurred a surplus on its Council Fund Balance of £136,000. This comprises a £120,000 surplus relating to non-school budgets and a £16,000 surplus relating to school budgets.
- 1.4.5 When compared against the revised budgets set by the Authority and schools respectively, this illustrates how the Authority has performed against budget for the year of account.
- 1.4.6 The analysis below of outturn against revised budget is based on the internal management structure of the Authority and not on the classification prescribed by the Code of Practice. Readers will be able to reconcile the Council Fund surplus to that reported in the Movement in Reserves Statement by reference to note 11.1 to the accounts and the Authority's revenue outturn report.
- 1.4.7 The Council fund balance, excluding school balances, has increased from £6,991,000 to £7,111,000 as a result of the surplus for the year. Earmarked revenue reserves have decreased from £10,980,000 to £9,269,000 during the financial year. In total, available revenue reserves to the Authority (excluding school balances) have decreased by £1,592,000 from £17,972,000 to £16,380,000.

	<b>Revised Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Net Expenditure:</b>			
Net cost of services (internal management structure)	141,171	141,315	144
Attributable costs – Fixed Asset Disposal	233	138	(95)
Interest and Investment Income	(51)	(117)	(66)
Interest Payable and Similar Charges	3,663	3,295	(368)
Changes to Investment Losses	0	(48)	(48)
Charges Required Under Regulation	5,806	5,566	(240)
Capital Expenditure financed from revenue	272	272	0
Earmarked Contributions to Reserves	95	2,012	1,917
Earmarked Contributions from Reserves	(2,773)	(3,075)	(302)
<b>Financed by:</b>			
General government grants	(67,642)	(67,642)	0
Non-domestic rates	(26,737)	(26,737)	0
Council tax	(60,094)	(61,004)	(910)
Council Tax Benefit Support (included in n.c.s)	6,097	5,906	(191)
Contribution to/(from) Council Fund	(40)	0	40
<b>Council Fund (surplus)/deficit - Non-Schools</b>	<b>0</b>	<b>(120)</b>	<b>(120)</b>
<b>Council Fund (surplus)/deficit - Schools</b>	<b>583</b>	<b>(16)</b>	<b>(599)</b>
<b>Council Fund (surplus)/deficit - Total</b>	<b>583</b>	<b>(136)</b>	<b>(719)</b>

## 1.5 Reserves

- 1.5.1 Movements in the Authority's reserves for the year are detailed in the Movement in Reserves Statement and is supported by notes to the Accounts which appear in section 10 of the accounts.

**1.6 2015/16 Capital Expenditure**

1.6.1 Detailed information on capital expenditure incurred in the year appears in note 12.7 to the accounts. Total capital expenditure in 2015/16 was £18,845,000 (£14,256,000 in 2014/15). The main items within this figure are shown below along with an analysis of the capital financing arrangements:

<b>Financing</b>	<b>£000</b>
Capital receipts	7,765
Borrowing and Finance Lease Commitments	2,952
Grants and Contributions	7,208
Revenue and Reserve Contributions	920
	<u>18,845</u>
 <b>Expenditure</b>	 <b>£000</b>
Infrastructure and Transport Schemes	3,135
Asset Management Schemes	2,710
School Development Schemes	10,192
Regeneration Schemes	517
Inclusion Schemes	1,235
Other scheme types	1,056
	<u>18,845</u>

1.6.2 The major capital schemes supported by the Authority during the year comprise:

- Schemes delivered as part of the Authority's schools modernisation programme which included investment at Monmouth Comprehensive (£3,998,000), Caldicot Comprehensive (£4,243,000), Raglan Primary (£1,780,000) & other smaller schemes (£112,000)
- Additional investment of £3,135,000 in highways infrastructure, specifically the road resurfacing programme, flood alleviation, bridges & street lighting and investment in grant funded transport schemes
- Asset management schemes, principally comprising expenditure incurred on major property maintenance schemes (£1,958,000) and numerous smaller asset management schemes (£752,000)
- Investment in Inclusion projects of £1,235,000 consisting of Disabled Facilities Grants (£647,000), Access for All (£511,000) and Low Cost Home Ownership (£77,000)
- Investment in Regeneration projects of £517,000 primarily via Section 106 schemes

1.6.3 Other than specific funding support being received from external funding bodies, the Authority is reliant on useable capital receipts and revenue support. The useable capital receipts balance as at 31st March 2016 amounted to £5,423,000 (£17,629,000 as at 31st March 2015). In terms of revenue support, reference is made to available balances in paragraph 1.4.7 of this foreword.

**1.7 Loan Debt**

1.7.1 The loan debt at 31st March 2016 was £95,560,000 compared to an opening position for the year of £101,313,000. Separate to the cost of servicing debt the Authority is required to make prudent provision through its revenue account for the repayment of debt. £5,486,000 (£5,496,000 in 2014/15) was provisioned for the repayment of principal and £3,267,000 (£3,532,000 in 2014/15) was provisioned for the repayment of interest, a total cost in the year of £8,753,000 (£9,028,000 in 2014/15).



**1.8 Pension Liabilities**

- 1.8.1 The requirements of IAS19 *Employee Benefits* are incorporated into the Code of Practice. This requires the recognition of a net pension liability and a pensions reserve in the Balance Sheet together with entries in the Comprehensive Income and Expenditure Statement for movements in the asset/liability relating to defined benefit schemes (with reconciling entries back to contributions payable for council tax purposes via the Movement in Reserves Statement).
- 1.8.2 The pension liability at the end of the year amounted to £188,225,000 (£167,414,000 in 2014/15). The Authority is being charged increased employer contributions in order to contribute to the redressing of the balance of the pension fund. Further details are given in section 14 of the notes to the Accounts.

**1.9 Conclusions**

- 1.9.1 The accounts have been produced to comply with legislative and best practice. Supporting outturn statements on both revenue and capital accounts are separately available and show comparisons of service and project expenditure against budget in a clearer manner, with explanations of variances. These reports, together with the Statement of Accounts are available on the Authority's website.
- 1.9.2 The under spend for 2015/16 has largely resulted from under spends on treasury activity, improved recovery on council tax, a reduction in anticipated borrowing costs offset by a net over spend on Directorate services. Following transfers to/from earmarked reserves, this has resulted in a small net deficit on the general fund account.
- 1.9.3 However, the 2016/17 budget is extremely challenging, with continuing pressures in Children's social services. The MTFP requires significant changes in service provision in order to meet the challenging financial targets and work has started to look at what the Council needs to do to respond to future challenges whilst still balancing next year's budget. Indications are that the next 4 year window of the MTFP is going to be as challenging as the last and therefore further scope for savings will need to be assessed. Members and officers will need to ensure that the budget is carefully managed and earmarked reserves carefully directed to maximise their impact in 2016/17 in order to ensure the current stable corporate financial position is maintained.

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**J Robson**  
**Head of Finance (S151 Officer)**

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**Date**

## 2 STATEMENT OF RESPONSIBILITIES

### 2.1 The Authority's Responsibilities

2.1.1 The Authority is required to:-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

### 2.2 The Head of Finance's Responsibilities

2.2.1 The Head of Finance 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).

2.2.2 In preparing this Statement of Accounts, the Head of Finance 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.

2.2.3 The Head of Finance has also:

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

## CERTIFICATION OF ACCOUNTS

I certify that the accounts set out within sections 5 to 16 gives a true and fair view of the financial position of the Council as at the 31st March 2016 and its income and expenditure for the year ended 31 March 2016.

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**Joy Robson**  
**Head of Finance (S151 Officer)**

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**Date**

I confirm that these accounts were approved by the Leader of the Council on 22nd September 2016 on behalf of Monmouthshire County Council.

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**Cllr Peter Fox**  
**Leader of the Council**

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**Date**

### **3 ANNUAL GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2016**

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'. It embraces the elements of internal financial control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

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 2014/15 action plan is shown at paragraph 3.8.1. The main areas for improvement in 2015/16 identified by the Council are shown at paragraph 3.7.1 and an action plan to address known gaps is shown at paragraph 3.8.2.

#### **3.1 Scope of Responsibility**

- 3.1.1 Monmouthshire County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This has been updated in recent years through the Wales Programme for Improvement 2005 and even more recently through the Local Government (Wales) Measure 2009 to encompass responsibility for securing continuous improvement based on the needs of and in engagement with communities.
- 3.1.2 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.
- 3.1.3 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 approved by Council in July 2011; the Code was revised and updated in May 2014. A copy of the code is available from the Chief Internal Auditor. This statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit (Wales) Regulations 2014.

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

- 3.2.1 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.
- 3.2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the 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.
- 3.2.3 The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the statement of accounts.

#### **3.3 The Governance Framework**

- 3.3.1 The Council's Code of Governance has been developed in line with the following principles:

- Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles in order to achieve the best possible outcomes for citizens
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk in order to foster innovation;
- Developing the capacity and capability of members and officers to be effective; and
- Engaging with local people and other stakeholders to ensure robust public accountability.

3.3.2 The Authority's financial management arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)*.

3.3.3 The key elements of the Council's governance arrangements are set out in The Improvement Plan; the latest version, Building Sustainable and Resilient Communities 2015-2017, was approved by Council in May 2015. Six monthly progress updates were presented to select committees during the year to enable scrutiny of progress and to allow Chief Officers and executive members to be held to account. The Council's four priorities are education of young people, protecting the vulnerable, supporting business and job creation and maintaining locally accessible services. The Council subscribes to a vision shared with other public service partners of working to deliver 'Sustainable resilient communities'. This is the cornerstone of the County's Single Integrated Plan where three themes have been adopted: Nobody is Left Behind; People are Confident, Capable and Involved; Our County Thrives.

#### **3.4 Review of Effectiveness**

3.4.1 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 Senior 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.

3.4.2 As a result, the governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

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

- i) The Monitoring Officer has reviewed the Council's Constitution and ethical governance arrangements during the year. Amendments and updates were approved by Council in September 2014;
- 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;
- iii) Revisions and updates to strengthen the strategic risk Management Policy were approved by Cabinet in March 2015;
- iv) Formal risk management and regular ongoing review of the processes involved;
- v) Scrutiny Service Plan 2015-2018
- vi) 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;
- vii) The work of the Council's Select and other Committees, including its Audit and Standards committees;

- viii) 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;
  - ix) The opinions and recommendations of other inspection, regulation and review agencies which are reported to Council, Cabinet and Audit Committee as appropriate;
  - x) Regular monitoring of performance against the Improvement Plan and service plans and of key targets, and reporting of this to senior management and members;
  - xi) Corporate self-evaluation was carried out in Autumn 2014 and the findings addressed through an action plan that is being monitored by Strategic Leadership Team – Cabinet report next on Autumn 2016;
  - xii) An annual Head of Service Challenge Process involving the Leader, Chief Executive and Executive Members which evaluates and challenges performance to drive improvements in services;
  - xiii) Audit Committee review of effectiveness workshop;
  - xiv) Evaluating the effectiveness of Safeguarding in Monmouthshire was taken through Cabinet;
  - xv) Annual appraisal of the effectiveness of the authority's performance management arrangements reported annually to Audit Committee.
- 3.4.5 The following paragraphs review the effectiveness of the governance arrangements in Monmouthshire under the 6 principles. A senior officer working group was set up to undertake the initial review; the outcome of that process fed into this statement which then went to the Senior leadership team (SLT) for review before being taken to Audit Committee for a further review.
- 3.4.6 **Principle 1: Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area**
- 3.4.7 The Single Integrated Plan sets out the vision of the Local Service Board – a partnership of the key public service providers in Monmouthshire which includes the Council – it has three key themes; nobody is left behind, people are confident, capable and involved; and our County thrives. It is developed by and agreed by all our partner organisations who are members of the Board. The LSB will become the Public Service Board (PSB) from April 2016.
- 3.4.8 The Council's strategic partners and wider stakeholders were fully engaged in the development of the Single Integrated Plan 2013-17 (SIP) incorporating key themes and outcomes to realise the shared vision. The organisation's Stage 1 Improvement Plan underpins the Council's contribution to the SIP by setting Annual Improvement Objectives for 2015/16. The Stage 1 Improvement Plan (Two-year Plan), was presented to Council in May 2015 and was reviewed, Stage 2, at six months through the year in December 2015 and January 2016 through the Council's four Select committees.
- 3.4.9 In the 2015 Corporate Assessment WAO issued a Proposal for Improvement that the Authority should "Improve performance management arrangements by: ensuring planned improvements are tangible; improving target setting to better reflect desired improvement; ensuring resources are allocated to deliver Council priorities through the MTFP and improving data quality arrangements to ensure that performance reporting is accurate and that decisions are made based on robust information.
- 3.4.10 The Annual Improvement Plan Objectives for 2015/16 are supported by service plans to operationally deliver these objectives. Planned improvements and targets are aligned to the Annual Improvement Objectives. Service plans were developed in 2015/16 covering all service areas. These were quality assessed as part of the service planning process.
- 3.4.11 In the 2015 Corporate Assessment Wales Audit Office issued a Proposals for Improvement that the Authority should "Improve strategic planning by ensuring clear links between strategies and agreed priorities; and developing cohesive strategies to underpin and support robust decision making".

- 3.4.12 Reports were taken through the Scrutiny process during the year which linked service plans to the Council's policies, priorities and objectives. The agendas and minutes of which became public documents available through the Council's website.
- 3.4.13 Throughout 2015/16 the Council has been an early adopter of the Wellbeing of Future Generations Act and has received support from the WLGA as well as working with Wales Audit Office in preparing for the implementation of the Act in April 2016. Preparation has included increased awareness raising with Council members and officers, Wales Audit Office reviewing the Council's preparedness for the Act and identifying key next steps for delivery and transitioning the Local Service Board (LSB) in to a Public Service Board. Action plan – 16/17 Scrutiny set up for service board'
- 3.4.14 In addition, the Medium Term Financial Plan (MTFP) supports the vision for Monmouthshire and extensive public engagement continued in 2015/16 for the 2016/17 budget and Medium Term Financial Plan which engaged with the public in their own community; this included website, social media, drop in sessions and open meeting. The Chief Executive and Leader of the Council also held consultation roadshows across the whole County with staff. These were key to providing people with the opportunity to become informed, involved and participate. There was broad agreement with the key priorities set out for Monmouthshire. Following the engagement in 2014/15 maintaining locally accessible services was added as fourth priority of the Council in the March 2015 partnership administration's Continuance Agreement.
- 3.4.15 The Council is embracing the benefits of digital communications including social media use. It is also developing additional digital channels by introducing a Customer Services app, enabling people to interact and transact with the Council using mobile devices. We are also further developing the Council's website making it easier to navigate and including more transactional functions. Social media continues to thrive during 2015/16 through Twitter, Facebook and You Tube to raise awareness of forthcoming events, to provide live streaming of Cabinet, Council and other political meetings, to promote the activities and services provided and to show support and encouragement for community groups.
- 3.4.16 The provision of high quality of services has been measured by the Welsh Government National survey for Wales. This stated that in 14/15 57% of Monmouthshire residents agree the local authority provides high quality services (Wales average 53%). In 13/14 63% agreed.
- 3.4.17 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 107 complaints received in 2015/16, 103 were resolved informally [96%]; this compared with 100 out of 116 complaints resolved informally in 2014/15. 2 complaints were referred to the Ombudsman who decided not to investigate. 91% of Stage 1 complaints received were dealt with within 25 working days of receipt. Within Social Services, 43 complaints were received in 2015/16, 86% were dealt with informally.
- 3.4.18 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 for the 21st Century Schools considered cost and quality to determine the best outcome for the service; budget mandates were in place to monitor and capture the savings assessments; the IT Board reviewed business cases for future IT investment;
- 3.4.19 Regular budget / outturn reports for revenue and capital were presented to and approved by Cabinet during the year, and the budget management actions of Cabinet and senior officers are scrutinized by the 4 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. This exercise is next due during 2016-17. The updated MTFP was reviewed and approved by Cabinet over the course of the budget setting period (Sept 2015 to Jan 2016) in response to feedback from engagement and scrutiny sessions and the budget was set in January 2016 by Council for 2016/17.

- 3.4.20 An authority-wide performance measurement system for the Council, the “data hub”, hosted on the Council’s intranet site continues to be used and further developed. This is available within 3 clicks of the homepage that opens up on all laptops and enables members and officers to track and monitor key data at any point in time from key strategic plans to directorate level “dashboards”. This also allows performance to be compared against other council areas, where applicable. A Cabinet level dashboard contains a number of key performance measures and is discussed quarterly by SLT and Cabinet.
- 3.4.21 Based on 2014/15 National Performance indicator data the council has seen service performance improve, or remain at the maximum level, in 84% of comparable National Performance indicators and declined for 14% of them. When comparing against other local authorities Monmouthshire was ranked in the top quartile for 44% of the published indicators and the bottom quartile for 16% of indicators. 63% of indicators met the targets that had been set, while 23% missed their targets.
- 3.4.22 Contract Procedure Rules exemptions are reported to the Audit Committee 6 monthly; managers have been challenged in year to justify their procurement outside the Council agreed procedures. Several managers were called in to Audit Committee to give an account of why accepted procedures were not followed.
- 3.4.23 The Council utilises ‘Buy For Wales’ contracts to ensure value for money is obtained in procuring the many goods and services required to run the Council. A nationwide analysis found that MCC had the highest proportion of spend with SMEs of any local authority in the UK (Source: <http://www.spendsmall.org/>)
- 3.4.24 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, Improvement Plan progress, Council activities, achievements, developments, updates and events were included on the Council’s intranet and website, with all Council, Cabinet and Scrutiny Committees now live streamed on You Tube.
- 3.4.25 The Equality Impact Assessment and Sustainable Development checklist have been 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, Wellbeing of Future Generations Act and Welsh Language (Wales) Measure 2011. A range of these were undertaken during 2015/16 which have been published on the website accompanying decision making reports.
- 3.4.26 The Local Service Board (LSB) review includes the monitoring of targets to ensure policies are delivering the agreed outcomes. The Council was an “early adopter” of the Wellbeing of Future Generations Act 2015, working with the WLGA; in line with the Act the LSB will become a Public Services Board with effect from 1st April 2016 and the Council has been involved in taking this forward.
- 3.4.27 **Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles in order to achieve the best possible outcomes for citizens**
- 3.4.28 The Constitution is updated periodically by the Monitoring Officer; it was reviewed and updated between January 2014 and June 2014, and was approved by Council in September 2014. It can be found on the Council’s website and sets out:
- how the Council operates and makes decisions,
  - the procedures to ensure that decision-making is transparent and accountable to local people and other stakeholders,
  - the key roles of all members and chief officers, including the lead responsibilities for corporate governance of the Leader, the Chief Executive and other designated chief officers,
  - a scheme of delegated powers for decision-taking

- responsibilities for reviewing and agreeing the Council's corporate governance arrangements,
- arrangements for ensuring it is regularly reviewed and updated
- its related codes and protocols.

3.4.29 Policy and decision-making is facilitated through (i) the Cabinet, the meetings of which are open to the public 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: Four select committees 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.

3.4.30 Appropriate and relevant job descriptions were in place for the Chief Executive, Senior Leadership Team (SLT), Monitoring Officer and Head of Finance. The minutes of the SLT were also maintained during the year.

3.4.31 To ensure agreed procedures and all applicable statutes are complied with the Monitoring Officer attends all Council meetings; to ensure sound financial management is a key factor in decisions, the Head of Finance attends Cabinet and Council meetings.

3.4.32 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, and Monmouthshire signed up to this in January 2011. The Authority is required to meet statutory obligations regarding the handling and sharing of data, in accordance with the Data Protection Act 1998. The Information Sharing protocol has been developed to ensure information is only shared appropriately, safely and compliantly.

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

3.5.1 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.

3.5.2 An exercise was undertaken by the Policy and Partnership Team in 2013/14 to determine the full extent of the Council's collaboration and partnership arrangements and their respective governance arrangements. A Partnership Audit was undertaken and reported into the Audit Committee in May 2014; 100 partnership / collaboration arrangements were identified. Although the governance arrangements for the majority of partnerships identified have been captured, further work is on-going to clarify the governance arrangements for all of the partnerships; this was reported to Members through the Audit Committee. Governance arrangements have been put in place around all key partnerships the Council is involved with. Monmouthshire's Partnership Structure is now shown on The Hub and was reported through Strong Communities Select in April 2016.

3.5.3 Wales Audit Office made a proposal for improvement to the Council as part of their Annual Improvement Report 2014-15, published in November 2015, to "Adopt a more planned, risk-assessed approach to partnership and collaborative working to make better use of resources." The action the Council is taking in response to the proposal was reported to Cabinet in January 2016. Their Corporate Assessment on the Council, reported through Audit Committee in January 2016, stated "The Council demonstrates ambition in its vision, enthusiasm to deliver and commitment to working collaboratively, but this needs to be supported by a clearly joined-up strategic approach and effective delivery mechanisms."

3.5.4 **Principle 3: Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**



- 3.5.5 The code of conduct for members and a protocol on member / officer relations are set out in the constitution. A new version of the code of conduct for members will be adopted by Council in May 2016. The council also has a local protocol for the self-regulation of member conduct.
- 3.5.6 There were no successful “call-in” challenges to decisions on procedural grounds and no judicial review challenges on grounds of legality during the year.
- 3.5.7 There were 3 complaints of alleged breaches of the code of conduct for members that were referred to the Public Services Ombudsman for Wales in 2015/16. No further action was required on the complaints and none were referred to the Standards Committee.
- 3.5.8 All waivers of the Contract Procedure Rules are reported through Audit Committee quarterly. The Internal Audit team continues to deliver awareness raising sessions on the importance of compliance with these Contract Procedure Rules and Financial Procedure Rules.
- 3.5.9 The Audit Committee called in several senior managers during the year and challenged them on why a procurement process went outside the Council’s normal tendering processes.
- 3.5.10 26 Internal Audit opinions were issued in 2015/16; 3 were deemed to be unsatisfactory.
- 3.5.11 The overall opinion on the adequacy of the internal control environment for 2015/16 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 2015/16 were as follows and more detail can be found in the Annual Internal Outturn Report for 2015/16, as reported to Audit Committee:

Opinion	2013-14	2014-15	2015-16
Very Good	0	1	0
Good	8	9	9
Reasonable	7	12	14
Unsatisfactory	0	6	3
Unsound	0	0	0
<b>Total</b>	<b>15</b>	<b>28</b>	<b>26</b>

- 3.5.12 The Internal Audit team did not have a full complement of staff for the full year; 74% of the 2015/16 plan was achieved, which was an improvement on the previous year (65%). 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.
- 3.5.13 A 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.
- 3.5.14 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.
- 3.5.15 **Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk in order to foster innovation**

- 3.5.16 There are robust arrangements for effective 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 Regulations. 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.
- 3.5.17 All public meetings of the Council 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. Wales Audit Office made a proposal for improvement to the Council as part of their Annual Improvement Report 2014-15, published in November 2015, to "Strengthen the governance and challenge arrangements by: ensuring that minutes of meetings are signed at the next suitable meeting in accordance with the Council's constitution to improve timeliness and transparency of public reporting; and reconsider the Council's policy of not formally minuting Cabinet meetings".
- 3.5.18 The action the Council is taking in response to the proposal was reported to Cabinet in January 2016. This identified the 'Modern Gov' system has been implemented and improved the documentation of minutes, agendas and reports for meetings on the Council's website. A decision-log of Cabinet meetings is published on the website following each Cabinet meeting detailing the decisions that have been which include any amendments made to the proposed decision. Not publishing minutes for Cabinet has been a longstanding practice of the Council which has raised no issues of transparency and openness in the decision making process and the Council does not have any plans to change this process for recording decisions at Cabinet.
- 3.5.19 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 and which is regularly reviewed.
  - registers of personal and business interests for Members
  - 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
- 3.5.20 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.
- 3.5.21 The anti-fraud and corruption strategy (approved by Cabinet March 2012) provides a deterrent, promotes detection, identifies a clear pathway for investigation and encourages prevention. The Council's Council Tax Reduction Anti-Fraud Policy was approved by Cabinet in June 2015.
- 3.5.22 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.

- 3.5.23 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 to the Audit Committee a summary of audit findings for each quarter, and also reports annually an opinion on the overall adequacy and effectiveness of the Council's control environment.
- 3.5.24 The Chief Internal Auditor will ensure Internal Audit complies with the Public Sector Internal Audit Standards.
- 3.5.25 The Council has an objective and professional relationship with its external auditors and statutory inspectors.

**3.6 Risk management**

- 3.6.1 The Council's Strategic Risk Management Policy was updated and approved by Cabinet in March 2015. The revisions provide greater clarity on how the risk levels are to be assessed. 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.
- 3.6.2 A Whole Authority Strategic Risk Assessment for 2015-2016 has been compiled as a starting point from service improvement plans. In addition a wide range of performance information including reports from regulators and inspectors, data and performance analysis and feedback from the Authority's partners and service users was used. In order to mitigate the risks, proposed action was recorded and factored back into the respective service improvement plan. This was presented to Cabinet in March 2016. As well as being approved by Cabinet the risk assessment was presented to Council alongside consideration of the budget.
- 3.6.3 The Council's Strategic Risk Assessment contains 11 distinct risks. Following the revised policy these must now be updated and reviewed throughout the year with the latest version being made available to members via The Hub.

Risk	Pre mitigation			Post mitigation		
	2015/16 Risk Level	2016/17 Risk Level	2017/18 Risk Level	2015/16 Risk Level	2016/17 Risk Level	2017/18 Risk Level
The Authority is unable to deliver its political priorities in the future because it does not yet have clarity on its future business model or longer term financial plan.	Low	Medium	Medium	Low	Low	Low
Some services may become financially unsustainable as a result of reducing budgets and demographic pressures.	Low	Medium	Medium	Low	Low	Low
A failure to meet income targets could lead to unplanned changes in other services or a call on reserves to balance the budget.	Medium	Medium	Medium	Medium	Medium	Medium
Potential that the Authority is unable to deliver its new schools capital programme due to capital receipts not generating the required income  Pressure on capital budget from 21st Century schools programme will impact on other areas requiring capital investment.	Medium	Medium	High	Medium	Medium	Medium

Risk	Pre mitigation			Post mitigation		
	2015/16 Risk Level	2016/17 Risk Level	2017/18 Risk Level	2015/16 Risk Level	2016/17 Risk Level	2017/18 Risk Level
Potential that the Council does not make sufficient progress in areas of weakness identified by regulators leading to underperformance.	Low	Medium	Medium	Low	Low	Low
Potential for significant harm to vulnerable children or adults due to factors outside our control.  Potential for significant harm to vulnerable children or adults due to failure of services and/or partners to act accountably for safeguarding.	Medium	Medium	Medium	Medium	Medium	Medium
Failure to meet the needs of individual learners may result in them not achieving their full potential.	Medium	Medium	Medium	Low	Low	Low
Potential that Council services, including schools do not have the necessary ICT infrastructure meaning they are unable to maximise their offer to service users or learners needs.	Medium	Medium	Medium	Medium	Medium	Medium
Insufficient ICT infrastructure and skills in the county have the potential to lead to social and economic disadvantages.	Medium	Medium	Medium	Medium	Medium	Medium
Reductions in our workforce due to budgetary pressures will impact on our capacity to deliver transformational change and improve performance.	Medium	Medium	Medium	Medium	Medium	Low
Not having appropriate governance mechanisms does not make it easy for communities to work with us when we are co- delivering and co-developing services which will impact on our shared ability to deliver sustainable and resilient communities.	Medium	Medium	Medium	Medium	Medium	Low
The current configuration of the recycling service becomes unviable because of legislation requirements and financial constraints.	Low	Medium	Medium	Low	Low	Medium

**3.6.4 Principle 5: Developing the capacity and capability of members and officers to be effective**

3.6.5 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.

3.6.6 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.

**3.6.7 Good governance and upholding standards of behaviour**

3.6.8 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.

3.6.9 In accordance with its statutory responsibilities, the Council has in place a Health and Safety Policy and related procedures.

3.6.10 The Council operates a Data Protection policy and also has procedures in place to meet its responsibilities under the Environmental Information Regulations and the Freedom of Information Act, 2000. The Council's website includes other information which the Council is required to publish, such as allowances paid to members in accordance with statutory provisions. There are also agreed procedures to meet the requirements of the Regulation of Investigatory Powers Act 2000.

3.6.11 There is continued support for Members' development through briefing sessions and other learning opportunities. 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.

3.6.12 Wales Audit Office made a proposal for improvement to the Council as part of their Annual Improvement Report 2014/15, published in November 2015, to "Ensure that the planned revisions and changes made to 'Check In Check Out' deliver a clear process of assessing and improving the performance of all staff and that department, team and individual objective setting is in line with the Council's corporate objectives." The action the Council is taking to response to the proposal was reported to Cabinet in January 2016. Based on feedback received the process has been evaluated and been further developed in 2015/16.

**3.6.13 Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability**

3.6.14 The agendas are published in advance of all meetings on the Council's website.

3.6.15 The Scrutiny Annual Report is produced for the Council meeting in July each year. The scrutiny function has a 'Scrutiny Service Improvement Plan'. The plan is built into the Council's improvement framework. The plan is also scrutinised by the Council's Audit Committee annually to ensure they are satisfied that the Council has appropriate and effective scrutiny arrangements in place

3.6.16 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 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 ward meeting minutes.

- 3.6.17 Social media, Twitter and Facebook for example, is increasingly being used to engage local people and communicate the corporate message. The Council has partnered with an IT supplier to develop Monmouthshire Made Open – a digital engagement platform to enable local people to help shape ideas to the challenges facing their communities.
- 3.6.18 All meetings are held in public as shown from Committee agendas and minutes which are then available on the website. All meetings - The Council, Cabinet, Audit Committee, Select Committees and Planning / Licensing Committees are streamed live on the internet.
- 3.6.19 There were several extensive public engagement events undertaken in 2013/14, 2014/15 and 2015/16 for the budget. MCC’s model of engagement in understanding its communities’ views and the way it now operates as an organisation was shared with many delegates at a Welsh sustainability conference as exemplar. The development of ‘Your County Your Way’ and Whole Place approach has encouraged the community within Monmouthshire to actively contribute to making stepped changes to improve the way in which services are provided; the intention is to transform public service delivery. This links back to the population outcomes for Monmouthshire in the Single Integrated Plan.
- 3.6.20 The Council has received a number of Freedom of Information Act requests during the year, with no complaints made to the Information Commission Officer. 98% of requests were responded to within the required 20 days:

FOI	2013-14	2014-15	2015-16
No. of FOI requests	918	1023	1057
No. responded to within 20 days	841	1002	1034
Percentage of FOIs responded to within 20 days	93%	95%	98%

### 3.7 Main areas of Concern

- 3.7.1 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:
- improve performance management arrangements and improve strategic planning;
  - take the next steps identified from the Wellbeing of Future Generations Act;
  - to review the appropriateness of the governance arrangements of the Public Services Board;
  - adopt a more planned, risk-assessed approach to partnership and collaborative working to make better use of resources;
  - review the governance arrangements in place around all key partnerships the Council is involved with;
  - continue to deliver awareness raising sessions on the importance of compliance with Contract Procedure Rules and Financial Procedure Rules;
  - review the ‘Check In Check Out’ process to deliver a clear process of assessing and improving performance.
- 3.7.2 The following Table outlines where the Council has identified gaps in its governance arrangements, which will be addressed in the forthcoming months to further strengthen governance in Monmouthshire County Council.

**3.8 Action Plan**

3.8.1 The following table shows how the 2014/15 Action plan areas for improvement have been addressed during 2015/16.

Governance Principle		Progress
<b>Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles in order to achieve the best possible outcomes for citizens</b>	The governance arrangements for all of the Monmouthshire partnerships will be clarified and reported to Members in due course through the Audit Committee.	Published internally on The Hub and externally on the MCC Website.
<b>Principle 3: Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;</b>	The Internal Audit team will work with the Procurement Team to continue to deliver awareness raising sessions on the importance of compliance with Contract Procedure Rules and Financial Procedure Rules	To be further developed in 2016/17.
<b>Principle 5: Developing the capacity and capability of members and officers to be effective</b>	The Appraisal process (CICO) will continue to be rolled out to all staff which will pick up any issues here.	All staff now go through a CICO process which is fully documented
<b>Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability</b>	Decision making work programmes will continue to be populated in advance in future.	Work programmes are include as agenda items for Scrutiny and Audit Committees.

3.8.2 An Action Plan for 2015/16 has been developed to capture known gaps in the Council's governance arrangements; the areas for improvement will be reviewed and considered during 2016/17 to further enhance the Council's governance arrangements. This is shown in the following table:

Governance Principle		Progress
<b>Principle 1: Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area</b>	Undertake actions identified in the Council's action plan to address the Wales Audit Office proposals for improvement from the Corporate Assessment report to "Improve performance management arrangements..." and "Improve strategic planning.."	
<b>Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles in order to achieve the best possible outcomes for citizens</b>	Undertake actions identified in the Council's action plan to address the Wales Audit Office proposals for improvement from the Corporate Assessment report to "Adopt a more planned, risk-assessed approach to partnership and collaborative working to make better use of resources"  Review the governance arrangements in place around all key partnerships the Council is involved with.	
<b>Principle 3: Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;</b>	The Internal Audit team will work with the Procurement Team to continue to deliver awareness raising sessions on the importance of compliance with Contract Procedure Rules and Financial Procedure Rules	
<b>Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk in order to foster innovation</b>	Undertake actions identified in the Council's action plan to address the Wales Audit Office proposals for improvement from the Corporate Assessment report to "Strengthen the governance and challenge arrangements.."	



Governance Principle		Progress
<p><b>Principle 5: Developing the capacity and capability of members and officers to be effective</b></p>	<p>Undertake actions identified in the Council's action plan to address the Wales Audit Office proposals for improvement from the Corporate Assessment report to "Ensure that the planned revisions and changes made to 'Check In Check Out' deliver a clear process of assessing and improving the performance of all staff and that department, team and individual objective setting is in line with the Council's corporate objectives."</p>	

**3.9 Monitoring & Evaluation**

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

\_\_\_\_\_  
**Paul Matthews, Chief Executive**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Cllr Peter Fox, Leader of the Council**

\_\_\_\_\_  
**Date**

## **4 INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MONMOUTHSHIRE COUNTY COUNCIL**

I have audited the accounting statements and related notes of Monmouthshire County Council for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

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

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of Head of Finance (Responsible Financial Officer) and the Independent Auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 6, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

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

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

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Monmouthshire County Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

### **Opinion on the accounting statements of Monmouthshire County Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Monmouthshire County Council as at 31 March 2015 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

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

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

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

#### **4 INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MONMOUTHSHIRE COUNTY COUNCIL (CONTINUED)**

##### **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 Code of Audit Practice issued by the Auditor General for Wales.

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

**Signature** \_\_\_\_\_

**Date** \_\_\_\_\_

**For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ**

**SECTION 5**

**Movement in Reserves Statement  
for the Year Ended  
31st March 2016**

**MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2016**

		Council Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total usable Reserves	Unusable Reserves	Total Authority Reserves	Total JANES Reserves	Total Reserves
	Note	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2014</b>		<b>8,068</b>	<b>13,249</b>	<b>8,023</b>	<b>29,340</b>	<b>51,550</b>	<b>80,890</b>	<b>571</b>	<b>81,460</b>
<b><i>Movement in reserves during 2014/15:</i></b>									
Surplus/(deficit) on the provision of services		558	-	-	558	-	558	(183)	375
Other Comprehensive Income and Expenditure		-	-	-	0	(41,733)	(41,733)	80	(41,653)
<b>Total Comprehensive Income and Expenditure</b>		<b>558</b>	<b>0</b>	<b>0</b>	<b>558</b>	<b>(41,733)</b>	<b>(41,175)</b>	<b>(103)</b>	<b>(41,278)</b>
Adjustments between accounting basis & funding basis under regulations	10.2	(2,763)	-	9,606	6,843	(6,843)	(0)	0	(0)
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>		<b>(2,205)</b>	<b>0</b>	<b>9,606</b>	<b>7,401</b>	<b>(48,575)</b>	<b>(41,175)</b>	<b>(103)</b>	<b>(41,278)</b>
Transfers to/(from) Earmarked Reserves	10.4	2,268	(2,268)	-	0	-	(0)	0	(0)
<b>Increase/(Decrease) in 2014/15</b>		<b>63</b>	<b>(2,268)</b>	<b>9,606</b>	<b>7,401</b>	<b>(48,575)</b>	<b>(41,175)</b>	<b>(103)</b>	<b>(41,278)</b>
<b>Balance at 31st March 2015 carried forward</b>		<b>8,132</b>	<b>10,980</b>	<b>17,629</b>	<b>36,741</b>	<b>2,974</b>	<b>39,715</b>	<b>468</b>	<b>40,182</b>
<b><i>Movement in reserves during 2015/16:</i></b>									
Surplus/(deficit) on the provision of services		(6,432)	-	-	(6,432)	-	(6,432)	(72)	(6,503)
Other Comprehensive Income and Expenditure		-	-	-	0	1,606	1,606	186	1,792
<b>Total Comprehensive Income and Expenditure</b>		<b>(6,432)</b>	<b>0</b>	<b>0</b>	<b>(6,432)</b>	<b>1,606</b>	<b>(4,825)</b>	<b>114</b>	<b>(4,711)</b>
Adjustments between accounting basis & funding basis under regulations	10.2	4,856	-	(12,206)	(7,350)	7,350	(0)	0	0
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>		<b>(1,576)</b>	<b>0</b>	<b>(12,206)</b>	<b>(13,782)</b>	<b>8,956</b>	<b>(4,825)</b>	<b>114</b>	<b>(4,711)</b>
Transfers to/(from) Earmarked Reserves	10.4	1,712	(1,712)	-	0	-	0	0	0
<b>Increase/(Decrease) in 2015/16</b>		<b>136</b>	<b>(1,712)</b>	<b>(12,206)</b>	<b>(13,782)</b>	<b>8,956</b>	<b>(4,825)</b>	<b>114</b>	<b>(4,711)</b>
<b>Balance at 31st March 2016 carried forward</b>		<b>8,267</b>	<b>9,268</b>	<b>5,423</b>	<b>22,959</b>	<b>11,930</b>	<b>34,889</b>	<b>582</b>	<b>35,472</b>

**SECTION 6**

**Comprehensive Income  
and Expenditure Statement  
for the year ended  
31st March 2016**

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

	Note	31 March 2016			31 March 2015		
		Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000	£000	£000	£000
Education and children's services		85,330	(17,355)	67,975	93,992	(19,001)	74,991
Adult social care		38,509	(7,107)	31,402	38,161	(6,835)	31,326
Highways and transport services		20,673	(8,807)	11,865	23,637	(10,385)	13,252
Environment and Regulatory Services		10,838	(3,181)	7,657	11,920	(3,345)	8,575
Cultural and Related Services		13,269	(5,289)	7,980	15,476	(4,900)	10,575
Planning Services		3,151	(1,189)	1,961	4,305	(2,457)	1,848
Central services to the public		13,067	(4,500)	8,567	14,848	(6,624)	8,224
Housing services		27,819	(25,866)	1,953	27,403	(25,482)	1,921
Corporate and democratic core		3,646	(503)	3,143	924	(791)	133
Non distributed costs - other		360	0	360	1,001	0	1,001
<b>Net Cost of Services</b>	11.1	<b>216,661</b>	<b>(73,798)</b>	<b>142,864</b>	<b>231,667</b>	<b>(79,820)</b>	<b>151,847</b>
<b>Other operating expenditure:</b>							
<i>Precepts &amp; Levies:</i>							
Gwent Police Authority		9,430	0	9,430	8,995	0	8,995
South Wales Fire & Rescue Authority		4,188	0	4,188	4,271	0	4,271
Community and Town Councils		1,870	0	1,870	1,669	0	1,669
National Parks		112	0	112	115	0	115
Internal Drainage Boards		100	0	100	117	0	117
Gains/losses on the disposal of non-current assets		1,476	(1,215)	262	10,100	(10,093)	7
		17,176	(1,215)	15,962	25,268	(10,093)	15,175
<b>Financing and investment income and expenditure</b>	11.2	<b>24,933</b>	<b>(15,682)</b>	<b>9,250</b>	<b>21,725</b>	<b>(31,495)</b>	<b>(9,770)</b>
<b>Taxation &amp; non-specific grant income:</b>							
Council Tax	11.4	0	(61,004)	(61,004)	421	(57,579)	(57,158)
Non-domestic rates redistribution	11.5	0	(26,737)	(26,737)	0	(28,984)	(28,984)
General government grants	11.6	0	(73,832)	(73,831)	0	(71,485)	(71,485)
				(161,572)			(157,627)
<b>(Surplus) or Deficit on Provision of Services</b>				<b>6,503</b>			<b>(376)</b>
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets				(16,255)			597
(Gains)/losses on remeasurement of pension assets / liabilities	14.2/16.7			14,656			41,196
Adjustments relating to JANEs	16.7			(193)			(141)
<b>Other Comprehensive Income and Expenditure</b>				<b>(1,792)</b>			<b>41,653</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>4,711</b>			<b>41,278</b>

**SECTION 7**

**Balance Sheet**  
**as at 31st March 2016**



**BALANCE SHEET AS AT 31 MARCH 2016**

<b>31 March 2015</b>		<b>Note</b>	<b>31 March 2016</b>
<b>£000s</b>			<b>£000s</b>
	<b>Property, Plant &amp; Equipment</b>		
156,291	Other land and buildings	12.1	171,546
436	Other land and buildings - JANEs	16.7	417
4,080	Vehicles, plant, furniture and equipment	12.1	3,608
61,613	Infrastructure	12.1	60,648
3,887	Community assets	12.1	3,944
1,141	Assets under construction	12.1	10,079
4	Surplus assets not held for sale	12.1	0
227,452			250,243
4,647	Heritage Assets	12.13	4,795
42,716	Investment Property	12.8	41,099
670	Intangible Assets		754
40	Long-Term Investments	13.1	40
383	Long Term Debtors		312
275,907	<b>Long term assets</b>		297,242
4,016	Short Term Investments	13.1	3,999
424	Inventories		413
16,392	Short Term Debtors	13.5	19,588
20,406	Cash and Cash Equivalents	15.3	7,972
22,095	Assets Held for Sale	12.9	20,683
63,333	<b>Current Assets</b>		52,655
0	Cash and Cash Equivalents	15.3	(1,025)
(33,552)	Short Term Borrowing	13.1	(29,852)
(20,995)	Short Term Creditors	13.6	(22,286)
(3,275)	Provisions	13.7	(2,124)
(57,821)	<b>Current Liabilities</b>		(55,288)
(167,414)	Liability related to defined benefit pension scheme	14.4	(188,225)
(179)	Provisions	13.7	(132)
(67,761)	Long Term Borrowing	13.1	(65,708)
(137)	Long term Creditors	16.7	(137)
(1,294)	Other Long Term Liabilities	13.1/16.7	(1,285)
(2,440)	Capital Grants Receipts in Advance	11.7(b)	(1,830)
(2,013)	Revenue Grants Receipts in Advance		(1,819)
(241,238)	<b>Long Term Liabilities</b>		(259,137)
<b>40,182</b>	<b>Net Assets</b>		<b>35,472</b>
8,131	Council Fund Balance	10.3	8,267
10,980	Earmarked Reserves	10.4	9,269
398	Earmarked Reserves - JANEs	16.7	455
17,629	Capital Receipts Reserve	10.6	5,423
37,138	<b>Usable Reserves</b>		23,416
33,753	Revaluation Reserve	10.7	47,671
(167,414)	Pensions Reserve	10.9	(188,225)
140,531	Capital Adjustment Account	10.8	155,410
2	Deferred Capital Receipts Reserve		0
(1,015)	Financial Instrument Adjustment Account		(934)
(2,884)	Accumulating Absence Adjustment Account	10.10	(1,992)
70	Unusable Reserves - JANEs	16.7	128
3,043	<b>Unusable Reserves</b>		12,057
<b>40,182</b>	<b>Total Reserves</b>		<b>35,472</b>

**SECTION 8**

**Cash Flow Statement  
for the Year Ended  
31st March 2016**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2016**

	Note	31 March 2016 £000	31 March 2016 £000	31 March 2015 £000	31 March 2015 £000
Net (surplus) or deficit on the provision of services	15.1	6,503		(375)	
Adjustments to net surplus or deficit on the provision of services for non-cash movements	15.1	(13,497)		(25,167)	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	15.1	75		14,991	
Adjustments relating to JANEs	15.1	(155)		143	
<b>Net cash flows from Operating Activities</b>	15.1		<b>(7,074)</b>		<b>(10,408)</b>
<b>Investing Activities</b>					
<i>Cash outflows</i>					
Purchase of property, plant and equipment, investment property and intangible assets		15,137		10,782	
Purchase of short-term and long-term investments		16,000		16,999	
Other payments for investing activities		2,132		2,042	
		<b>33,268</b>		<b>29,823</b>	
<i>Cash Inflows</i>					
Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(1,809)		(11,478)	
Proceeds from short-term and long-term investments		(16,073)		(19,550)	
Other receipts from investing activities		(509)		(5,560)	
		<b>(18,392)</b>		<b>(36,587)</b>	
<b>Net Cash (Inflow)/Outflow from Investing Activities</b>			<b>14,877</b>		<b>(6,765)</b>
<b>Financing Activities</b>					
<i>Cash Outflows</i>					
Repayments of short- and long-term borrowing		40,842		37,559	
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		30		132	
		<b>40,871</b>		<b>37,691</b>	
<i>Cash Inflows</i>					
Cash receipts of short- and long-term borrowing		(35,054)		(40,250)	
Other receipts from financing activities		(161)		146	
		<b>(35,215)</b>		<b>(40,104)</b>	
<b>Net Cash (Inflow)/Outflow from Financing Activities</b>			<b>5,656</b>		<b>(2,413)</b>
<b>Net (increase) / decrease in cash and cash equivalents</b>			<b>13,459</b>		<b>(19,585)</b>
Cash and cash equivalents at the beginning of the reporting period			<b>20,406</b>		820
<b>Cash and cash equivalents at the end of the reporting period</b>	15.3		<b>6,947</b>		<b>20,406</b>

**Notes to the Accounts  
for the Year Ended  
31st March 2016**

## **9 STATEMENT OF ACCOUNTING POLICIES**

### **9.1 General Principles**

9.1.1 The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the *Accounts and Audit (Wales) Regulations 2014*, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* and the *Service Reporting Code of Practice 2015/16*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

9.1.2 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.

### **9.2 Accounting Standards issued not yet adopted**

9.2.1 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 that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

9.2.2 IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

9.2.3 Other minor changes due to Annual Improvement to IFRSs cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council's Statement of Accounts.

9.2.4 The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

### **9.3 Accruals of Income and Expenditure**

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet where such balances are considered material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### **9.4 Cash and Cash Equivalents**

9.4.1 Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 24 hours or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

9.4.2 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.

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

9.5.1 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.

9.5.2 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.

#### **9.6 Critical Judgements in Applying Accounting Policies**

9.6.1 In applying the accounting policies set out above, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The 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.
- 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 accrual is calculated by taking a sample of non-school employee records and extrapolating the data over the total non-school employee base. The sample return for 2015/16 was 25% (17% for 2014/15).

**9.7 Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty**

9.7.1 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.

9.7.2 The items in the Authority's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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	<p>The Council has included provisions for known insurance claims as at 31 March 2016. 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.</p>	<p>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 2016 are deemed to provide sufficient cover for the Authority's claims exposure. Notes 13.7(a) &amp; 13.7(b) provide further information on the types of claims the Authority is exposed to.</p>
Arrears	<p>At 31 March 2016, the Authority had a balance of £8.4m (£7.6m as at 31 March 2015) of debtors relating to council tax arrears, business rate arrears, rent arrears, corporate sundry debtors, social services sundry debtors and housing benefit overpayments. A review of these balances suggested that an impairment of doubtful debts of £3.1m (£3.2m as at 31 March 2015) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, there would be a consequential increase in the impairment of doubtful debts.</p>

## 9.8 Employee Benefits

### ***Benefits Payable During Employment***

9.8.1 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***

9.8.2 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.

9.8.3 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**

9.8.4 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

9.8.5 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.

9.8.6 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**

9.8.7 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.

9.8.8 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.

9.8.9 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.

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

9.8.11 The impact of accounting for IAS19 *Employee Benefits* as analysed in 14.2 has had the following effects on the results of the prior and current periods:

- The overall amount to be met from the Council Fund has remained unchanged as a result of statutory provisions in place, but the cost amounts included in Net Cost of Services are £628,000 (0.44%) lower (£845,000 (0.56%) in 2014/15) after the replacement of employer's contributions by current and past service costs. The surplus on the Provision of Services is £6,162,000 (94.4%) lower (£4,400,000 (90.2%) lower in 2014/15) than it would otherwise have been.
- The requirement to recognise the net pensions liability in the balance sheet has reduced the reported total reserves of the authority by 84% (reduced by 81% in 2014/15).

#### ***Discretionary Benefits***

9.8.12 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.

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

9.9.1 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.

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

**9.10 Exceptional Items**

- 9.10.1 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.

**9.11 Financial Instruments**

***Financial Liabilities***

- 9.11.1 Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.
- 9.11.2 For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.
- 9.11.3 However, one stepped loan held by the Authority is carried at a higher amortised cost than the outstanding principal, and interest is charged at a marginally lower effective rate of interest than the interest payable under the terms of the loan contract.
- 9.11.4 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- 9.11.5 Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the Council Fund Balance to be spread over future years. The Authority has a policy of spreading any loss over the term that was remaining on the loan against which the premium was payable and any gain over lesser of the term remaining on the loan against which the discount was receivable or 10 years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the Council Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

***Financial Assets – Loans and Receivables***

- 9.11.6 Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.
- 9.11.7 The Authority has made one loan at less than market rates (soft loans) for policy reasons. Due to the immaterial nature of the loan, it is recorded in the balance sheet at the value of the principal outstanding.

9.11.8 Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Where the impact is deemed to be material, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

9.11.9 Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **9.12 Government Grants and Contributions**

9.12.1 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.

9.12.2 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.

9.12.3 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.

9.12.4 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.

## **9.13 Heritage Assets**

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

9.13.2 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.

9.13.3 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.

9.13.4 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.

9.13.5 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.

9.13.6 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.

#### **9.14 Intangible Assets**

9.14.1 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.

9.14.2 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).

9.14.3 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.

9.14.4 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.

9.14.5 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.

#### **9.15 Interests in Companies and Other Entities**

9.15.1 The Code requires authorities to enhance their statement of accounts with information about any material interest in subsidiaries, associates and jointly controlled entities in a set of group accounts.

9.15.2 These accounting requirements result in the consolidation of the transactions and balances of subsidiaries and of interests in associates and joint ventures, thus ensuring group accounts provide a complete picture of the authority's control over other entities.

9.15.3 The authority does not hold any material interests in subsidiaries, associated or jointly controlled entities. In the Authority's own single-entity accounts, it is the Authority's policy to disclose as a note to the balance sheet details of the name, business, shareholding, net assets and results of operations and other financial transactions of any related companies.

**9.16 Inventories and Long Term Contracts**

- 9.16.1 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.
- 9.16.2 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.

**9.17 Investment Property**

- 9.17.1 Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
- 9.17.2 Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.
- 9.17.3 Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Council Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Council Fund Balance. The gains and losses are therefore reversed out of the Council 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.

**9.18 Fair value measurement**

- 9.18.1 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.
- 9.18.2 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.
- 9.18.3 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.
- 9.18.4 The use of relevant observable inputs is maximised and the use of unobservable inputs is minimised.

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

### **9.19 Joint Arrangements**

9.19.1 Joint operations are activities undertaken by the Council in conjunction with other parties that involve the use of the assets and resources of the parties rather than the establishment of a separate entity. Joint Committees are an example of jointly controlled operations that are relevant to the Council. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

9.19.1 Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

### **9.20 Leases**

9.20.1 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.

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

9.20.3 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***

9.20.4 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.

9.20.5 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.

9.20.6 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).

9.20.7 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***

9.20.8 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***

9.20.9 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.

9.20.10 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).

9.20.11 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.

9.20.12 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***

9.20.13 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.



## **9.21 Overheads and Support Services**

9.21.1 The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority’s status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

9.21.2 These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **9.22 Property, Plant and Equipment**

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

### ***Recognition***

9.22.2 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.

9.22.3 A further condition for expenditure to be capitalised is that it exceeds the relevant de minimus limit in place. Different de-minimus limits are in place for different categories of asset. These are:

- Land and Buildings - no de minimus limit
- Vehicles - no de minimus limit
- IT Equipment - £10,000
- Plant and Machinery - £10,000

### ***Measurement***

9.22.4 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.

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

9.22.6 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.

9.22.7 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.
- 9.22.8 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.
- 9.22.9 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.
- 9.22.10 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.
- 9.22.11 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.
- 9.22.12 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**
- 9.22.13 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.
- 9.22.14 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.
- 9.22.15 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**

9.22.16 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).

9.22.17 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 – straight-line allocation over 60 years

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

9.22.18 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**

9.22.19 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.

9.22.20 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.

9.22.21 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**

9.22.22 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.

- 9.22.23 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.
- 9.22.24 Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.
- 9.22.25 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.
- 9.22.26 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.
- 9.22.27 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.
- 9.23 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**
- 9.23.1 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.
- 9.23.2 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.
- 9.23.3 Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.
- 9.24 Private Finance Initiative (PFI) and Similar Contracts**
- 9.24.1 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.
- 9.24.2 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.
- 9.24.3 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.

- 9.24.4 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.

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

### ***Provisions***

- 9.25.1 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.
- 9.25.2 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.
- 9.25.3 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.
- 9.25.4 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***

- 9.25.5 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.
- 9.25.6 Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### ***Contingent Assets***

- 9.25.7 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.
- 9.25.8 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.

**9.26 Reserves**

- 9.26.1 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.
- 9.26.2 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.

**9.27 Revenue Expenditure Funded from Capital under Statute**

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

**9.28 VAT**

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

## 10 MOVEMENT IN RESERVES STATEMENT NOTES

### 10.1 Movement on 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 1 April 2014	Movement in Reserve £000	Balance at 31 March 2015	Movement in Reserve £000	Balance at 31 March 2016
<b>Usable Reserves:</b>						
Council Fund balance: Authority	10.3	7,080	(88)	6,991	120	7,111
Council Fund balance: LMS School Balances	10.5	988	152	1,140	16	1,156
Earmarked reserves	10.4	13,249	(2,268)	10,980	(1,711)	9,269
Capital Receipts Reserve	10.6	8,023	9,606	17,629	(12,205)	5,423
<b>Total Usable Reserves</b>		<b>29,340</b>	<b>7,401</b>	<b>36,741</b>	<b>(13,780)</b>	<b>22,960</b>
<b>Unusable Reserves:</b>						
Revaluation Reserve	10.7	45,441	(11,688)	33,753	13,918	47,671
Capital Adjustment Account	10.8	131,770	8,762	140,531	14,878	155,410
Financial Instruments Adjustment Account		(1,095)	80	(1,015)	81	(934)
Pension Reserve	10.9	(121,878)	(45,536)	(167,414)	(20,811)	(188,225)
Deferred Capital Receipts Reserve		7	(5)	2	(2)	0
Accumulated Absences Adjustment Account	10.10	(2,695)	(189)	(2,884)	892	(1,992)
<b>Total Unusable Reserves</b>		<b>51,549</b>	<b>(48,576)</b>	<b>2,973</b>	<b>8,956</b>	<b>11,929</b>
<b>Total Authority Reserves</b>		<b>80,889</b>	<b>(41,175)</b>	<b>39,714</b>	<b>(4,824)</b>	<b>34,889</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:

<b>Movements in 2015/16:</b>	<b>Council Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Authority Reserves £000</b>
<b><u>Adjustments primarily involving the Capital Adjustment Account:</u></b>					
<b><i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>					
Charges for depreciation and impairment of Property, Plant and Equipment assets	5,752	0	<b>5,752</b>	(5,752)	<b>0</b>
Charges for impairment of Heritage Assets	5	0	<b>5</b>	(5)	<b>0</b>
Revaluation movements on Property Plant and Equipment (charged to SDPS)	2,516	0	<b>2,516</b>	(2,516)	<b>0</b>
Revaluation movements on Assets Held for Sale (charged to SDPS)	245	0	<b>245</b>	(245)	<b>0</b>
Movements in the market value of Investment Properties	1,515	0	<b>1,515</b>	(1,515)	<b>0</b>
Amortisation and impairment of intangible assets	111	0	<b>111</b>	(111)	<b>0</b>
Capital grants and contributions applied	(6,190)	0	<b>(6,190)</b>	6,190	<b>0</b>
Revenue expenditure funded from capital under statute	2,132	0	<b>2,132</b>	(2,132)	<b>0</b>
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,793	0	<b>1,793</b>	(1,793)	<b>0</b>
<b><i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>					
Statutory provision for the financing of capital investment (MRP)	(5,486)	0	<b>(5,486)</b>	5,486	<b>0</b>
Capital expenditure charged against the Council Fund	(920)	0	<b>(920)</b>	920	<b>0</b>
<b><u>Adjustments involving the Capital Receipts Reserve:</u></b>					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(1,808)	1,808	<b>(0)</b>	0	<b>0</b>
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(7,765)	<b>(7,765)</b>	7,765	<b>0</b>
Set aside of capital receipts	0	(6,250)	<b>(6,250)</b>	6,250	<b>0</b>
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	2	<b>2</b>	(2)	<b>0</b>
<b><u>Adjustments involving the Financial Instruments Adjustment Account:</u></b>					
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(80)	0	<b>(80)</b>	80	<b>0</b>



<b>Movements in 2015/16 (continued):</b>	<b>Council Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Authority Reserves £000</b>
<b><u>Adjustments involving the Pensions Reserve:</u></b>					
Reversal of items relating to retirement benefits debited or credited to the CIES	16,633	0	<b>16,633</b>	(16,633)	<b>0</b>
Employer's pensions contributions and direct payments to pensioners payable in the year	(10,471)	0	<b>(10,471)</b>	10,471	<b>0</b>
<b><u>Adjustment involving the Accumulated Absences Account:</u></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	(892)	0	<b>(892)</b>	892	<b>0</b>
<b>Total adjustments between accounting basis &amp; funding basis under regulations</b>	<b>4,855</b>	<b>(12,206)</b>	<b>(7,351)</b>	<b>7,351</b>	<b>0</b>

<b>Movements in 2014/15:</b>	<b>Council Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Authority Reserves £000</b>
<b><u>Adjustments primarily involving the Capital Adjustment Account:</u></b>					
<b><i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>					
Charges for depreciation and impairment of Property, Plant and Equipment assets	12,548	0	<b>12,548</b>	(12,548)	<b>0</b>
Charges for impairment of Heritage Assets	82	0	<b>82</b>	(82)	<b>0</b>
Revaluation movements on Property Plant and Equipment (charged to SDPS)	6,031	0	<b>6,031</b>	(6,030)	<b>0</b>
Revaluation movements on Assets Held for Sale (charged to SDPS)	(2,290)	0	<b>(2,290)</b>	2,290	<b>0</b>
Movements in the market value of Investment Properties	(17,497)	0	<b>(17,497)</b>	17,497	<b>0</b>
Revaluation movements on Heritage Assets	20		<b>20</b>	(20)	<b>0</b>
Amortisation and impairment of intangible assets	61	0	<b>61</b>	(61)	<b>0</b>
Capital grants and contributions applied	(1,944)	0	<b>(1,944)</b>	1,944	<b>0</b>
Revenue expenditure funded from capital under statute	2,042	0	<b>2,042</b>	(2,042)	<b>0</b>
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	11,014	0	<b>11,014</b>	(11,014)	<b>0</b>
<b><i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>					
Statutory provision for the financing of capital investment (MRP)	(5,496)	0	<b>(5,496)</b>	5,496	<b>0</b>
Capital expenditure charged against the Council Fund	(370)	0	<b>(370)</b>	370	<b>0</b>

<b>Movements in 2014/15 (continued):</b>	<b>Council Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Total Usable Reserves £000</b>	<b>Unusable Reserves £000</b>	<b>Total Authority Reserves £000</b>
<b><u>Adjustments involving the Capital Receipts Reserve:</u></b>					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(11,472)	11,472	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(1,871)	(1,871)	1,871	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	5	5	(5)	0
<b><u>Adjustments involving the Financial Instruments</u></b>					
<b><u>Adjustment Account:</u></b>					
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(79)	0	(79)	79	0
<b><u>Adjustments involving the Pensions Reserve:</u></b>					
Reversal of items relating to retirement benefits debited or credited to the CIES	14,905	0	14,905	(14,905)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(10,505)	0	(10,505)	10,505	0
<b><u>Adjustment involving the Accumulated Absences</u></b>					
<b><u>Account:</u></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	188	0	188	(188)	0
<b>Total adjustments between accounting basis &amp; funding basis under regulations</b>	<b>(2,763)</b>	<b>9,606</b>	<b>6,843</b>	<b>(6,843)</b>	<b>0</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:

	<b>At 1 April 2014 £000</b>	<b>In Year Movement £000</b>	<b>At 31 March 2015 £000</b>	<b>In Year Movement £000</b>	<b>At 31 March 2016 £000</b>
Amount of Council Fund Balance held by Schools under Local Management Schemes	988	152	1,140	16	1,156
Amount of Council Fund Balance generally available for new expenditure	7,080	(88)	6,991	120	7,111
<b>Total Council Fund Balance</b>	<b>8,068</b>	<b>64</b>	<b>8,132</b>	<b>136</b>	<b>8,267</b>
Earmarked Revenue Reserves	13,249	(2,268)	10,980	(1,711)	9,269
<b>Total Usable Reserves available for Revenue Purposes</b>	<b>21,317</b>	<b>(2,205)</b>	<b>19,112</b>	<b>(1,575)</b>	<b>17,537</b>

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 £1,156,000 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.

## 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.

- **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.

- **I Learn Wales reserve**

Created for future (i) learning education projects in schools.

- **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.

The transfers to and from Earmarked Reserves in 2015/16 can be summarised as follows:

Description	At 1 April 2014	Transfer to Reserves	Transfer from Reserves	31 March 2015	Transfer to Reserves	Transfer from Reserves	31 March 2016
	£000	£000	£000	£000	£000	£000	£000
Invest to Redesign	2,208	85	(809)	<b>1,483</b>	399	(585)	<b>1,298</b>
Priority Investment	2,469	0	(496)	<b>1,973</b>	63	(916)	<b>1,120</b>
Insurance and risk management	1,968	282	0	<b>2,250</b>	30	(1,044)	<b>1,236</b>
IT Transformation	947	0	(307)	<b>640</b>	359	(172)	<b>827</b>
Single Status and Equal Pay	1,052	0	(1,052)	<b>0</b>	0	0	<b>0</b>
Treasury equalisation	1,125	204	(338)	<b>990</b>	0	0	<b>990</b>
Capital Investment	1,636	0	(16)	<b>1,621</b>	16	(372)	<b>1,265</b>
Redundancy and Pensions	744	500	(644)	<b>600</b>	1,000	(325)	<b>1,275</b>
Capital Receipt Generation	244	357	(141)	<b>460</b>	0	(138)	<b>322</b>
I Learn Wales	0	49	0	<b>49</b>	0	(49)	<b>0</b>
<i>Other reserves</i>							
Elections	58	25	0	<b>83</b>	25	0	<b>108</b>
Museums acquisition	60	0	0	<b>60</b>	0	(3)	<b>57</b>
Chairman's	37	0	0	<b>37</b>	0	(37)	<b>0</b>
<i>Service Reserves:</i>							
Grass Routes to Schools	187	0	(26)	<b>161</b>	5	(26)	<b>140</b>
Schools sickness & maternity cover	0	0	0	<b>0</b>	104	0	<b>104</b>
Education Achievement Service	69	0	(69)	<b>0</b>	0	0	<b>0</b>
<i>Trading Accounts:</i>							
Youth Offending Team	382	0	0	<b>382</b>	0	(57)	<b>325</b>
Outdoor education centres	157	33	0	<b>190</b>	0	0	<b>190</b>
School library service	(91)	195	(104)	<b>0</b>	0	0	<b>0</b>
Building Control	(4)	5	0	<b>0</b>	12	0	<b>12</b>
	<b>13,249</b>	<b>1,734</b>	<b>(4,002)</b>	<b>10,980</b>	<b>2,012</b>	<b>(3,724)</b>	<b>9,269</b>

**10.5 School Balances**

The balance on the Council Fund includes £1,156,163 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:

School Name	At 1 April	In Year	At 31	In Year	At 31
	2014	Movement	March 2015	Movement	March 2016
	£	£	£	£	£
<b>Comprehensives</b>					
Caldicot	60,620	20,748	81,368	127,492	208,860
Chepstow	(214,589)	(174,098)	(388,688)	(25,379)	(414,066)
King Henry VIII	114,519	(71,553)	42,966	64,403	107,368
Monmouth	130,974	(21,124)	109,851	(64,079)	45,772
<b>Sub Total</b>	<b>91,523</b>	<b>(246,027)</b>	<b>(154,504)</b>	<b>102,437</b>	<b>(52,067)</b>
<b>Primaries</b>					
Archbishop R Williams	21,992	15,856	37,847	46,641	84,489
Cantref	68,138	(13,735)	54,403	(12,416)	41,987
Castle Park	(97,999)	58,270	(39,729)	18,282	(21,446)
Chepstow Alliance	0	28,092	28,092	(28,092)	0
Cross Ash	47,989	17,901	65,890	(14,621)	51,269
Deri View	(79,952)	101,715	21,762	64,292	86,054
Dewstow	106,113	20,482	126,594	(13,997)	112,598
Durand	44,725	9,036	53,761	6,759	60,520
Gilwern	41,057	(2,144)	38,913	2,385	41,298
Goytre Fawr	4,708	24,124	28,832	25,088	53,920
Kymin View	34,355	10,279	44,634	(25,860)	18,774
Llandogo	(5,780)	(6,567)	(12,346)	900	(11,446)
Llanfair Kilgeddin CV	22,612	(10,690)	11,922	54,902	66,824
Llanfoist	32,934	41,333	74,267	19,523	93,789
Llantilio Pertholey	65,340	(18,115)	47,225	(10,049)	37,176
Llanvihangel Crucorney	(40,656)	25,617	(15,040)	(8,565)	(23,605)
Magor Vol Aided	31,136	5,325	36,462	19,546	56,008
New Pembroke Primary	79,671	(46,122)	33,549	2,652	36,201
Osbaston Church in Wales	48,713	7,284	55,997	(18,653)	37,344
Our Lady's & St Michael's Catholic Primary	23,663	17,151	40,813	(10,159)	30,654
Overmonnow	33,729	(33,403)	326	(19,427)	(19,101)
Raglan	41,259	21,487	62,747	(44,378)	18,369
Rogiet	83,152	(13,274)	69,879	(10,265)	59,613
Shirenewton	81,568	(3,289)	78,279	3,281	81,560
St Mary's (Chepstow)	813	17,695	18,509	6,877	25,385
The Dell	50,107	33,103	83,210	(32,944)	50,266
Thornwell	16,135	32,862	48,997	(46,745)	2,253
Trellech	33,606	39,283	72,889	13,392	86,281
Undy	10,116	31,563	41,679	(25,038)	16,641
Usk CV	28,686	(4,871)	23,815	47,480	71,295
Ysgol Gymraeg Y Fenni	32,161	34,042	66,203	(7,462)	58,741
Ysgol Gymraeg Ffin	(17,915)	36,066	18,152	(4,984)	13,168
<b>Sub Total</b>	<b>842,176</b>	<b>476,355</b>	<b>1,318,530</b>	<b>(1,655)</b>	<b>1,316,875</b>
<b>Special</b>					
Mounton House	18,465	(44,418)	(25,954)	(128,901)	(154,855)
Pupil Referral Unit	35,992	(34,033)	1,959	44,250	46,209
<b>Sub Total</b>	<b>54,457</b>	<b>(78,452)</b>	<b>(23,995)</b>	<b>(84,651)</b>	<b>(108,645)</b>
<b>TOTAL</b>	<b>988,156</b>	<b>151,876</b>	<b>1,140,032</b>	<b>16,130</b>	<b>1,156,163</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.

The in-year movements on the reserve are summarised below: -

	2015-16 £000	2014-15 £000
Balance as at 1st April	17,629	8,023
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,808	11,472
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	2	5
Less: use of the Capital Receipts Reserve to finance new capital expenditure	(7,765)	(1,871)
Set aside of capital receipts	(6,250)	0
Balance as at 31st March	<u>5,423</u>	<u>17,629</u>

## 10.7 Revaluation Reserve

The Revaluation Reserve contains the 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 with accumulated gains are:

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

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

	2015-16 £000	2015-16 £000	2014-15 £000	2014-15 £000
Balance at 1 April		33,753		45,441
Upward revaluation of assets	16,620		915	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(365)		(1,512)	
<b>Surplus or (deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		<u>16,255</u>		<u>(597)</u>
Difference between fair value depreciation and historical cost depreciation	(1,516)		(1,780)	
Accumulated gains on assets sold or scrapped	(782)		(9,311)	
Write off Investment property balance	(39)		0	
<b>Amount written off to the Capital Adjustment Account</b>		<u>(2,337)</u>		<u>(11,091)</u>
<b>Balance at 31 March</b>		<u>47,671</u>		<u>33,753</u>

**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.

	2015-16 £000	2015-16 £000	2014-15 £000	2014-15 £000
Balance at 1 April		140,531		131,770
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
• Charges for depreciation and impairment of property, plant and equipment assets	(5,752)		(12,548)	
• Revaluation movements on heritage assets	0		(82)	
• Charges for impairment of heritage assets	(5)		(20)	
• Revaluation movements on Property, Plant and Equipment	(2,516)		(6,031)	
• Revaluation movements on Assets Held for Sale	(245)		2,290	
• Amortisation & impairment of intangible assets	(111)		(61)	
• Revenue expenditure funded from capital under statute	(2,132)		(2,042)	
• 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	(1,011)		(1,703)	
• Adjusting amounts written out of the Revaluation Reserve	1,555		1,780	
		<u>(10,218)</u>		<u>(18,417)</u>
Capital financing applied in the year:				
• Use of the Capital Receipts Reserve to finance new capital expenditure	7,765		1,871	
• Set aside of Capital receipts	6,250		0	
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	6,190		1,944	
• Statutory provision for the financing of capital investment charged against the Council Fund	5,486		5,496	
• Capital expenditure charged against the Council Fund	920		370	
		<u>26,611</u>		<u>9,681</u>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(1,515)		17,497
<b>Balance at 31 March</b>		<u><b>155,410</b></u>		<u><b>140,531</b></u>

### 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.

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Balance at 1 April	<b>(167,414)</b>	(121,878)
Remeasurement gains or (losses) on pension assets and liabilities	<b>(13,032)</b>	(41,136)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	<b>(16,633)</b>	(14,905)
Effect of business combinations and disposals	<b>(1,617)</b>	0
Employer's pensions contributions and direct payments to pensioners payable in the year	<b>10,471</b>	10,505
<b>Balance at 31 March</b>	<b><u>(188,225)</u></b>	<u>(167,414)</u>

### 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.

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Balance at 1 April	<b>(2,884)</b>	(2,695)
Settlement or cancellation of accrual made at the end of the preceding year	<b>2,884</b>	2,695
Amounts accrued at the end of the current year	<b>(1,992)</b>	(2,884)
<b>Balance at 31 March</b>	<b><u>(1,992)</u></b>	<u>(2,884)</u>



**11 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT NOTES**

**11.1 Amounts Reported for Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- Support service recharges are not reported as they do not have a net impact on the revenue account. However, such costs are reported in the Comprehensive Income and Expenditure Statement as required by CIPFA's *Service Reporting Code of Practice*.

The income and expenditure of the Authority's directorates, also referred to as Net Cost of Services, is recorded in the budget monitoring reports for the year is as follows:

**a) Service Information**

**For the year ended 31 March 2016**

	Social Care & Health £000	Children & Young People £000	Enterprise £000	Operations £000	Chief Executives Dept £000	Corporate Costs and Levies £000	Schools £000	Total £000
Fees, charges & other service income	(5,125)	(2,786)	(7,628)	(21,564)	(997)	(481)	(53,823)	<b>(92,404)</b>
Government grants and contributions	(5,481)	(9,662)	(1,928)	(3,709)	(24,106)	0	0	<b>(44,885)</b>
<b>Total Income</b>	<b>(10,606)</b>	<b>(12,447)</b>	<b>(9,556)</b>	<b>(25,273)</b>	<b>(25,103)</b>	<b>(481)</b>	<b>(53,823)</b>	<b>(137,289)</b>
Employee expenses	16,772	5,188	12,344	14,271	7,256	1,014	44,509	<b>101,354</b>
Other operating expenses	33,365	58,524	7,160	26,821	24,577	17,487	9,299	<b>177,234</b>
<b>Total operating expenses</b>	<b>50,137</b>	<b>63,712</b>	<b>19,504</b>	<b>41,092</b>	<b>31,834</b>	<b>18,501</b>	<b>53,807</b>	<b>278,588</b>
<b>Net Cost of Services reported to Internal Management</b>	<b>39,532</b>	<b>51,265</b>	<b>9,948</b>	<b>15,819</b>	<b>6,731</b>	<b>18,021</b>	<b>(16)</b>	<b>141,299</b>

**For the year ended 31 March 2015**

	Social Care & Health £000	Children & Young People £000	Enterprise £000	Operations £000	Chief Executives Dept £000	Corporate Costs and Levies £000	Schools £000	Total £000
Fees, charges & other service income	(6,329)	(3,060)	(5,101)	(25,338)	(253)	(544)	(54,193)	<b>(94,818)</b>
Government grants and contributions	(4,116)	(9,652)	(6,176)	(865)	(25,055)	0	0	<b>(45,863)</b>
<b>Total Income</b>	<b>(10,445)</b>	<b>(12,712)</b>	<b>(11,278)</b>	<b>(26,203)</b>	<b>(25,308)</b>	<b>(544)</b>	<b>(54,193)</b>	<b>(140,681)</b>
Employee expenses	16,456	5,807	11,792	15,102	8,073	927	44,998	<b>103,156</b>
Other operating expenses	32,081	59,068	9,776	28,951	24,189	16,984	9,043	<b>180,092</b>
<b>Total operating expenses</b>	<b>48,537</b>	<b>64,875</b>	<b>21,569</b>	<b>44,053</b>	<b>32,262</b>	<b>17,911</b>	<b>54,041</b>	<b>283,248</b>
<b>Net Cost of Services</b>	<b>38,092</b>	<b>52,163</b>	<b>10,291</b>	<b>17,851</b>	<b>6,954</b>	<b>17,367</b>	<b>(152)</b>	<b>142,566</b>

**b) Information Reported to Internal Management in addition to Net Cost of Services**

	2015-16	2014-15
	£000	£000
Net Cost of Services b/f	141,299	142,566
Attributable Costs – Fixed Asset Disposal	138	145
Interest & Investment Income	(165)	(98)
Interest Payable & Similar Charges	3,295	3,547
Charges Required Under Regulation	5,566	5,576
Capital Expenditure Financed from Revenue	272	138
Contributions to Earmarked Reserves	2,012	1,734
Contributions from Earmarked Reserves	(3,075)	(3,771)
General Government Grants	(67,641)	(69,540)
Non-Domestic Rates	(26,737)	(28,984)
Council Tax	(61,004)	(57,158)
Council Tax Benefit Support (included in n.c.s)	5,906	5,784
<b>Total (surplus)/deficit reported to Internal Management</b>	<b>(136)</b>	<b>(63)</b>

**c) Reconciliation of Directorate Income and Expenditure to Net Cost of Services in the Comprehensive Income and Expenditure Statement**

	2015-16	2014-15
	£000	£000
Cost of Services in Service Analysis	147,204	148,351
<i>Add:</i> Amounts not reported to management	10,425	18,251
<i>Less:</i> Amounts reported to management not included in Comprehensive Income and Expenditure Statement	(14,766)	(14,754)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>142,864</b>	<b>151,847</b>

**d) Reconciliation to Subjective Analysis**

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

For the year ended 31 March 2016

	Service Analysis £000s	Not Reported to Management £000s	Not Included in I&E £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
<b>Reconciliation to Subjective Analysis</b>						
Fees, charges & other service income	(92,404)	0	0	(92,404)	0	(92,404)
Income and movement in relation to investment properties	0	0	0	0	0	0
Interest and Investment Income	0	0	0	0	(165)	(165)
Income from council tax	0	0	0	0	(61,004)	(61,004)
Income Non-Domestic Rates Redistribution	0	0	0	0	(26,737)	(26,737)
Internal Recharges	0	(18,390)	0	(18,390)	0	(18,390)
Government grants and contributions	(44,885)	0	0	(44,885)	(73,832)	(118,717)
<b>Total Income</b>	<b>(137,289)</b>	<b>(18,390)</b>	<b>0</b>	<b>(155,679)</b>	<b>(161,738)</b>	<b>(317,416)</b>
Employee expenses	101,354	0	0	101,354	0	101,354
Expenditure in relation to investment properties	0	0	214	214	1,049	1,263
Other service expenses	167,440	(84)	0	167,356	0	167,356
Internal recharges	0	20,521	0	20,521	0	20,521
Depreciation, amortisation and impairment	0	8,630	0	8,630	0	8,630
Interest Payments and Similar Charges	0	0	0	0	3,281	3,281
Precepts & Levies	15,700	0	(15,700)	0	15,700	15,700
(Surplus)/Deficit on Trading Undertakings not within NCS	0	0	720	720	(508)	212
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	262	262
Accumulated absences	0	(892)	0	(892)	0	(892)
Pension costs as required by Code	0	628	0	628	5,534	6,162
<b>Total operating expenses</b>	<b>284,494</b>	<b>28,804</b>	<b>(14,766)</b>	<b>298,531</b>	<b>25,317</b>	<b>323,848</b>
Adjustments relating to JANEs	0	11	0	11	61	72
<b>(Surplus)/deficit on the provision of services</b>	<b>147,204</b>	<b>10,425</b>	<b>(14,766)</b>	<b>142,863</b>	<b>(136,360)</b>	<b>6,503</b>

## For the year ended 31 March 2015

	Service Analysis £000s	Not Reported to Management £000s	Not Included in I&E £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
<b>Reconciliation to Subjective Analysis</b>						
Fees, charges & other service income	(94,818)	0	0	<b>(94,818)</b>	0	<b>(94,818)</b>
Income and movement in relation to investment properties	0	0	281	<b>281</b>	(18,142)	<b>(17,861)</b>
Interest and Investment Income	0	0	0	<b>0</b>	(98)	<b>(98)</b>
Income from council tax	0	0	0	<b>0</b>	(57,158)	<b>(57,158)</b>
Income Non-Domestic Rates Redistribution	0	0	0	<b>0</b>	(28,984)	<b>(28,984)</b>
Internal Recharges	0	(15,781)	0	<b>(15,781)</b>	0	<b>(15,781)</b>
Government grants and contributions	(45,863)	0	0	<b>(45,863)</b>	(71,484)	<b>(117,348)</b>
<b>Total Income</b>	<b>(140,682)</b>	<b>(15,781)</b>	<b>281</b>	<b>(156,181)</b>	<b>(175,868)</b>	<b>(332,049)</b>
Employee expenses	103,156	0	0	<b>103,156</b>	7	<b>103,163</b>
Other service expenses	170,841	94	0	<b>170,935</b>	0	<b>170,935</b>
Internal recharges	0	18,599	0	<b>18,599</b>	0	<b>18,599</b>
Depreciation, amortisation and impairment	0	15,980	0	<b>15,980</b>	0	<b>15,980</b>
Interest Payments and Similar Charges	0	0	0	<b>0</b>	3,541	<b>3,541</b>
Precepts & Levies	15,168	0	(15,168)	<b>0</b>	15,168	<b>15,168</b>
(Surplus)/Deficit on Trading Undertakings not within NCS	(132)	0	132	<b>0</b>	(309)	<b>(309)</b>
Gain or Loss on Disposal of Fixed Assets	0	0	0	<b>0</b>	0	<b>0</b>
Accumulated absences	0	188	0	<b>188</b>	0	<b>188</b>
Pension costs as required by Code	0	(1,012)	0	<b>(1,012)</b>	5,239	<b>4,227</b>
<b>Total operating expenses</b>	<b>289,032</b>	<b>33,850</b>	<b>(15,036)</b>	<b>307,846</b>	<b>23,645</b>	<b>331,492</b>
Adjustments relating to JANEs	0	182	0	<b>182</b>	1	<b>183</b>
<b>(Surplus)/deficit on the provision of services</b>	<b>148,351</b>	<b>18,251</b>	<b>(14,754)</b>	<b>151,847</b>	<b>(152,221)</b>	<b>(375)</b>

**11.2 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.

	Note	31 March 2016			31 March 2015		
		Gross Expend £000	Gross Income £000	Net Expend £000	Gross Expend £000	Gross Income £000	Net Expend £000
Interest payable and similar charges	13.2/16.7	<b>3,429</b>	<b>(9)</b>	<b>3,420</b>	3,553	(13)	3,541
Pensions interest cost and expected return on pensions assets	14.2/16.7	<b>5,455</b>	<b>0</b>	<b>5,455</b>	5,239	0	5,239
Interest receivable and similar income	13.2	<b>0</b>	<b>(151)</b>	<b>(151)</b>	0	(89)	(89)
Income and expenditure in relation to investment properties and changes in their fair value	12.8	<b>4,948</b>	<b>(3,899)</b>	<b>1,049</b>	1,741	(19,884)	(18,142)
(Surpluses)/deficits on trading undertakings not included in the Net Cost of Services	11.3	<b>11,102</b>	<b>(11,610)</b>	<b>(508)</b>	11,192	(11,501)	(309)
Other investment income	13.2	<b>0</b>	<b>(14)</b>	<b>(14)</b>	0	(9)	(9)
<b>Total Financing and Investment Income and Expenditure</b>		<b>24,934</b>	<b>(15,683)</b>	<b>9,251</b>	<b>21,725</b>	<b>(31,495)</b>	<b>(9,770)</b>

### 11.3 Significant Trading Operations

The Authority has established 7 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations.

Details of those units are as follows:

	2015-16			2014-15		
	£000	£000	£000	£000	£000	£000
	Internal	External	Total	Internal	External	Total
Turnover	(2,577)	(1,168)	(3,745)	(2,488)	(1,184)	(3,672)
Expenditure	2,573	1,113	3,686	2,488	1,128	3,616
<b>(Surplus)/Deficit</b>	<b>(4)</b>	<b>(55)</b>	<b>(59)</b>	<b>0</b>	<b>(56)</b>	<b>(56)</b>

The Authority's Grounds Maintenance function was awarded to an in-house unit after a competitive tender process. The trading objective is to make a profit whilst ensuring value for money to all customers. The unit competes successfully in the private sector carrying out work that includes play areas, horticulture and fencing.

	2015-16			2014-15		
	£000	£000	£000	£000	£000	£000
	Internal	External	Total	Internal	External	Total
Turnover	(775)	0	(775)	(624)	(25)	(649)
Expenditure	774	0	774	664	24	688
<b>(Surplus)/Deficit</b>	<b>(1)</b>	<b>0</b>	<b>(1)</b>	<b>40</b>	<b>(1)</b>	<b>39</b>

The Building Cleaning function was awarded in-house work after a competitive tender process. The unit provides cleaning services to council offices, schools and public toilets. The trading objective is to recover costs whilst ensuring value for money.

	2015-16			2014-15		
	£000	£000	£000	£000	£000	£000
	Internal	External	Total	Internal	External	Total
<b>Turnover</b>	<b>0</b>	<b>(342)</b>	<b>(342)</b>	<b>0</b>	<b>(336)</b>	<b>(336)</b>
- Chargeable	0	(342)	(342)	0	(335)	(335)
- Non-Chargeable	0	0	0	0	(1)	(1)
<b>Expenditure</b>	<b>0</b>	<b>489</b>	<b>489</b>	<b>0</b>	<b>500</b>	<b>500</b>
- Chargeable	0	330	330	0	330	330
- Non-Chargeable	0	159	159	0	170	170
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>147</b>	<b>147</b>	<b>0</b>	<b>164</b>	<b>164</b>
- Chargeable	0	(12)	(12)	0	(5)	(5)
- Non-Chargeable	0	159	159	0	169	169

Building Control enforces the Building (Local Authority Charges) Regulations 2010 to ensure building construction is carried out in a safe manner alongside the control of dangerous structures and demolitions. The Regulations state that a "break even" position should be maintained on the chargeable trading element and an earmarked reserve for surpluses and losses be set up and reviewed over a suggested three year rolling basis.

The service has returned a chargeable surplus of £12,000 (£5,000 surplus in 2014/15). The main reason for this was an in year staff vacancy that produced savings. The building control trading account reserve has a £16,000 surplus as at 31st March 2016. In line with the regulations the section will review future pricing policy in order to ensure that reserves remain at an acceptable level.

	2015-16			2014-15		
	£000	£000	£000	£000	£000	£000
	Internal	External	Total	Internal	External	Total
Turnover	0	(327)	(327)	0	(366)	(366)
Expenditure	0	396	396	0	558	558
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>69</b>	<b>69</b>	<b>0</b>	<b>192</b>	<b>192</b>

The authority operates 3 retail markets in Monmouth, Caldicot and Abergavenny. The Markets run twice per week at each site and has the aim of providing traders with the environment to allow them to operate to their full potential benefiting not only themselves but their customers. The Authority views it's markets as an integral part of the life and economic regeneration of Monmouthshire towns. The financial outturn includes one off redundancy costs of £25k as a result of a departmental restructure.

	2015-16			2014-15		
	£000	£000	£000	£000	£000	£000
	Internal	External	Total	Internal	External	Total
Turnover	0	(63)	(63)	0	(55)	(55)
Expenditure	0	69	69	0	5	5
Movement in asset value	0	0	0	0	68	68
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>6</b>	<b>6</b>	<b>0</b>	<b>18</b>	<b>18</b>

The Council manages 44 industrial units, situated predominantly in the south of the County. The units are let at market rents on flexible terms, any net surpluses are used to support service delivery.

**Highways External Clients**

	2015-16			2014-15		
	£000 Internal	£000 External	£000 Total	£000 Internal	£000 External	£000 Total
Turnover	0	(5,894)	(5,894)	0	(6,074)	(6,074)
Expenditure	0	5,370	5,370	0	5,517	5,517
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>(524)</b>	<b>(524)</b>	<b>0</b>	<b>(557)</b>	<b>(557)</b>

The authority provides a range of Highways Maintenance services to external clients including adjacent LA's, Gwent Police and agents of WG. The works were awarded via a combination of competitive tender, negotiated rates and agreed resource schedule rates. The unit provides services ranging from safety fence repairs to winter Maintenance on all trunk roads and motorways in the Cardiff and Greater Gwent region. The trading objective is to recover costs, reduce MCC overheads and ensure value for money. The level of surplus is dependent upon spend patterns in WG and LA's within the South East Wales region. Higher than budgeted spend patterns in the Greater Gwent region, skews surpluses significantly as overheads are fully recovered at budgeted levels.

**Trade Refuse**

	2015-16			2014-15		
	£000 Internal	£000 External	£000 Total	£000 Internal	£000 External	£000 Total
Turnover		(469)	(469)	0	(427)	(427)
Expenditure		318	318	0	359	359
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>(151)</b>	<b>(151)</b>	<b>0</b>	<b>(68)</b>	<b>(68)</b>

The Authority offers a residual waste collection to local businesses. Financial performance has improved in the last year mainly due to cheaper disposal costs resulting in an increase in surplus.

**Summary**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Authority's services to the public whilst others are support services to the Authority's services to the public. The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure.

	2015-16 £000	2014-15 £000
Net (Surplus)/Deficit On Trading Operations	(513)	(269)
Support Services recharged to Expenditure of Continuing Operations	5	(40)
<b>Net (Surplus)/Deficit taken to financing and investment income and expenditure</b>	<b>(508)</b>	<b>(309)</b>

**11.4 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, Gwent Police Authority 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 44,561 for 2015/16 (44,199 for 2014/15).

This average basic amount for a Band D property, £1,348.56 (£1,284.61 in 2014/15), 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
Multiplier	6/9	7/9	8/9	1.0	11/9	13/9	15/9	18/9	21/9
Chargeable Dwellings	521	3224	6845	8561	7010	7343	5152	1727	665
Valuation (£,000)	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:

	2015-16 £000	2014-15 £000
Council tax collectable	(61,004)	(57,579)
Provision for non-payment of council tax	(232)	421
	<b>(61,235)</b>	<b>(57,158)</b>

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

NNDR is organised on a national basis. The Welsh Government specifies an amount for the rate, 0.482p per £ in 2015/16 (0.473p per £ in 2014/15) and, subject to the effects of transitory arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Authority is responsible for collecting rates due from ratepayers in its area but pays the proceeds into the NNDR pool administered by the Welsh 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 NNDR income after relief and provisions of £21,060,000 (£20,759,000 for 2014/15) was based on an average rateable value of £56,515,324 (£56,437,306 for 2014/15).

The analysis of the net proceeds from non-domestic rates is as follows:

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Non-domestic rates collectable	<b>21,204</b>	20,891
Cost of collection allowance	<b>(174)</b>	(172)
(Increase)/Decrease in provision for bad debts	<b>30</b>	41
	<b>21,060</b>	20,759
Payments into national pool	<b>21,060</b>	20,759
Redistribution from national pool	<b>(26,737)</b>	(28,984)

**11.6 General Government Grants**

The Authority received grants of £73,832,000 of General Government grants in 2015/16 that were identified as not being attributable to specific services within Net Cost of Services (£71,484,000 in 2014/15). The following analysis is provided:

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Revenue support grant	<b>(66,819)</b>	(68,524)
Outcome Agreement grant	<b>(822)</b>	(812)
21c Schools Annuity Funding	<b>0</b>	(204)
Capital grants and contributions	<b>(6,190)</b>	(1,944)
<b>Total</b>	<b>(73,832)</b>	(71,484)

**11.7 Grant Income**

**a) Capital Grants and Contributions**

The Authority has also credited £7,208,000 to the Comprehensive Income and Expenditure Statement in 2015/16 (£3,503,000 in 2014/15). This is comprised of:

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
WAG General Capital Grant	<b>1,462</b>	1,473
Section 106 Developer Contributions	<b>379</b>	452
WAG Grants	<b>5,195</b>	1,322
Other Contributions	<b>171</b>	257
Insurance Settlement Income	<b>0</b>	0
	<b>7,208</b>	3,503

The capital grants and contributions have been credited to the Comprehensive Income and Expenditure Statement as follows:

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Grants and contributions applied towards Revenue Expenditure Funded from Capital under Statute	<b>(1,018)</b>	(1,560)
Capital grants and contributions applied and credited to Taxation and Non-specific Grant Income	<b>(6,190)</b>	(1,944)
	<b>(7,208)</b>	(3,503)

**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:

	2015-16 £000	2014-15 £000
<b>Capital Grants Receipts in Advance:</b>		
Gloucestershire County Council	0	358
	<u>0</u>	<u>358</u>
<b>Developer Contributions held in Advance:</b>		
S106 Developer contributions	1,830	2,082
	<u>1,830</u>	<u>2,082</u>
	<u>1,830</u>	<u>2,440</u>

**c) Revenue Grants and Contributions**

The Authority credited the £23,273,000 of revenue grants and contributions to Net Cost of Services within the Comprehensive Income and Expenditure Statement for 2015/16 (£23,851,000 in 2014/15), along with Housing benefits subsidy of £22,435,000 (£21,987,000 in 2014/15). These are comprised of:

	2015-16 £000	2014-15 £000	£000
<b>Central Government</b>			
Housing benefit subsidy	22,435	21,987	
	<u>22,435</u>	<u>21,987</u>	21,987
<b>Welsh Assembly Government</b>			
Sixth Form Funding (DCELLS)	3,266	3,501	
SEG / WEG (PDG)	2,820	1,822	
Supporting People	2,244	2,197	
Early Years / Foundation Phase	2,080	2,648	
Sustainable Waste Management	1,751	1,890	
Rural Development Plan	218	1,355	
Flying Start Grant	1,172	1,116	
Concessionary Fares (PTSG)	717	697	
Families First	727	738	
Other WAG grants	3,184	4,497	
	<u>18,181</u>	<u>20,460</u>	20,460
<b>Home Office</b>			
Afghan Relocation Programme (Main Project)	210	0	
Police and Crime Commissioner	119	117	
	<u>328</u>	<u>117</u>	117
<b>Other Grants &amp; Contributions</b>	4,763	3,275	
<b>Revenue Grants and Contributions Receivable</b>	<u>45,708</u>	<u>45,838</u>	

## 12 NON-CURRENT ASSET & CAPITAL FINANCING NOTES

### 12.1 Property, Plant and Equipment

#### a) Revaluations

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 Deputy Estates Manager, Mrs C. Halford a RICS registered valuer and Chartered surveyor 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 2015/16 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 9 of the notes to the accounts.
- All assets requiring valuations have been revalued in the 5 year period ending 31st March 2016. The valuations carried out during 2015/16 primarily included the comprehensive schools, car parks, associations and clubs and some other land & buildings.

	Other Land and Buildings and Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	
	£000	£000	£000	£000	£000	£000	
Carried at historical cost	67	3,608	60,648	3,944	0	10,079	<b>78,346</b>
Valued at fair value as at:							
31 March 2016	64,519	0	0	0	0	0	<b>64,519</b>
31 March 2015	15,734	0	0	0	0	0	<b>15,734</b>
31 March 2014	9,020	0	0	0	0	0	<b>9,020</b>
31 March 2013	81,196	0	0	0	0	0	<b>81,196</b>
31 March 2012	1,010	0	0	0	0	0	<b>1,010</b>
<b>Total Cost or Valuation</b>	<b>171,546</b>	<b>3,608</b>	<b>60,648</b>	<b>3,944</b>	<b>0</b>	<b>10,079</b>	<b>249,825</b>



**b) In-Year Movements in 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 2016 and 31st March 2015.

**Movements in 2015/16:**

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation:</b>								
At 1 April 2015	172,844	11,097	83,090	3,887	4	1,141	<b>272,063</b>	1,245
Additions	2,673	867	3,126	95	0	8,242	<b>15,003</b>	0
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	9,989	0	0	0	0	0	<b>9,989</b>	65
Revaluation increases/ (decreases) recognised in the SDPS	(3,287)	0	0	(0)	0	0	<b>(3,287)</b>	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	<b>0</b>	0
Impairment losses/(reversals) recognised in the SDPS	3,713	(0)	(2,599)	(41)	0	0	<b>1,073</b>	0
Reclassified (to)/from Held for Sale	(194)	0	0	(1)	0	0	<b>(195)</b>	0
Other movements in cost or valuation	(692)	0	0	4	(4)	696	<b>4</b>	0
<b>At 31 March 2016</b>	<b>185,046</b>	<b>11,964</b>	<b>83,617</b>	<b>3,944</b>	<b>(0)</b>	<b>10,079</b>	<b>294,650</b>	<b>1,311</b>
<b>Accumulated Depreciation:</b>								
At 1 April 2015	(16,553)	(7,017)	(21,477)	0	0	0	<b>(45,047)</b>	(49)
Depreciation charge	(6,079)	(1,339)	(1,492)	0	0	0	<b>(8,910)</b>	(45)
Depreciation written out to the Revaluation Reserve due to revaluation increases/decreases	6,266	0	0	0	0	0	<b>6,266</b>	0
Depreciation written out to SDPS due to revaluation increases / decreases	771	0	0	0	0	0	<b>771</b>	0
Depreciation written out to the Revaluation Reserve due to impairments	0	0	0	0	0	0	<b>0</b>	0
Depreciation written out to SDPS due to impairments	2,085	0	0	0	0	0	<b>2,085</b>	0
Reclassified (to)/from Held for Sale	11	0	0	0	0	0	<b>11</b>	0
Other movements in depreciation	0	0	0	0	0	0	<b>0</b>	0
<b>At 31 March 2016</b>	<b>(13,500)</b>	<b>(8,356)</b>	<b>(22,969)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(44,824)</b>	<b>(94)</b>
<b>Net Book Value:</b>								
At 31 March 2016	171,546	3,608	60,649	3,944	0	10,079	<b>249,826</b>	1,217
At 1 April 2015	156,291	4,080	61,613	3,887	4	1,141	<b>227,016</b>	1,196

**Movements in 2014/15**

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation:</b>								
At 1 April 2014	175,110	10,658	82,741	3,908	215	3,559	<b>276,191</b>	1,189
Additions	4,375	677	3,952	7	25	747	<b>9,782</b>	0
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(1,216)	1	0	0	0	0	<b>(1,216)</b>	57
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(7,770)	(214)	0	(0)	0	0	<b>(7,984)</b>	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	(7)	0	0	0	0	0	<b>(7)</b>	0
Impairment losses/(reversals) recognised in the SDPS	258	(18)	(3,623)	0	(25)	(259)	<b>(3,667)</b>	0
Derecognition – disposals	0	0	0	0	0	0	<b>0</b>	0
Assets reclassified (to)/from Held for Sale	(0)	(6)	0	0	(212)	0	<b>(217)</b>	0
Other movements in cost or valuation	2,094	0	20	(29)	0	(2,906)	<b>(821)</b>	0
<b>At 31 March 2015</b>	<b>172,844</b>	<b>11,097</b>	<b>83,090</b>	<b>3,887</b>	<b>4</b>	<b>1,141</b>	<b>272,062</b>	<b>1,245</b>
<b>Accumulated Depreciation:</b>								
At 1 April 2014	(12,859)	(5,583)	(19,992)	0	0	0	<b>(38,434)</b>	(7)
Depreciation charge	(5,853)	(1,653)	(1,485)	0	0	0	<b>(8,991)</b>	(42)
Depreciation written out to the Revaluation Reserve due to revaluation increases/decreases	309	0	0	0	0	0	<b>309</b>	0
Depreciation written out to SDPS due to revaluation increases/decreases	1,739	214	0	0	0	0	<b>1,954</b>	0
Depreciation written out to the Revaluation Reserve due to impairments	0	0	0	0	0	0	<b>0</b>	0
Depreciation written out to SDPS due to impairments	110	0	0	0	0	0	<b>110</b>	0
Reclassified (to)/from Held for Sale	0	0	0	0	0	0	<b>0</b>	0
Other movements in depreciation	0	6	0	0	0	0	<b>6</b>	0
<b>At 31 March 2015</b>	<b>(16,553)</b>	<b>(7,017)</b>	<b>(21,477)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(45,046)</b>	<b>(49)</b>
<b>Net Book Value:</b>								
At 31 March 2015	156,291	4,080	61,613	3,887	4	1,141	<b>227,015</b>	1,196
At 1 April 2014	162,251	5,075	62,749	3,908	216	3,559	<b>237,757</b>	1,181

**c) Information on Assets Held**

Plant, property and equipment assets owned by the Council as at 31st March 2016 include the following:

	<b>31 March 2016 Number</b>	31 March 2015 Number (Restated)
Schools:		
Primary	<b>22</b>	22
Comprehensive	<b>4</b>	4
Special	<b>1</b>	1
Land Parcels	<b>3</b>	3
Nurseries	<b>4</b>	4
Playgroups	<b>1</b>	1
Associations and Clubs	<b>44</b>	45
Parks Open, Spaces, & Recreational Grounds	<b>353</b>	353
Libraries	<b>5</b>	5
Historic Sites	<b>1</b>	1
Museums and Theatres	<b>5</b>	5
Leisure Centres	<b>4</b>	4
Youth Centres	<b>2</b>	2
Outdoor Education Centres	<b>2</b>	2
Learning and Resource Centres	<b>1</b>	1
Residential Homes	<b>4</b>	4
Sheltered Housing Units	<b>3</b>	4
Community Centres	<b>8</b>	8
Day Centres	<b>2</b>	2
Industrial Units	<b>6</b>	6
Land Parcels	<b>78</b>	78
Allotments	<b>5</b>	5
Car Parks	<b>39</b>	39
Offices & Depots	<b>31</b>	33
Public Conveniences	<b>18</b>	20
District Shops & Restaurants	<b>2</b>	2
Cemeteries & Crematoria	<b>15</b>	15
Waste Disposal Sites	<b>5</b>	5
Sewerage Treatment Plants	<b>11</b>	10
Markets	<b>2</b>	2
Bus Stations	<b>1</b>	1
Vehicles	<b>156</b>	120
Plant and Machinery	<b>63</b>	45
Infrastructure	<b>19</b>	19
Arts and Antiquities	<b>1</b>	1
IT Equipment	<b>26</b>	26
Surplus Assets not Held for Sale	<b>0</b>	1

## 12.2 Summary of Capital Expenditure treatment

In order to assist the user of the accounts, the summary below provides a concise analysis of capital expenditure incurred by the Authority during the financial year and its resultant treatment in the statement of account.

Total capital expenditure in the year amounted to £18,845,000 in 2015/16 (£14,256,000 in 2014/15). The expenditure was accounted for as follows:

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Enhancing value:		
Property, plant and equipment additions	<b>11,633</b>	6,095
Investment properties	<b>127</b>	0
Intangible assets	<b>196</b>	369
Assets held for sale	<b>0</b>	56
Heritage assets	<b>148</b>	17
Not enhancing value:		
Property, plant and equipment additions	<b>3,371</b>	3,688
Investment properties	<b>208</b>	293
Intangible assets	<b>0</b>	17
Assets held for sale	<b>9</b>	38
Heritage assets	<b>5</b>	82
Revenue Expenditure Funded from Capital under Statute	<b>3,149</b>	3,601
	<b>18,845</b>	14,256

Capital expenditure incurred by the Authority that does not result in an equivalent increase in the value of the underlying fixed asset is initially charged in full as a fixed asset addition, and then subsequently impaired in order to ensure that the carrying value of the fixed asset concerned is not overstated.

## 12.3 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year which has enhanced assets which are not owned by the Authority, may be capitalised under statutory provisions but does not result in the creation of fixed assets. It has therefore been charged as expenditure to the Comprehensive Income and Expenditure Statement in the year.

As the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Comprehensive Income and Expenditure Statement so there is no impact on the level of council tax.

Revenue expenditure funded from capital under statute for the year amounted to £3,149,000 (£3,601,000 in 2014/15) and comprised grants for the Disabled Facility Grants (DFGs) provided to homeowners within the community and other Capital Grants and payments. Grants & external contributions funding applied by the Authority to finance such expenditure amounted to £1,018,000 (£1,560,000 in 2014/15).

	<b>CED's</b>	<b>Disabled</b>	<b>Other</b>	<b>Total</b>
	<b>Grants</b>	<b>Facility</b>		
	<b>£000</b>	<b>Grants</b>	<b>£000</b>	<b>£000</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Capital expenditure incurred during the year	0	647	2,502	<b>3,149</b>
Associated grant financing	0	0	(1,018)	<b>(1,018)</b>
	<b>0</b>	<b>647</b>	<b>1,484</b>	<b>2,132</b>

## 12.4 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.

The Capital Financing Requirement effectively represents the Authority's underlying need to borrow. The capital financing requirement as at 31st March 2016 was £114,076,000 (£122,860,000 as at 31st March 2015), a decrease of £8,784,000 (increase of £3,015,000 in 2014/15).

	<b>31 March 2015 £000</b>	<b>31 March 2015 £000</b>	31 March 2014 £000	31 March 2014 £000
Opening Capital Financing Requirement		<b>122,860</b>		119,845
<b>Capital investment:</b>				
Property, Plant and Equipment	<b>15,003</b>		9,782	
Investment Properties	<b>335</b>		293	
Assets held for sale	<b>9</b>		94	
Heritage Assets	<b>153</b>		99	
Intangible Assets	<b>196</b>		387	
Revenue Expenditure Funded from Capital under Statute	<b>3,149</b>		3,601	
		<b>18,845</b>		14,256
<b>Sources of finance:</b>				
Capital receipts	<b>(7,765)</b>		(1,871)	
Government grants and other contributions	<b>(7,208)</b>		(3,504)	
Direct revenue contributions	<b>(920)</b>		(370)	
		<b>(15,893)</b>		(5,745)
<b>Other:</b>				
Minimum revenue provision	<b>(5,486)</b>		(5,496)	
Capital receipt set aside	<b>(6,250)</b>		0	
		<b>(11,736)</b>		(5,496)
Closing Capital Financing Requirement		<b>114,076</b>		122,860
<b>Explanation of movements in year</b>				
Increase in underlying need to borrowing - supported by Government financial assistance		<b>2,420</b>		2,420
Increase in underlying need to borrowing - unsupported by Government financial assistance		<b>532</b>		6,091
Less: Minimum revenue provision		<b>(5,486)</b>		(5,496)
Less: Capital receipt set aside		<b>(6,250)</b>		0
Increase / (decrease) in Capital Financing Requirement		<b>(8,784)</b>		3,015

## 12.5 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".

Council approved an MRP policy in February 2015 applying to the 2015/16 financial year. The policy allowed capital expenditure financed via unsupported borrowing to be subject to MRP using either the equal annual instalment method or the annuity method, based on the useful life applicable to the nature of the expenditure.

A revision to the MRP policy was approved by Cabinet in December 2015 to allow a recalculation of the MRP charge for unsupported borrowing undertaken since 2008/09 under the annuity method. This will not impact the MRP charge for 2015/16 but will result in a significant reduction in the charge for 2016/17.

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

The amount of revenue provision made by the Authority in 2015/16 was £5,486,000 (£5,496,000 in 2014/15). The charge for 2015/16 was reduced by £263,000 as a result of a set aside of capital receipts of £6,250,000.

## 12.6 Capital Commitments

At 31 March 2016, the Authority has entered into major contracts for the construction of Property, Plant and Equipment in 2016/17 and later years budgeted to cost £2,392,000 (£2,369,000 at 31st March 2015).

## 12.7 Financing Capital Expenditure

Total capital expenditure in the year amounted to £18,845,000 (£14,256,000 in 2014/15). The expenditure was financed as follows:

Financing	£000	Capital Expenditure - Schemes	£000
Supported Borrowing	2,420	Infrastructure and Transport Schemes	3,135
Unsupported Borrowing	532	Asset Management Schemes	2,710
General Capital Grant	1,462	School Development Schemes	10,192
Capital grants and contributions	5,366	Regeneration Schemes	517
Council Fund Capital Receipts	7,688	Inclusion Schemes	1,235
Low Cost Home ownership receipts	77	Sustainability Schemes	4
Revenue Contribution:		ICT Schemes	181
Earmarked Reserves	648	Other Schemes	142
Council Fund	272	County Farms Schemes	208
S106 contributions	379	Vehicles	522
<b>Total</b>	<b>18,845</b>		<b>18,845</b>

## 12.8 Investment Properties

Investment Properties are those that are used solely to earn rentals 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 primarily consists of County Farms and District Shops.

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in relation to investment properties:

	2015-16 £000	2014-15 £000
Rental income from investment property	(495)	(447)
Direct operating expenses arising from investment property	174	151
Net (gain)/loss	<b>(321)</b>	<b>(296)</b>

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

	<b>2015-16</b>	<b>2014-15</b>
	<b>£000</b>	<b>£000</b>
Balance at start of the year	<b>42,716</b>	25,138
Additions:		
Subsequent expenditure	<b>335</b>	293
Disposals	<b>(434)</b>	(1,033)
Net gains/(losses) from fair value adjustments recognised in Financing and Investment Income and Expenditure	<b>(1,515)</b>	17,497
Transfers:		
(To)/from Property, Plant and Equipment	<b>(4)</b>	821
Balance at end of the year	<b>41,098</b>	42,716

Capital receipts totalling £533,500 were credited to the Capital receipts reserve during 2015/16 in relation to investment properties (£1,764,000 in 2014/15)

## 12.9 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 2016 are shown below:

	<b>2015-16</b>	2014-15
	<b>£000</b>	<b>£000</b>
Balance outstanding at start of year	<b>22,095</b>	29,165
Additions	<b>9</b>	94
Assets newly classified as held for sale:		
Property, Plant and Equipment	<b>184</b>	212
Revaluation losses	<b>(236)</b>	(107)
Revaluation gains	<b>0</b>	2,750
Impairment losses	<b>(9)</b>	(38)
Assets declassified as held for sale:		
Assets sold	<b>(1,359)</b>	(9,981)
Balance outstanding at year-end	<b>20,683</b>	22,095

**12.10 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 29% 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.

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(b).

**12.11 Leases - Authority as Lessee**

**Operating Leases**

The Authority has acquired property, vehicles, plant and equipment by entering into operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
		(Restated)
Not later than one year	<b>398</b>	520
Later than one year and not later than five years	<b>516</b>	696
Later than five years	<b>634</b>	550
	<b>1,548</b>	1,766

The expenditure charged to the services within the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £410,000 (£736,000 in 2014/15).

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

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Not later than one year	<b>584</b>	666
Later than one year and not later than five years	<b>1,531</b>	1,671
Later than five years	<b>6,481</b>	6,406
	<b>8,596</b>	8,743

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 £592,000 of minimum lease payments were receivable by the Authority (£697,000 in 2014/15).



### 12.13 Heritage Assets

The Code requires that heritage assets are measured at valuation in the 2015/16 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 over the year:

#### Movements in 2015/16:

	Property Heritage Assets £000	Museum Exhibits £000	Civic Regalia, Artwork & Collect'n £000	Total £000
<b>Cost or Valuation:</b>				
At 1 April	3	4,464	180	<b>4,647</b>
Additions	153	0	0	<b>153</b>
Impairment losses/(reversals) recognised in the SDPS	(5)	0	0	<b>(5)</b>
<b>At 31 March</b>	<b>151</b>	<b>4,464</b>	<b>180</b>	<b>4,795</b>

#### Movements in 2014/15:

	Property Heritage Assets £000	Museum Exhibits £000	Civic Regalia, Artwork & Collect'n £000	Total £000
<b>Cost or Valuation:</b>				
At 1 April	20	4,450	180	<b>4,650</b>
Additions	85	14	0	<b>99</b>
Revaluation increases/ (decreases) recognised in the SDPS	(20)	0	0	<b>(20)</b>
Impairment losses/(reversals) recognised in the SDPS	(82)	0	0	<b>(82)</b>
<b>At 31 March</b>	<b>3</b>	<b>4,464</b>	<b>180</b>	<b>4,647</b>

Additions relating to property heritage assets of £148,000 relates to works at Caldicot Castle comprising of (£99,000) refurbishment to comply with Environmental Health, (£33,000) for new Fire & Security Alarms, (£10,000) to Upgrade Emergency Lighting & (£6,000) for a Kitchen Upgrade.

The Authority is required to provide a five-year summary of transactions for heritage assets, illustrating the acquisitions, donations, disposals (including sales proceeds) and impairments. This summary is intended to separately report transactions that are reported in the Balance Sheet and those that are not. Information has not been provided for the period before 1 April 2010 as it is not practicable to do so.

#### 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 during 2011/12 on a fair value - existing use value (EUV) basis and were carried out internally by the Authority's Estates Section under the supervision of the Estates & Sustainability Manager, Mrs D. Hill-Howells 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.

### **12.14 Schools Non-Current Assets**

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

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.

The net book value of school non-current assets as at 31st March 2016, shown in the Authority's balance sheet, is £117,121,000 (£94,715,000 as at 31st March 2015).

## 13 FINANCIAL INSTRUMENTS, CURRENT ASSETS & LIABILITIES NOTES

### 13.1 Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet as at 31st March 2016:

	Note	Long-Term		Short-Term	
		31 March 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
<b>Investments</b>					
Loans & receivables	13.4	0	0	3,999	4,016
Unquoted equity investments	13.4	40	40	0	0
Cash & cash equivalents	15.3	-	-	7,972	20,406
<b>Total Investments</b>		<b>40</b>	<b>40</b>	<b>11,971</b>	<b>24,422</b>
<b>Debtors</b>					
Receivables	13.5	312	383	19,588	16,392
<b>Total Debtors</b>		<b>312</b>	<b>383</b>	<b>19,588</b>	<b>16,392</b>
<b>Borrowings</b>					
Financial liabilities at amortised cost	13.4	(65,708)	(67,761)	(29,852)	(33,552)
Cash & cash equivalents	15.3	-	-	(1,025)	0
<b>Total Borrowings</b>		<b>(65,708)</b>	<b>(67,761)</b>	<b>(30,877)</b>	<b>(33,552)</b>
<b>Other Long Term Liabilities</b>					
PFI and finance lease liabilities		(833)	(863)	0	0
Other Long Term Liabilities		(404)	(431)	0	0
<b>Total Other Long Term Liabilities</b>		<b>(1,236)</b>	<b>(1,294)</b>	<b>0</b>	<b>0</b>
<b>Creditors</b>					
Payables	13.6	0	0	(22,286)	(20,995)
<b>Total Creditors</b>		<b>0</b>	<b>0</b>	<b>(22,286)</b>	<b>(20,995)</b>

The Authority holds no financial assets or financial liabilities at fair value through profit or loss, where assets or liabilities would be classified as held for trading.

The unquoted equity investment of £40,000 represents an equal share with Torfaen County Borough Council in SRS Business Solutions Limited. This investments comprised seed funding for the company and is expected to be recovered in full. Further information is provided in note 16.6(iii).

Short term debtors and creditors are carried at cost as this is a fair approximation of their value. Debtors are impaired where there is objective evidence that the carrying amount exceeds the recoverable amount and amounts shown are the amount net of any such impairment.

### 13.2 Income, Expense, Gains and Losses

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

	2015-16 £000	2015-16 £000	2014-15 £000	2014-15 £000
<b>Financial Liabilities measured at amortised cost:</b>				
Interest payable on external debt	3,264		3,511	
Debt reimbursement from third parties	(9)		(13)	
	<u>          </u>	<u>3,255</u>	<u>          </u>	<u>3,499</u>
Interest payable to trust funds	3		9	
Interest payable on finance leases	23		33	
	<u>          </u>	<u>26</u>	<u>          </u>	<u>42</u>
<b>Interest payable and similar charges</b>		<u><b>3,281</b></u>		<u><b>3,541</b></u>
<b>Financial assets - loans and receivables:</b>				
Interest income	(103)		(89)	
Interest income accrued on impaired financial assets	0		0	
Investment Losses / (Gains)	(48)		0	
<b>Interest and investment income</b>		<u><b>(151)</b></u>		<u><b>(89)</b></u>
Other interest and investment income	(14)		(9)	
<b>Other investment income</b>		<u><b>(14)</b></u>		<u><b>(9)</b></u>
<b>Total interest and investment income</b>		<u><b>(165)</b></u>		<u><b>(98)</b></u>
<b>Net (gain)/loss for the year</b>		<u><b>3,116</b></u>		<u><b>3,442</b></u>

### 13.3 Fair Values of Financial Instruments

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Interest is calculated using the most common market convention, ACT/365
- Where interest is paid every 6 months on a day basis, the value of interest is rounded to 2 equal instalments
- For fixed term deposits it is assumed that interest is received on maturity, or annually if duration is greater than 1 year
- The interest value and date have not been adjusted where a relevant date occurs on a non-working day
- The fair values of long term 'Lender's Option Borrower's Option' (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate and adding the value of the embedded options. Lender's options to propose an increase to the interest rate on the loan have been valued according to Bloomberg's proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumptions that lenders will only exercise their options when market rates have risen above the contractual loan rate.

The fair values calculated are as follows:

	<b>Carrying Amount</b>		<b>Fair Value</b>	
	<b>31 March 2015 £000</b>	31 March 2014 £000	<b>31 March 2015 £000</b>	31 March 2014 £000
<b>Borrowings</b>				
Financial liabilities at amortised cost	<b>(95,560)</b>	(101,313)	(131,483)	(125,441)

The fair value 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 discount rate (underlying market rates) 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.

### **Loans and Receivables**

The carrying amount of loans and receivables held at the balance sheet date is deemed to be a reasonable approximation of the fair value.

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

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

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the authority
- **Liquidity risk** – the possibility that the authority might not have funds available to meet its commitments to make payments
- **Market risk** – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates

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, under policies approved by the Council in the Treasury Management Strategy and Annual Investment Strategy. The strategy provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

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.

The investment strategy seeks to minimise risk in the current climate by restricting investment to institutions which are given a high credit rating by external rating agencies and which continue to show other measures of credit worthiness and as advised by leading financial consultants and by ensuring liquidity is maintained with short term deposits.

The Authority has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

#### **a) Credit Risk**

Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks and financial institutions if either they or their resident Country fall below the minimum "high" credit criteria set by the Authority. Different counterparty limits are in place for different investment instruments, based on type or Country of origin.

All of the investments currently held by the Authority are considered to be of low credit risk. The Authority, assisted by its treasury advisors, has this position constantly under review. All investments as at 31st March 2016 were in institutions based in the United Kingdom.

The authority does not expect any losses from non-performance by any of its counterparties in relation to investments held as at 31st March 2016.

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.

**b) Liquidity Risk**

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The maturity and counterparty analysis of financial liabilities is as follows:

	<b>31 March</b>	31 March
	<b>2016</b>	2015
	<b>£000</b>	£000
Public Works Loan Board	<b>53,203</b>	54,981
Market Loans	<b>13,813</b>	13,813
Welsh Government	<b>2,458</b>	1,460
Other local authorities	<b>26,086</b>	31,058
	<b>95,560</b>	101,313

**The Loans Mature as follows:-**

Less than one year	<b>29,852</b>	33,552
Between one and two years	<b>3,108</b>	6,000
Between two and five years	<b>16,876</b>	2,895
Between five and ten years	<b>8,150</b>	21,093
More than ten years	<b>37,573</b>	37,773
	<b>95,560</b>	101,313

Financial liabilities with Welsh Government consist of interest free Salix loans that have been provided to fund capital schemes targeted towards energy efficiencies initiatives; a loan of £1.25m for Vibrant & viable places; a loan of £621,000 under the Home Improvement scheme and a loan of £443,000 for Street Lighting upgrades. Accounting requirements require financial liabilities in the form of loans to be carried at amortised cost. However, 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 liabilities borrowings 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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the Council Fund Balance. The Authority held no investments carried at fair value at the 31st March 2016 (£nil at 31 March 2015).

The Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep the level of variable rate loans below the level of investment of surplus cash balances thus reducing interest rate exposure on investments. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of central government grant payable on financing costs (supported borrowing) will normally move with prevailing interest rates or the authority's cost of borrowing and provide compensation for a proportion of any higher costs.

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

At 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the most significant financial effect would be:

- Financial Liabilities - a reduction in fair value of £25,177,000 (£9,064,000 reduction in 2014/15).
- Financial Assets - the difference between the carrying and fair value will be immaterial due to the short term nature of investments.

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

## ii) Price risk

The Authority does not hold any tradable equity shares or shareholdings. It is carrying a £40,000 investment in shares of SRS Limited, a company set up with and jointly owned by Torfaen Borough Council & Gwent Police Authority.

## 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 2016, repayable within 12 months of the balance sheet date, is summarised below:-

	31 March 2016			31 March 2015		
	Gross £000	Impairment £000	Net £000	Gross £000	Impairment £000	Net £000
<i>Central Government Bodies:</i>						
HM Customs & Excise	407	0	407	0	0	0
NNDR Debtor	1,812	0	1,812	1,636	0	1,636
Council Tax and Housing Benefit Sub	365	0	365	0	0	0
Welsh Government	6,110	0	6,110	1,738	0	1,738
Other	14	0	14	766	0	766
Other Local Authorities	4,189	0	4,189	3,330	(19)	3,311
NHS Bodies	344	0	344	97	(33)	64
<i>Other entities and individuals:</i>						
Revenue debtors	528	(67)	461	3,986	(76)	3,910
Capital debtors	616	0	616	631		631
Council tax arrears	2,706	(1,970)	736	3,191	(2,202)	989
Social Services debtors	505	(87)	418	595	(100)	494
Corporate sundry debtors	3,566	(322)	3,244	2,181	(270)	1,911
Rent arrears	185	(135)	50	143	(118)	25
Housing benefit overpayments	1,429	(608)	821	1,471	(557)	915
	<b>22,776</b>	<b>(3,189)</b>	<b>19,588</b>	<b>19,766</b>	<b>(3,374)</b>	<b>16,392</b>

The aged analysis of the debtors outstanding as at 31st March 2016 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
<i>Central Government Bodies:</i>						
HM Customs & Excise	407	0	0	0	0	407
NNDR Debtor	1,332	0	0	390	90	1,812
Council Tax and Housing Benefit Subsidy	365	0	0	0	0	365
Welsh Government	6,110	0	0	0	0	6,110
Other	14	0	0	0	0	14
<i>Other</i>						
Other Local Authorities	3,813	128	207	39	1	4,189
NHS Bodies	110	220	1	3	10	344
<i>Other entities and individuals:</i>						
Revenue debtors	460	0	0	37	31	529
Capital debtors	616	0	0	0	0	617
Council tax arrears	0	0	0	1,251	1,455	2,706
Social Services sundry debtors	106	90	154	98	57	505
Corporate sundry debtors	2,602	273	342	126	223	3,566
Rent arrears	40	4	14	14	113	185
Housing benefit overpayments	65	130	340	400	494	1,429
	<b>16,040</b>	<b>845</b>	<b>1,058</b>	<b>2,359</b>	<b>2,474</b>	<b>22,776</b>

The associated impairment for potential default and uncollectability for debtors outstanding as at 31st March 2016 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
Revenue debtors	0	0	0	(37)	(31)	(68)
Council Tax Arrears	0	0	0	(751)	(1,219)	(1,970)
Social Services sundry debtors	6	(3)	(17)	(29)	(44)	(87)
Corporate sundry debtors	0	(33)	(98)	(67)	(123)	(321)
Rent arrears	0	(1)	(7)	(14)	(113)	(135)
Housing benefit overpayments	0	0	(108)	(133)	(367)	(608)
	<b>6</b>	<b>(37)</b>	<b>(230)</b>	<b>(1,031)</b>	<b>(1,897)</b>	<b>(3,189)</b>

### 13.6 Creditors

The nature and value of payments due to be made by the Council in the year but not actually made as at 31st March 2016 is summarised below: -

	Central Government Bodies	Other Local Authorities	NHS Bodies	Other entities & individuals	Total £000
Revenue Creditors	56	2,609	140	10,471	13,276
Capital Creditors	0	26	0	4,611	4,637
Sundry Creditors	0	0	0	(56)	(56)
Payroll Creditors	1,475	0	0	2,116	3,591
Monies invested on behalf of Trust Funds	0	0	0	350	350
Unapplied Commuted Maintenance Sums	0	0	0	131	131
Prepaid Council Tax	0	0	0	357	357
<b>Balance as at 31st March 2016</b>	<b>1,531</b>	<b>2,635</b>	<b>140</b>	<b>17,980</b>	<b>22,286</b>



	Central Governme nt Bodies	Other Local Authorities	NHS Bodies	Other entities & individuals	Total £000
H.M.R.C	280	0	0	0	280
Revenue Creditors	704	3,040	177	9,810	13,731
Capital Creditors	0	0	0	2,186	2,186
Sundry Creditors	0	0	0	(99)	(99)
Payroll Creditors	1,518	0	0	2,069	3,587
Monies invested on behalf of Trust Funds	0	0	0	350	350
Unapplied Commuted Maintenance Sums	0	0	0	112	112
Prepaid Council Tax	0	0	0	847	847
<b>Balance as at 31st March 2015</b>	<b>2,502</b>	<b>3,040</b>	<b>177</b>	<b>15,275</b>	<b>20,995</b>

It is the Authority's policy to pay creditors promptly, without undue delay and within mutually agreed terms. 95% of payments were paid within a 30 day target settlement date (83% in 2014/15).

### 13.7 Provisions and Contingent Liabilities

The value of provisions as at 31st March 2016, together with their movement for the year, is summarised below:

Note	As at 1 April 2015 £000	Additional Provisions Made £000	Amounts Used £000	Unused Amounts Reversed £000	As at 31 March 2016 £000	
Insurance Claims	13.8a	324	258	(324)	0	258
Insurance Claims - MMI	13.8b	33	7	(33)	0	7
Accumulating Compensated Absences	13.8c	2,884	1,992	(2,884)	0	1,992
Redundancy Payments		91	0	(91)	0	0
CMC2	13.8d	122	0	(122)	0	0
		3,454	2,256	(3,454)	0	2,256

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:

	Long			Long		
	Current £000	Term £000	Total £000	Current £000	Term £000	Total £000
	31 March 2016	31 March 2016	31 March 2016	31 March 2015	31 March 2015	31 March 2015
Insurance Claims	129	129	258	162	162	324
Insurance Claims - MMI	4	3	7	16	17	33
Accumulating Compensated Absences	1,992	0	1,992	2,884	0	2,884
Redundancy Payments	0	0	0	91	0	91
CMC2	0	0	0	122	0	122
	2,124	132	2,256	3,275	179	3,454

**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 2016. Provision has only been made where the likelihood of success has been deemed as exceeding 50%. 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 Head of Finance. 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 2016 was £258,000 (£324,000 at 31st March 2015) and the balance on the insurance and risk management reserve as at 31st March 2016 was £1,206,000 (£2,250,000 as at 31st March 2015). 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:

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
<b>Policy Type</b>		
Public Liability	<b>199</b>	199
Employer's Liability	<b>27</b>	125
Property	<b>32</b>	0
Total	<b>258</b>	324

The total number of open claims made against the Authority as at 31st March 2016 was 205 (123 open claims as at 31st March 2015).

**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.

The amount recovered by the liquidators was based on a percentage of the member's aggregate total value of claims paid and outstanding unpaid claims (less £50,000 from each scheme member). The levy was then applied on the total value of claim payments, less £50,000 from each scheme member. The total value of the levy paid during 2015/16 was £168,000, split between obligations relating to Monmouth Borough Council (£32,000) and the Authority's share of the former Gwent County Council (£136,000). This was fully covered by the provision made at the end of 2012/13.

It should be noted that MMI's actuaries indicated that a levy range of between 9.5% and 28% may be necessary to achieve a solvent run off. In the eventuality of the maximum levy of 28% being applied the Authority would incur further costs of £51,000 over and above the amount paid to date, based on current claims data. The Authority's Insurance reserve includes cover for this eventuality.

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 2016, a provision of £7,000 has been made for outstanding claims of this nature.

**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 of March 2016 was £1,992,000 (£2,884,000 at 31st March 2015).

**d) CMC2**

Contingent liabilities represent items that, at 31st March 2016, are not recognised in the Statement of Financial Position because there is significant uncertainty at that date as to the necessity for the entity to receive or make payments in respect of them. A possible contingent liability exists in respect of Council's community interest company (CMC2), which at the balance sheet date is owed £101k for works it has carried out. In the event that this income remains unpaid the Council could be liable on the understanding that it provides guarantor to the entity's overdraft facility.

**e) Asbestos Indemnity**

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 provision is one where the authority has negotiated a limited contingent liability of £6.003million, as updated annually by RPI, for a period of 15 years from the date of transfer of 20th January 2008. 7 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 there is a potential future liability of up to £6.003million as updated by RPI (£5.932 million as at 31st March 2015), 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 2016) is £60,503 (previously £42,000 for the period 21st January 2008 to 31st March 2015).

## 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.

This means that the council's financial statements need to reflect fair value of future pension liabilities that have been incurred, and the extent to which assets have been set aside to fund them, rather than the actual payments and contributions made in the year.

#### **Teachers**

Teachers employed by the Authority are members of the Teachers' Pension Scheme (TPS), administered by Capita Business Services Ltd on behalf of the Department for Education.

The scheme is a statutory, unfunded, defined benefit occupational pension scheme with benefits based on final average salary and length of service. The Department for Education use a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The latest available figure for total net scheme liability is £275,445,000,000 as at the 31 March 2015 (£250,130,000,000 at 31 March 2014). The latest actuarial valuation of the scheme (undertaken every 4 years), as at 31 March 2012 was published on the 9th June 2014. Key results from the actuarial valuation include an increase in employer contribution from 14.1% to 16.4% of pensionable pay commencing 1 September 2015 and an employer cost cap of 10.9% of pensionable pay. The reported deficiency in the balance of assets less liabilities of the scheme was reported as £15,000,000,000 at 31 March 2012 (£3,260,000,000 at 31 March 2004, the previous actuarial valuation).

In 2015/16 the Authority paid £3,725,000 (£3,475,000 in 2014/15) to the scheme in respect of teachers' retirement benefits, representing 15.5% of teachers' pensionable pay (14.1% for 2014/15).

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

There were £332,000 of contributions remaining payable to the scheme at the year end (£290,000 at 31st March 2015).

#### **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 final salary 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.
- 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 Entries in the comprehensive income and expenditure statement
- 14.3 A summary of the movement in assets and liabilities
- 14.4 The movement in the authority's share of the assets and liabilities within the Fund
- 14.5 The assumptions used by the actuary in valuing pension assets and liabilities
- 14.6 Sensitivity analysis
- 14.7 The risks associated with the pension scheme
- 14.8 Expected future pension contributions
- 14.9 Assets held by the pension fund

**14.2 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:

	Local Government Pension Scheme		Teachers' Unfunded Discretionary Benefits	
	2015-16 £000's	2014-15 £000's (Restated)	2015-16 £000's	2014-15 £000's
<b>Comprehensive Income and Expenditure Account</b>				
<i>Net Cost of Services:</i>				
• current service cost	10,813	8,669	0	0
• past service cost / (gain) including curtailments	286	824	0	0
• settlement gain	0	0	0	0
• administration expenses of plan assets *	0	173	0	0
	<b>11,099</b>	9,666	<b>0</b>	0
<i>Financing and Investment Income and Expenditure:</i>				
• interest cost on pension liabilities	13,986	15,495	147	207
• interest income on plan assets	(8,599)	(10,463)	0	0
• Impact of asset ceiling on net interest	0	0	0	0
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	<b>16,486</b>	14,698	<b>147</b>	207
<i>Other Comprehensive Income and Expenditure:</i>				
• (Gains) and losses on remeasurement	11,754	40,887	1,278	249
• Effect of business combinations and disposals	1,617	0	0	0
	<b>13,371</b>	40,887	<b>1,278</b>	249
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	<b>29,857</b>	55,585	<b>1,425</b>	456
<b>Movement in Reserves Statement</b>				
• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	<b>(16,486)</b>	(14,698)	<b>(147)</b>	(207)
<i>Actual amount charged against the Council Fund for pensions in the year:</i>				
• employers' contributions payable to scheme	<b>9,954</b>	9,970	<b>517</b>	534

\* For 2015/16, the administration expenses are included in the current service cost

**14.3 Summary of the movement in assets and liabilities**

Over the five years ending the 31 March 2016, the fund's actuaries have estimated that the Authority had the following assets and liabilities:

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
<b>Local Government Pension Scheme</b>					
Present value of scheme liabilities	(305,888)	(358,822)	(349,554)	(422,166)	(436,585)
Fair value of scheme assets	189,094	219,030	232,758	259,755	254,271
Surplus / (deficit) in the scheme	<u>(116,794)</u>	<u>(139,792)</u>	<u>(116,796)</u>	<u>(162,411)</u>	<u>(182,314)</u>
<b>Teachers Unfunded Discretionary Benefits</b>					
Present value of scheme liabilities	(4,904)	(5,194)	(5,082)	(5,003)	(5,911)
Fair value of scheme assets	-	-	-	-	-
Surplus / (deficit) in the scheme	<u>(4,904)</u>	<u>(5,194)</u>	<u>(5,082)</u>	<u>(5,003)</u>	<u>(5,911)</u>
<b>Total</b>					
Present value of scheme liabilities	(310,792)	(364,016)	(354,636)	(427,169)	(442,496)
Fair value of scheme assets	189,094	219,030	232,758	259,755	254,271
Surplus / (deficit) in the scheme	<u>(121,698)</u>	<u>(144,986)</u>	<u>(121,878)</u>	<u>(167,414)</u>	<u>(188,225)</u>
<b>Year on year increase in net liability (or deficit)</b>					<u><b>(20,811)</b></u>

The increase in combined net liability of £20.8 million from 1 April 2015 to 31 March 2016 is mainly due to a negative estimated return on assets of £7.1m and interest cost on liabilities of £11.5m. The movements in actuarial assumptions during the year have largely offset each other in their impact on the remeasurement of the pension liability.

**14.4 The movement in the authority's share of the assets and liabilities within the fund**

**The Movement in Fund Liability**

	Local Government Pension Scheme		Teachers Unfunded Discretionary	
	2015-16 £000	2014-15 £000	2015-16 £000	2014-15 £000
<b>As at 1st April</b>	<b>(422,166)</b>	(349,554)	<b>(5,003)</b>	(5,082)
Current service cost	<b>(10,813)</b>	(8,669)	<b>0</b>	0
Past service (cost) / gain (including curtailments)	<b>(286)</b>	(824)	<b>0</b>	0
Settlement gains	<b>0</b>	0	<b>0</b>	0
Curtailment costs	<b>0</b>	0	<b>0</b>	0
Interest on pension liabilities	<b>(13,986)</b>	(15,495)	<b>(147)</b>	(207)
Contributions by scheme participants	<b>(2,760)</b>	(2,752)	<b>0</b>	0
Gains / (losses) on remeasurement of liabs	<b>3956</b>	(58,091)	<b>(1,278)</b>	(249)
Benefits paid	<b>11,087</b>	13,219	<b>517</b>	535
Effect of business combinations & disposals	<b>(1,617)</b>	-	<b>-</b>	-
<b>As at 31st March</b>	<b>(436,585)</b>	(422,166)	<b>(5,911)</b>	(5,003)

There were £1,051,000 of contributions remaining payable at the year end for the Local Government Pension Scheme (at 31 March 2015 £1,067,000 was payable) and £15,000 was owed to the Authority for the Teachers unfunded discretionary benefits scheme (£2,000 at 31 March 2015).

Of the £437,000,000 of pension liabilities for the Local Government Pension Scheme at 31 March 2016, there are £5,215,000 of unfunded liabilities (£4,843,000 as at 31st March 2015). £364,000 of employer contributions were made in respect of these liabilities during the year.

**The Movement in Fund Assets**

	Local Government Pension Scheme		Teachers Unfunded Discretionary Benefits	
	2015-16 £000	2014-15 £000	2015-16 £000	2014-15 £000
<b>As at 1st April</b>	<b>259,755</b>	232,758	<b>0</b>	0
Settlement costs	<b>0</b>	0	<b>0</b>	0
Interest on plan assets	<b>8,599</b>	10,463	<b>0</b>	0
Employers contributions	<b>9,954</b>	9,970	<b>517</b>	535
Contributions by scheme participants	<b>2,760</b>	2,752	<b>0</b>	0
Gains / (losses) on remeasurement of assets	<b>(15,710)</b>	17,204	<b>0</b>	0
Administration expenses of plan assets	<b>0</b>	(173)	<b>0</b>	0
Benefits paid	<b>(11,087)</b>	(13,219)	<b>(517)</b>	(535)
<b>As at 31st March</b>	<b>254,271</b>	259,755	<b>0</b>	0

**14.5 The assumptions used by the actuary in valuing pension assets and liabilities**

The latest full actuarial valuation of the Greater Gwent (Torfaen) Pension Scheme was carried out on the 31st March 2013. In between formal valuations which occur every three years the actuary assesses the extent of the employers pension assets and liabilities.

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		
	31 March 2016	31 March 2015	31 March 2014	31 March 2016	31 March 2015	31 March 2014
Rate of increase in salaries	3.7%	3.5%	3.9%	-	-	-
Rate of increase in pensions (inline with CPI)	2.2%	2.0%	2.4%	2.2%	2.0%	2.4%
Rate for discounting scheme liabilities	3.5%	3.3%	4.5%	3.5%	3.1%	4.3%

**Life Expectancy:**

Current male pensioner aged 65 (years)	23.0	23.0	23.0	23.0	23.0	23.0
Current female pensioner aged 65 (years)	25.4	25.5	25.4	25.4	25.5	25.4
Future male pensioner aged 65 in 20 years' time (years)	25.2	25.3	25.2	-	-	-
Future female pensioner aged 65 in 20 years' time (years)	27.8	27.9	27.8	-	-	-

The discount rate used to value fund liabilities is based on market yields on high quality corporate bonds, estimated using the iBoxx AA corporate bond index.

Estimated Macaulay duration (weighted average) of liabilities (at later of 31 March 2013 & admission date):	<b>18 years</b>
Duration profile of Monmouthshire County Council members used to determine assumptions:	<b>Medium</b>

**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 31 March 2016	Approximate % increase to Employer liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	11%	50,313
1 year increase in member life expectancy	3%	13,275
0.5% increase in the Salary Increase Rate	4%	17,744
0.5% increase in the Pension Increase Rate	7%	31,672



**14.7 The risks associated with the pension schemes**

- Statutory arrangements are in place to ensure that the financial position of the fund remains healthy. In the 31 March 2013 Actuarial Valuation, a shortfall of 29% 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.
- The total defined benefit obligation for the Authority's share of the Greater Gwent Pension fund as at the 31st March 2016 is split as follows:

	<b>2015/16</b>
	<b>£000's</b>
Active	196,509
Deferred	60,739
Pensioners	174,097
	<b><u>431,345</u></b>

- A breakdown of the investments held by the Greater Gwent pension fund, quoted and unquoted is given in 14.9 giving an indication of the level of diversification and therefore risk within the fund.
- Finance is only required to be raised to cover teachers unfunded discretionary benefits when the pensions are actually paid.

**14.8 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 2017 is £10,823,000. Expected contributions for Teachers Unfunded Discretionary Benefits scheme in the year to 31 March 2017 are £517,000.

**14.9 Assets 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:

**Split of Assets between Investment Categories**

	Quoted in Active markets (A) /Not in Active markets (N)	31 March 2016		31 March 2015	
		£000	%	£000	%
Equities :	A	<b>49,063</b>	<b>19.3%</b>	50,392	19.4%
Investment funds & Unit Trusts					
: Equities	N	<b>148,020</b>	<b>58.2%</b>	151,957	58.4%
: Bonds	N	<b>39,278</b>	<b>15.4%</b>	40,262	15.5%
: Other	N	<b>8,555</b>	<b>3.4%</b>	0	0.0%
Property	N	<b>7,493</b>	<b>2.9%</b>	7,013	2.7%
Cash accounts	N	<b>1,863</b>	<b>0.7%</b>	1,429	0.6%
Alternatives	N	<b>0</b>	<b>0.1%</b>	8,702	3.4%
		<b><u>254,271</u></b>	<b><u>100.0%</u></b>	<u>259,755</u>	<u>100.0%</u>

## 15 NOTES TO THE CASH FLOW STATEMENT

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

	2015-16 £000	2015-16 £000	2014-15 £000	2014-15 £000
Net (surplus) or deficit on the provision of services		6,503		(375)
<b>Non-cash transactions:</b>				
Depreciation of non-current assets	(8,911)		(8,991)	
Impairment and downward valuations	391		(7,417)	
Amortisation of intangible non-current assets	0		(44)	
Increase/decrease in impairment for provision for bad debts	(111)		(472)	
Increase/(decrease) in inventories	215		(52)	
Increase/(decrease) in debtors	(11)		(4,715)	
(Increase)/decrease in creditors	6,109		(5,209)	
(Increase)/decrease in provisions	(2,785)		(350)	
Pension liability	1,075		(4,400)	
Carrying amount of non-current assets, assets held for sale and investment properties which are sold or derecognised	(6,162)		(11,014)	
	(1,793)			
Movement in the value of investment properties	(1,515)		17,497	
		<b>(13,497)</b>		<b>(25,167)</b>
<b>Items classified in another classification in the cash flow statement</b>				
Other payments for investing activities	(2,132)		(2,042)	
Other receipts from investing activities	399		5,560	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,808		11,472	
		<b>75</b>		<b>14,991</b>
Adjustments relating to JANEs		(156)		143
<b>Net cash flows from Operating Activities</b>		<b>(7,075)</b>		<b>(10,408)</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:

	2015-16 £000	2014-15 £000
<i>Returns on Investments received:</i>		
Interest received	(91)	(100)
Other interest and investment income	(14)	(9)
	<b>(105)</b>	<b>(109)</b>
<i>Servicing of Finance paid:</i>		
Interest paid	3,237	3,542
Interest element of finance lease rental payments	23	33
	<b>3,260</b>	<b>3,575</b>
	<b>3,155</b>	<b>3,466</b>

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

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

	At 31 March 2015	In Year Movement	At 31 March 2016
	£000	£000	£000
<b>Current Assets</b>			
Cash held by the Authority	149	63	212
Bank current accounts	12,077	(11,725)	352
Short-term call account deposits	8,180	(772)	7,408
	<u>20,406</u>	<u>(12,434)</u>	<u>7,972</u>
<b>Current Liabilities</b>			
Bank current account overdrafts	0	(1,025)	(1,025)
	<u>0</u>	<u>(1,025)</u>	<u>(1,025)</u>
	<u>20,406</u>	<u>(13,459)</u>	<u>6,947</u>

## 16 OTHER NOTES TO THE ACCOUNTS

### 16.1 Members Allowances

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

	2015-16 £000	2014-15 £000
Basic allowance	575	572
Special responsibility allowance	197	205
Travel allowance	31	36
Subsistence allowance	3	4
Total	806	817

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

### 16.2 Audit Costs

The Authority has incurred the following costs during 2015/16 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:

	2015-16 £000	2014-15 £000 (Restated)
Fees payable to the appointed auditor with regard to external audit services - financial audit	176	176
Fees payable to the appointed auditor with regard to external audit services - Local Government Measure (LGM)	103	103
Refund in relation previous year's audit fees	0	(59)
Fees payable to the appointed auditor for certification of grant claims & returns	48	43
Fees payable in respect of other services provided by the appointed auditor	0	4
	327	267

Notification was received in May 2014 that a refund relating to previous year's audit fees would be received during 2014/15. This refund totalled £59,000, representing 21% of the 2014/15 audit fee for financial audit and local government measure.

### 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 has entered into a pooled budget arrangement with the Aneurin Bevan University Health Board for the provision of a Rehabilitation Scheme at Mardy Park. Under the arrangement funds are pooled under Section 33 of the NHS (Wales) Act 2006. This agreement came into effect from the 1st April 2004 and the Authority is the host for the partnership.

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

If at the end of any financial year or upon termination of the Agreement there is an overspend the Partners shall identify the reasons for the overspend. The Partners may agree that resources in the next financial year shall be applied in meeting the overspend. If this is not agreed the over spend shall be apportioned between the Partners in a just and equitable manner taking into account of the circumstances of and reasons for the overspend and the Partners shall make such payments to the Pooled Fund as shall be required to reflect this allocation.

The income and expenditure for the pooled fund arrangements for the financial year ended 31st March 2016 was:

	2015-16 £000	2014-15 £000
<b>Funding</b>		
Monmouthshire County Council	(216)	(211)
Monmouthshire Local Health Board	(163)	(159)
<b>TOTAL FUNDING</b>	<b>(379)</b>	<b>(370)</b>
<b>Expenditure</b>		
Employee related	310	295
Premises related	27	31
Supplies & Services	10	9
Agency & Contracted	10	10
Central and Support services recharges	15	11
Capital Financing	20	18
<b>TOTAL EXPENDITURE</b>	<b>392</b>	<b>374</b>
<b>Net (Under)/over spend</b>	<b>13</b>	<b>4</b>

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

The Authority has entered into a pooled budget arrangement with the Aneurin Bevan University 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 £2,681,000 (£3,589,000 for 2014/15) and gross income of £2,681,000 (£3,589,000 for 2014/15) for the financial year ended 31st March 2016. Monmouthshire County Council's contribution for the year was £350,000 (£355,000 for 2014/15).

**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 12.10 to the accounts.

Aneurin Bevan Health Board is the host for the Partnership, who recorded gross expenditure of £3,119,000 (£3,075,000 for 2014/15) and gross income of £3,119,000 (£3,042,000 for 2014/15) for the financial year ended 31st March 2016. Monmouthshire County Council's total contribution for the year was £997,000 (£994,000 for 2014/15).

**d) Gwent Frailty Programme**

A Section 33 Partnership Agreement exists between five Local Authorities in the former Gwent area and Aneurin Bevan University 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 £14,479,000 (£13,300,000 for 2014/15) and gross income of £14,269,000 (£12,603,000 for 2014/15) for the financial year ended 31st March 2016. Monmouthshire County Council's total contribution for the year was £949,000 (£968,000 for 2014/15).

#### **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 notes 11.6 and 11.7 to the Accounts.

##### **Members**

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in note 16.1 to the accounts. Where work or services have been commissioned, or where grants were made during the financial year in which members had an interest, members have a duty to declare such an interest. The Authority must ensure that contracts entered into were in full compliance with the Authority's standing orders and that grants were made with proper consideration of declarations of such interests.

During the financial year, members who declared an interest did not take part in any discussion or decision relating to grants made or works or services commissioned. Details of all interests declared are recorded in minutes or relevant meetings and recorded in the Register of Members' Interest, open to public inspection at its offices at @Innovation House, Wales 1, Magor, NP26 3DG.

##### **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 Head of Finance (S151 officer), Monitoring Officer for the Authority, Chief Officer for Children & Young People, Chief Officer for Social Care & Health, Head of Democracy & Regulatory Services, and Head of Policy & Engagement have no pecuniary interests.

The Chief Executive was the Acting Returning Officer and Electoral Registration Officer for Monmouthshire during 2015/16 and held the following position during the year:

- Director of Innovationpoint (a wholly owned Welsh Government Subsidiary)

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

- Co-Chair of the Innovation Advisory Council for Wales
- Director to SRS Business Solutions Ltd.

The Head of Commercial & People Development held the following position during the year:

- Director to SRS Business Solutions Ltd.
- Director to SRS Public

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

- Board Member to Capita Gwent Consultancy
- Non-Executive Director to Dragon Waste Limited (dormant company)

The following balances were held with these related parties at the year-end:-

	2015-16 Debtors £000	2015-16 Creditors £000	2014-15 Debtors £000	2014-15 Creditors £000
Dragon Waste Limited	0	187	30	262
SRS Business Solutions Limited	0	0	1	0

During the year the following payments & receipts with these related parties arose as follows: -

	2015-16 Payments £000	2015-16 Receipts £000	2014-15 Payments £000	2014-15 Receipts £000
Dragon Waste Limited	2,405	35	2,569	31
SRS Business Solutions Limited	1	0	1	0

## 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 and are based upon unaudited figures for the year ended 31st March 2016. Funds for which Monmouthshire County Council acts as sole trustee:

	Income £000	Expend £000	Assets £000	Liabilities £000
<b>Welsh Church Act Fund</b>	(226)	265	5,329	(112)

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.

<b>Llanelly Hill Social Welfare Centre</b>	(8)	8	91	(24)
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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.

<b>Chairman's Charity</b>	(13)	9	4	0
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The Chairman's Charity supports and raises funds for the Chairman's nominated Charity of the year.

Funds for which Monmouthshire County Council acts as custodian trustee:

	Income £000	Expend £000	Assets £000	Liabilities £000
<b>Monmouthshire Farm School Endowment</b>	(56)	53	707	(2)
<b>Appointeeship - Personal Monies</b>	(792)	676	116	0
<b>Appointeeship - ILF* Monies</b>	(157)	144	12	0

\* ILF - Independent Living Fund

**16.6 Related Businesses and Companies**

Councils must consider whether they need to produce group accounts for interests held in other bodies/organisations where they meet the definition of subsidiaries, associates and joint ventures. The Council has reviewed of all their relationships in this regard, and although the Council has interests in the following six companies, they do not meet the requirements for the preparation of Group Accounts.

**(i) 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 2015.

	<b>31 March 2016 £000 Draft</b>	31 March 2015 £000 Final
Net Assets/(Liabilities)	<b>TBC</b>	238
Profit/(Loss) before Taxation	<b>TBC</b>	5
Profit/(Loss) after Taxation	<b>TBC</b>	4
Dividends	<b>TBC</b>	0

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 of Viridor Waste Ltd is Pennon Group Plc.

The Authority owed £186,666 to Dragon Waste Limited at the 31st March 2016 (£231,811 owed to Dragon Waste as at 31st March 2015) in respect of Waste Management contract income.

Further information can be found in Dragon Waste Limited Financial Statements for the year ended 31 March 2015 which are available from the Company Secretary, Pennon Group Plc, Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

**(ii) 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. 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. In 2015/16, Monmouthshire's contribution was £2.076m (£2.152m in 2014/15).

**(iii) SRS Business Solutions Limited**

Adjacent to the collaborative arrangement outlined in 16.6 (ii), 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.

SRS (BS) fits the accounting definition of a Joint Venture. The accounting position of the company is not material to the fair presentation of the financial position and transactions of the Council, or to the understanding of the Statement of Accounts. The accounting treatment therefore falls outside the requirement to prepare Group Accounts; this treatment being consistent with that adopted by TCBC.

The Company's latest available trading results are the draft estimates for the year ending 31st March 2016.

	<b>31 March 2016 £000 Draft</b>	31 March 2015 £000 Final
Net Assets/(Liabilities)	<b>88</b>	60
Profit/(Loss) before Taxation	<b>31</b>	12
Profit/(Loss) after Taxation	<b>29</b>	12
Dividends	<b>0</b>	0

SRS Business Solutions owed Monmouthshire C.C £1,380 as at 31st March 2016.

Further information can be found in SRS Business Solutions Limited financial statements for the year ended 31 March 2014 which are available from the Head of Finance, Monmouthshire County Council, @Innovation House, Wales 1, Magor, NP26 3DG.



**(iv) Community MC<sup>2</sup> Community Interest Company (CMC<sup>2</sup>)**

In July 2011 the Authority established CMC<sup>2</sup>, a community interest company wholly owned by the Authority. The company aims to drive growth in emerging green and digital technologies and generate new income streams with which to reinvest in community projects and priorities.

CMC<sup>2</sup> is a company limited by guarantee and liability is therefore limited to £1 for its members.

In March 2012 the Authority approved the proposed medium-term business plan for the company for the period to 30th September 2013. The business plan will assist the Authority in delivering savings and involves authority staff being used on CMC<sup>2</sup> projects.

The Company's latest available trading results are the draft accounts for the financial year that ended on the 31st March 2016.

	<b>31st March</b>	31st March
	<b>2016</b>	2015
	<b>£000</b>	£000
	<b>Draft</b>	Final
Net Assets (Liabilities)	<b>0</b>	(122)
Profit/(Loss) before Taxation	<b>0</b>	(78)
Profit/(Loss) after Taxation	<b>0</b>	(78)
Dividends	<b>0</b>	0

The Profit/(Loss) as at 31st March 2016 includes a contribution made by Monmouthshire County Council of £140,000 which was approved by Cabinet in July 2015 to cover accumulated trading losses.

The Authority does not receive any profit distribution. No assets or liabilities of the Company are reflected in the Consolidated Balance Sheet. The Authority acts as a guarantor for the company's overdraft arrangements such as to allow the company to manage day-to-day cash flow requirements.

The Authority is owed £142 by the company as at the 31st March 2016 (£184,139 as at the 31st March 2015).

**(v) 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 2016.

	<b>31 March</b>	31 March
	<b>2016</b>	2015
	<b>£000</b>	£000
	<b>Draft</b>	Final
Total Assets/(Liabilities)	<b>8,178</b>	7,930
Profit/(Loss) before Taxation	<b>102</b>	135
Profit/(Loss) after Taxation	<b>102</b>	96
Dividends	<b>0</b>	0

**16.7 Interests in Joint Committees**

The Code requires authorities to enhance their statement of accounts with information about any material interest in subsidiaries, associates and joint ventures in a set of group accounts.

These accounting requirements result in the consolidation of the transactions and balances of subsidiaries and of interests in associates and joint ventures, thus ensuring group accounts provide a complete picture of the authority's control over other entities.

The Authority accounts for its respective contributions to joint committees within services in the Comprehensive Income and Expenditure Statement on an accruals basis. For 2015/16 the Authority has consolidated its respective shares of the income, expenditure, assets and liabilities into its financial statements.

The Authority had interests in the following Joint Committees as at 31st March 2016:

- Prosiect Gwyrdd ("Project Green") Joint Committee - Each authority holds a 1/5th equal share.
- Welsh Purchasing Consortium - each authority holds an equal 1/19th share.
- Gwent Joint Records Joint Committee - the authority holds an 19.40% interest.
- Greater Gwent Cremation Joint Committee - the authority holds an 18.45% interest.

<b>Comprehensive Income &amp; Expenditure Account 31 March 2016</b>	<b>MCC CIES 2015-16</b>	<b>Project Gwyrdd</b>	<b>WPC</b>	<b>SEWTA</b>	<b>Archives</b>	<b>Crematorium</b>	<b>Total CIES 2015-16</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Highways and transport services	11,843	0	22	0	0	0	11,865
Environmental & Regulatory Svs	7,679	(23)	0	0	0	0	7,657
Corporate and democratic core	3,132	0	0	0	182	(171)	3,143
Total non-affected lines	120,320	0	0	0	0	0	120,320
<b>Surplus/Deficit on Continuing Operations</b>	<b>142,974</b>	<b>(23)</b>	<b>22</b>	<b>0</b>	<b>182</b>	<b>(171)</b>	<b>142,986</b>
Interest payable and similar charges	3,281	0	0	0	0	140	3,420
Pensions interest cost and expected return on pensions assets	5,534	0	0	0	(79)	0	5,455
Total non-affected lines	(145,235)	0	0	0	0	0	(145,235)
<b>Surplus/Deficit on Provision of Services</b>	<b>6,554</b>	<b>(23)</b>	<b>22</b>	<b>0</b>	<b>103</b>	<b>(31)</b>	<b>6,626</b>
Actuarial gains/losses on pension assets/liabilities	14,649	0	0	0	0	7	14,656
Adjustment for JANEs amounts within MCC CIES	0	0	0	0	(193)	0	(193)
Total non-affected lines	(16,255)	0	0	0	0	0	(16,255)
<b>Other comprehensive income &amp; expenditure</b>	<b>(1,606)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(193)</b>	<b>7</b>	<b>(1,792)</b>
<b>Total Comprehensive income &amp; expenditure</b>	<b>4,947</b>	<b>(23)</b>	<b>22</b>	<b>0</b>	<b>(90)</b>	<b>(24)</b>	<b>4,834</b>

<b>Movement in reserves statement for the years ended 31 March 2016</b>	<b>Project Gwyrdd</b>	<b>WPC</b>	<b>SEWTA</b>	<b>Archives</b>	<b>Crematorium</b>	<b>Total Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 31 March 2015 carried forward</b>	37	22	(0)	(43)	451	467
Surplus (Deficit) on provision of services	23	(22)	0	(103)	31	(72)
Other comprehensive income and expenditure	0	0	0	0	(7)	(7)
<b>Total comprehensive income and expenditure</b>	<b>23</b>	<b>(22)</b>	<b>0</b>	<b>(103)</b>	<b>24</b>	<b>(79)</b>
Adjustment for amount within Monmouthshire CIES	0	0	0	193	(0)	193
<b>Net Increase/Decrease before transfers to Reserves</b>	<b>23</b>	<b>(22)</b>	<b>0</b>	<b>90</b>	<b>24</b>	<b>114</b>
Transfer to/from Earmarked Reserves	0	0	0	0	0	0
<b>Increase/Decrease in year</b>	<b>23</b>	<b>(22)</b>	<b>0</b>	<b>90</b>	<b>24</b>	<b>114</b>
Adjustment for JANEs amounts	0	0	0	0	0	0
<b>Balance at 31 March 2016 carried forward</b>	<b>61</b>	<b>(1)</b>	<b>(0)</b>	<b>47</b>	<b>475</b>	<b>581</b>

Balance Sheet as at 31 March 2016	Project Gwyrdd	WPC	SEWTA	Archives	Crematorium	Total
	£000	£000	£000	£000	£000	£000
Property Plant & Equipment	0	0	0	0	417	417
Short Term Debtors	44	0	0	0	0	45
Cash and cash equivalents	17	10	0	76	248	351
Short Term Creditors	(1)	(10)	0	(29)	(3)	(43)
Long term creditors	0	0	0	0	(137)	(137)
Other long term liabilities	0	0	0	0	(49)	(49)
<b>Net Assets</b>	<b>61</b>	<b>0</b>	<b>0</b>	<b>47</b>	<b>475</b>	<b>582</b>
Earmarked Reserves	61	0	0	47	347	455
Revaluation Reserve	0	0	0	0	126	126
Pension Reserve	0	0	0	0	(49)	(49)
Capital adjustment account	0	0	0	0	51	51
<b>Total reserves</b>	<b>61</b>	<b>0</b>	<b>0</b>	<b>47</b>	<b>475</b>	<b>582</b>

Property, plant & equipment included within Monmouthshire's accounts primarily relates to the Council's share of the Gwent Crematorium. The Crematorium comprises a Chapel, Crematorium rooms, Administration offices and grounds. The total gross asset value as at the 31st March 2016 is £2.6m (£2.4m as at 31st March 2015) with Monmouthshire's share equating to 18.45%.

Comprehensive Income & Expenditure Account 31 March 2015	MCC CIES 2014-15	Project Gwyrdd	WPC	SEWTA	Archives	Crematorium (Restated)	Total CIES 2014-15
	£000	£000	£000	£000	£000	£000	£000
Highways and transport services	13,222	15	(1)	16	0	0	13,252
Corporate and democratic core	(19)	0	0	0	172	(20)	133
Total non-affected lines	138,462	0	0	0	0	0	138,462
<b>Surplus/Deficit on Continuing Operations</b>	<b>151,665</b>	<b>15</b>	<b>(1)</b>	<b>16</b>	<b>172</b>	<b>(20)</b>	<b>151,847</b>
Pension interest costs and expected return on pension assets	5,239	0	0	0	1	0	5,240
Total non-affected lines	(157,461)	0	0	0	0	0	(157,461)
<b>Surplus/Deficit on Provision of Services</b>	<b>(557)</b>	<b>15</b>	<b>(1)</b>	<b>16</b>	<b>173</b>	<b>(20)</b>	<b>(374)</b>
Actuarial gains/losses on pension assets/liabilities	41,136	0	0	0	41	19	41,196
Adjustment for JANEs amounts	0	0	0	0	(141)	0	(141)
Total non-affected lines	597	0	0	0	0	0	597
<b>Other comprehensive income &amp; expenditure</b>	<b>41,733</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(99)</b>	<b>19</b>	<b>41,653</b>
<b>Total Comprehensive income &amp; expenditure</b>	<b>41,176</b>	<b>15</b>	<b>(1)</b>	<b>16</b>	<b>74</b>	<b>(1)</b>	<b>41,278</b>

Movement in reserves statement for the years ended 31 March 2015	Project Gwyrdd	WPC	SEWTA	Archives	Crematorium (Restated)	Total Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2014 carried forward</b>	52	23	16	30	450	<b>571</b>
Surplus (Deficit) on provision of services	(15)	1	(16)	(173)	20	<b>(183)</b>
Other comprehensive income and expenditure	0	0	0	(41)	(19)	<b>(60)</b>
<b>Total comprehensive income and expenditure</b>	<b>(15)</b>	<b>1</b>	<b>(16)</b>	<b>(214)</b>	<b>1</b>	<b>(243)</b>
Adjustment for amounts within Monmouthshire CIES	0	(0)	0	140	(0)	<b>140</b>
<b>Net Increase/Decrease before transfers to Reserves</b>	<b>(15)</b>	<b>1</b>	<b>(16)</b>	<b>(74)</b>	<b>1</b>	<b>(103)</b>
Transfer to/from Earmarked Reserves	0	0	0	0	0	<b>0</b>
<b>Increase/Decrease in year</b>	<b>(15)</b>	<b>1</b>	<b>(16)</b>	<b>(74)</b>	<b>1</b>	<b>(103)</b>
Adjustment for JANEs amounts	0	0	0	0	0	<b>0</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>37</b>	<b>22</b>	<b>(0)</b>	<b>(43)</b>	<b>451</b>	<b>468</b>

Balance Sheet as at 31 March 2015	Project Gwyrdd	WPC	SEWTA	Archives	Crematorium (Restated)	Total
	£000	£000	£000	£000	£000	£000
Property Plant & Equipment	0	0	0	0	436	<b>436</b>
Short Term Debtors	21	0	0	0	28	<b>49</b>
Cash and cash equivalents	19	23	0	61	164	<b>267</b>
Short Term Creditors	(3)	(1)	0	(25)	(3)	<b>(32)</b>
Long term creditors	0	0	0	0	(137)	<b>(137)</b>
Other long term liabilities	0	0	0	(79)	(37)	<b>(116)</b>
<b>Net Assets</b>	<b>37</b>	<b>22</b>	<b>0</b>	<b>(43)</b>	<b>451</b>	<b>468</b>
Earmarked Reserves	37	22	0	36	302	<b>398</b>
Revaluation Reserve	0	0	0	0	126	<b>126</b>
Pension Reserve	0	0	0	(79)	(37)	<b>(116)</b>
Provision for Accumulated Absences	(0)	(0)	0	0	0	<b>(1)</b>
Capital adjustment account	0	0	0	0	60	<b>60</b>
<b>Total reserves</b>	<b>37</b>	<b>22</b>	<b>0</b>	<b>(43)</b>	<b>451</b>	<b>468</b>

### 16.8 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 2016

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	110,000	0	0	<b>110,000</b>	23,210	<b>133,210</b>
Chief Officer - Children and Young People	80,784	0	0	<b>80,784</b>	17,129	<b>97,913</b>
Chief Officer - Enterprise	81,180	0	0	<b>81,180</b>	17,129	<b>98,309</b>
Chief Officer - Social Care and Health (Apr-Aug)	28,448	0	0	<b>28,448</b>	6,003	<b>34,451</b>
Chief Officer - Social Care and Health (Nov-March)	33,436	0	0	<b>33,436</b>	7,055	<b>40,491</b>
Head of Operations	69,104	0	0	<b>69,104</b>	14,654	<b>83,758</b>
Head of Finance and Section 151 Officer	71,033	0	0	<b>71,033</b>	14,988	<b>86,020</b>
Head of Democracy and Regulatory Services	64,515	0	0	<b>64,515</b>	13,679	<b>78,194</b>
Head of Legal Services (also acting Monitoring Officer)	70,351	0	0	<b>70,351</b>	14,844	<b>85,195</b>
Head of Strategic Partnerships	60,027	0	0	<b>60,027</b>	12,728	<b>72,755</b>
	<b>668,877</b>	<b>0</b>	<b>0</b>	<b>668,877</b>	<b>141,419</b>	<b>810,296</b>

Year ended 31st March 2015

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	110,000	0	0	<b>110,000</b>	23,210	<b>133,210</b>
Chief Officer - Children and Young People	79,596	0	0	<b>79,596</b>	16,795	<b>96,391</b>
Chief Officer - Enterprise	79,596	0	0	<b>79,596</b>	16,795	<b>96,391</b>
Chief Officer - Social Care and Health	78,988	0	0	<b>78,988</b>	16,795	<b>95,783</b>
Head of Operations	69,607	0	0	<b>69,607</b>	14,698	<b>84,305</b>
Head of Finance and Section 151 Officer	69,647	0	0	<b>69,647</b>	14,695	<b>84,342</b>
Head of Democracy and Regulatory Services	63,566	0	0	<b>63,566</b>	13,413	<b>76,979</b>
Head of Legal Services (also temporary Monitoring Officer from April to October)	63,140	0	0	<b>63,140</b>	13,323	<b>76,463</b>
	23,124	0	0	<b>23,124</b>	4,879	<b>28,003</b>
	<b>637,265</b>	<b>0</b>	<b>0</b>	<b>637,265</b>	<b>134,602</b>	<b>771,866</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.

There is no remuneration in respect of bonuses or compensation for loss of employment.

Employers' pension contributions were paid at a rate of 21.1% of pensionable pay for staff within the Local Government Pension Scheme (21.1% for 2014/15). Expense allowance are defined as those additional costs that are chargeable to income tax and no such costs are reported in respect of 2015-16 (Nil in 2014/15).

A new requirement was introduced in 2014-15 to report the Chief Executive's remuneration as a proportion of the full time equivalent median salary of Monmouthshire County Council employees. In 2015-16, the median employee position has been calculated as £20,253, equating to spinal point 22 and resulting in a median ratio when compared with the Chief Executive Officer salary of 5.43:1

**16.9 Officers' Emoluments**

The number of employees whose remuneration was £60,000 or more in bands of £5,000, during the year ended 31 March 2016, was:

Remuneration Band	2015-16 Number of employees	2014-15 Number of employees
£115,000 - £119,999	0	0
£110,000 - £114,999	1	1
£105,000 - £109,999	1	0
£100,000 - £104,999	1	1
£95,000 - £99,999	2	1
£90,000 - £94,999	0	0
£85,000 - £89,999	1	1
£80,000 - £84,999	4	5
£75,000 - £79,999	2	6
£70,000 - £74,999	6	4
£65,000 - £69,999	6	7
£60,000 - £64,999	15	14
	<b>39</b>	<b>40</b>

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 16.8

Employers' pension contributions were paid at a rate of 21.1% of pensionable pay for staff within the Local Government Pension Scheme (21.1% for 2014/15) and 16.4% of pensionable pay for staff within the Teachers' Pension Scheme which came into effect 1st September 2015 (14.1% in 2014/15).

For the purposes of reporting remuneration, voluntary aided schools employees have been included in the remuneration notes 16.9 to 16.10, where appropriate, as if they were employees of the council even though their contract of employment is with their respective governing body.

#### 16.10 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.

2015-16	No. of Compulsory Redundancies agreed	No. of other departure costs agreed	Total Cost of Exit Packages in each payband
<b>Exit package Cost band</b>			<b>£000's</b>
£0 - £20,000	62	1	463
£20,001 - £40,000	29	1	785
£40,001 - £60,000	6	1	274
£60,001 - £80,000	1	0	67
£80,001 - £100,000	0	0	0
£100,001 - £150,000	1	0	102
<b>Total</b>	<b>99</b>	<b>3</b>	<b>1,691</b>

2014-15 (Restated)	No. of Compulsory Redundancies agreed	No. of other departure costs agreed	Total Cost of Exit Packages in each payband
<b>Exit package Cost band</b>			<b>£000's</b>
£0 - £20,000	41	1	289
£20,001 - £40,000	22	2	597
£40,001 - £60,000	6	0	273
£60,001 - £80,000	6	0	423
£80,001 - £100,000	1	0	98
£100,001 - £150,000	1	0	116
<b>Total</b>	<b>77</b>	<b>3</b>	<b>1,796</b>

#### 16.11 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Finance on 30th June 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no post balance sheet events of any significance warranting disclosure as at the time the Statement of Accounts was authorised for issue.



## Audit of Financial Statements Report **Monmouthshire County Council**

**Audit year:** 2015-16

**Issued:** September 2016

**Document reference:** 401A2016

# Status of report

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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 [info.officer@audit.wales](mailto:info.officer@audit.wales).

The team who delivered the work were Ann-Marie Harkin, Terry Lewis, Anthony Ford, Jane Thomas, Martin Hall, Jane Davies and Geoff Woolley.



# Contents

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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# Summary report

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## Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Monmouthshire County Council (the Council) at 31 March 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might mislead a reader of the accounts.
3. The quantitative levels at which we judge such misstatements to be material for the Council are £2.59 million. Whether an item is judged material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Council, for 2015-16, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 27 June 2016, which met the 30 June 2016 deadline and have now substantially completed the audit work on them.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Head of Finance and Assistant Head of Finance.

## Proposed audit report

8. It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
9. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

10. We set out below the one issue that we identified in the financial statements, which has been discussed with management but remains uncorrected. The misstatement is not material.

- 
11. **Classification of Creditors in Note 13.6** – we identified a sample of Creditors that should have been classified as Central Government Bodies. We discussed this matter with Council staff which highlighted that it was not possible to easily identify the further transactions that had been similarly misclassified without significant additional work. Corrective measures will be needed in 2016-17 to ensure all transactions are correctly coded so that they can be identified and analysed correctly in this note.
  12. There are 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. They are set out with explanations in [Appendix 3](#).

### Other significant issues arising from the audit

13. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts, and report any significant issues arising to you. In doing so we have undertaken audit procedures to address those risks that we communicated within our 2015-16 Audit Plan and are also able to confirm that we have found no instances of deliberate error or omission.
14. There were some issues arising in these areas this year:
  - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** There are no significant matters arising that need to be reported. Our audit identified a number of amendments and additional disclosures which have been included in the accounts. Going forward there will be an increased challenge for the Council to meet the compressed accounts certification window planned for future years. We have made some progress this year but need to reflect, and work together, to consider future changes to the accounts production process and the timing of our audit work. We will issue a final accounts memorandum for discussion with the Head of Finance and her team, which will include recommendations where we believe the accounts production process can be improved and will work closely with the Council to produce a revised Audit Deliverables document for agreement and adoption in 2016-17.
  - **We did not encounter any significant difficulties during the audit but will look to discuss with Council staff how we can improve the profiling of our work in certain areas of the audit with a view to bringing more work forward.**
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls.**
  - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

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## Independence and objectivity

15. As part of the finalisation process, we are required to provide you with representations concerning our independence.
16. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

# Appendix 1

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## Final Letter of Representation (Council's letterhead)

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

22 September 2016

## Representations regarding the 2015-16 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 2016 for the purpose of expressing an opinion on their truth and fairness.

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

## Management representations

### Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Audit Practice on Local Authority Accounting in the United Kingdom for 2015-16; in particular the financial statements give a true and fair view in accordance therewith.

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16; 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.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

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

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

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

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.

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## Representations by Members of 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 22 September 2016.

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:

*Officer who signs on behalf of management*

Date:

Signed by:

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

Date:

## Appendix 2

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### Proposed audit report of the Auditor General to the Members of Monmouthshire County Council

I have audited the accounting statements and related notes of Monmouthshire County Council for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

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

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

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

As explained more fully in the Statement of Responsibilities for the statement of accounts set out on page 6, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

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

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

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Monmouthshire County Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

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



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## **Opinion on the accounting statements of Monmouthshire County Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Monmouthshire County Council at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

## **Opinion on other matters**

In my opinion, the information contained in the narrative report for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

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

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

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

## **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 Code of Audit Practice issued by the Auditor General for Wales.

### **For and on behalf of**

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

xx September 2016

# Appendix 3

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## Summary of corrections made to the draft financial statements

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.

### Nature and value of correction

Comprehensive Income and Expenditure Statement (p29) - reduction of SWTRA Income and Expenditure of some £365,000 which related to Cardiff Council transactions

Note 12.6 - reduction of some £2.86million of capital expenditure from the Capital Commitments note which included expenditure already paid.

Note 15.3 - reclassification of some £98,000 (£100,000 for 2014-15) within the note from Bank Current Accounts line to Cash Held by the Authority line.

Note 13.5/13.6 – reduction of £1.7million from both the Creditors and Debtors notes to correct the accounting entries for the cattle market sales proceeds. A further correction was made to correct the VAT for the above transaction of some £280,000 which was incorrectly disclosed at year-end.

Amendments made to the following notes in relation to CMC2:

Note 13.7d

- Reduce existing provision of £122K to nil;
- Include additional narrative explaining a potential liability of a further 90K exists

Note 16.6iv

- Restating the reported profit of CMC from £122K to nil
- Include additional narrative relating to the funding of £140K provided by the Council to CMC2.



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**SUBJECT: INTERNAL AUDIT SECTION  
INTERNAL AUDIT CHARTER 2016**

**DIRECTORATE: Chief Executive's  
MEETING: Audit Committee  
DATE: 15<sup>th</sup> September 2016  
DIVISION/WARDS AFFECTED: All**

## 1. PURPOSE

To make Members of the Council's Audit Committee aware of the revised and updated Internal Audit Charter for Monmouthshire County Council in order to enable them to make an informed decision to approve the Charter in line with the expectations of the Public Sector Internal Audit Standards (PSIAS).

## 2. RECOMMENDATION(S)

That the Committee endorse and approve the Internal Audit Charter.

## 3. KEY ISSUES

- 3.1 The Section has started to undertake its programme of audits in accordance with the 2016/17 Operational Audit Plan.
- 3.2 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 3 months to 30<sup>th</sup> June 2016.
- 3.3 The Public Sector Internal Audit Standards came into force in April 2013 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. The new standards have been reported to the Audit Committee separately.

## 4. REASONS

- 4.1 This report aims to make Members of the Audit Committee aware of the Council's Internal Audit Charter in order to enable them to make an

informed decision to approve The Charter in line with the expectations of the Public Sector Internal Audit Standards (PSIAS).

- 4.2 The purpose of this Charter is to define what Internal Audit at Monmouthshire Council is and explain its purpose, authority and responsibility.
- 4.3 This Charter has been written in accordance with Standard 1000 of the Public Sector Internal Audit Standards (PSIAS) which came into force from April 2013.
- 4.4 The Public Sector Internal Audit Standards 2013 (PSIAS) defines Internal Audit as:  
  
*“... an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*
- 4.5 A professional, independent and objective Internal Audit service is one of the key elements of good governance.
- 4.6 Internal Audit has specific responsibilities and rights of access to people and documents written into the Council’s Financial Procedure Rules which are included within The Charter, along with its objectives, roles and responsibilities, the staff involved and how it demonstrates its organisational independence. The expectations and responsibilities of the Chief Internal Auditor are also included within The Charter.
- 4.7 The Charter reinforces the point that Internal Audit provides assurance to Members and Senior Management and should not be involved with operational matters of service delivery. It includes an important reference to the Code of Ethics for those working within the team in that they need to conform with the principles of Integrity, Objectivity, Confidentiality and Competence and have due regard to the ‘Seven Principles of Public Life (Nolan Principles)’ when undertaking their duties.
- 4.8 The expectations of how Internal Auditors will approach their work in terms of due professional care, integrity, independence, impartiality is written into The Charter; the work itself being delivered through an Audit Strategy and an Annual Audit Plan. The reporting and quality assurance processes are also included, along with how relationships with the team’s stakeholders will be developed.
- 4.9 Dealing with Fraud and Irregularities is an important part of what the Internal Audit Team does in order to safeguard public money; it is important to include this aspect of its work within The Charter. How the

Internal Audit Team will be resourced and continually developed through training has also been included within The Charter.

- 4.10 The intention is to maintain The Charter as a working document, which from time to time, will need to be refreshed and updated; The Internal Audit Charter will therefore be reviewed periodically by the Chief Internal Auditor and presented to Senior Management and the Audit Committee for approval.

**5. RESOURCE IMPLICATIONS**

None.

**6. CONSULTEES**

Head of Finance

**Results of Consultation:**

N/A

**7. BACKGROUND PAPERS**

**8. AUTHORS AND CONTACT DETAILS**

Andrew Wathan, Chief Internal Auditor  
Telephone: x.4243  
Email: [andrewwathan@monmouthshire.gov.uk](mailto:andrewwathan@monmouthshire.gov.uk)



monmouthshire  
sir fynwy

**INTERNAL AUDIT**

**CHARTER**

Version: DRAFT Team 02

Date: August 2016

Author: Andrew Wathan, Chief Internal Auditor

Approved by:

Date Approved:

Date of Next Review:



# AUDIT COMMITTEE SEPTEMBER 2016

## INTERNAL AUDIT CHARTER 2016

### Monmouthshire County Council

#### INTERNAL AUDIT CHARTER

##### 1. Introduction

- 1.1 The purpose of this Charter is to define what Internal Audit is and explain its purpose, authority, responsibility and position within Monmouthshire County Council.
- 1.2 This Charter has been written in accordance with Standard 1000 of the Public Sector Internal Audit Standards (PSIAS).
- 1.3 For the purposes of internal audit activity the following terms are defined as follows:

'board' – the Audit Committee

'senior management' – the Senior Leadership Team (SLT) which is made up of the Chief Executive, Chief Officer Enterprise, Chief Officer Social Care, Health and Housing, Chief Officer for Children & Young People, Chief Officer Resources, Head of Democracy, Engagement and Improvement.

##### 2 Purpose, Definition, Scope and Authority of Internal Audit

###### Purpose and Definition

- 2.1 The Public Sector Internal Audit Standards 2013 (PSIAS) defines Internal Audit as:  
*"... an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*
- 2.2 A professional, independent and objective Internal Audit service is one of the key elements of good governance.

###### Authority

- 2.3 The authority of the internal audit function is derived from legislation. The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which required that authorities shall '*make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs*'. The Accounts and Audit (Wales) Regulations 2014 requires that 'A

*relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.*

2.4 Monmouthshire Council has delegated these responsibilities to the Head of Finance.

2.5 Financial Procedure Rules (September 2014) 4.35 states:

To ensure that internal auditors have the authority to:

- access authority premises at reasonable times, subject to the Chief Internal Auditor being satisfied as to any risk to health and safety;
- access all assets, records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the Authority to account for cash, stores or any other authority asset under his or her control;
- access records belonging to third parties, such as contractors, when required;
- review, appraise and report on the adequacy and application of financial and other controls, and on the protection of the Authority's property and assets against loss due to fraud or wasteful practices.

### Scope

2.6 The scope of work of Internal Audit is to determine whether the Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

Risks are appropriately identified and managed;

- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Council's control process;
- Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately; and

- Opportunities for improving management control, profitability and the Council's image may be identified during audits. They will be communicated to the appropriate level of management.

Our scope of work may include audit activity both within Monmouthshire County Council and on functions that MCC has delegated or contracted out,

- 2.7 The scope of Internal Audit allows for unrestricted coverage of the Authority's activities in order to review, report and provide the appropriate assurance based on its reviews to the Audit Committee. Internal Audit shall also have unrestricted access to all records, property and assets deemed necessary by auditors in the course of an audit. In addition, Internal Audit, will have unrestricted access to:-

the Audit Committee  
 the Chief Executive  
 the Leader of the Council  
 Members of the Council  
 individual Chief Officers  
 all Authority employees.

- 2.8 Such access to records, access and personnel may be limited to certain named individuals as agreed with the Chief Internal Auditor where highly sensitive or confidential information is involved.
- 2.9 Internal Audit is known as the 3<sup>rd</sup> line of defence within an organisation, with operational management controls being the 1<sup>st</sup>, risk management and compliance the 2<sup>nd</sup>. Each line has its own role in the Authority to ensure that risks are appropriately managed and identified. Internal audit's unique role is to provide assurance to the senior management that is objective and independent of management about the controls in place to manage risk.

### 3 Objectives

- 3.1 Internal Audit's main objectives are to:

- provide a high quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
- to ensure the objectives of the Council are being met
- provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes

- provide advice and support to management to enable an effective control environment to be maintained
- promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- investigate allegations of fraud, bribery, corruption and other irregularities
- to liaise with the police where criminal activities are suspected.

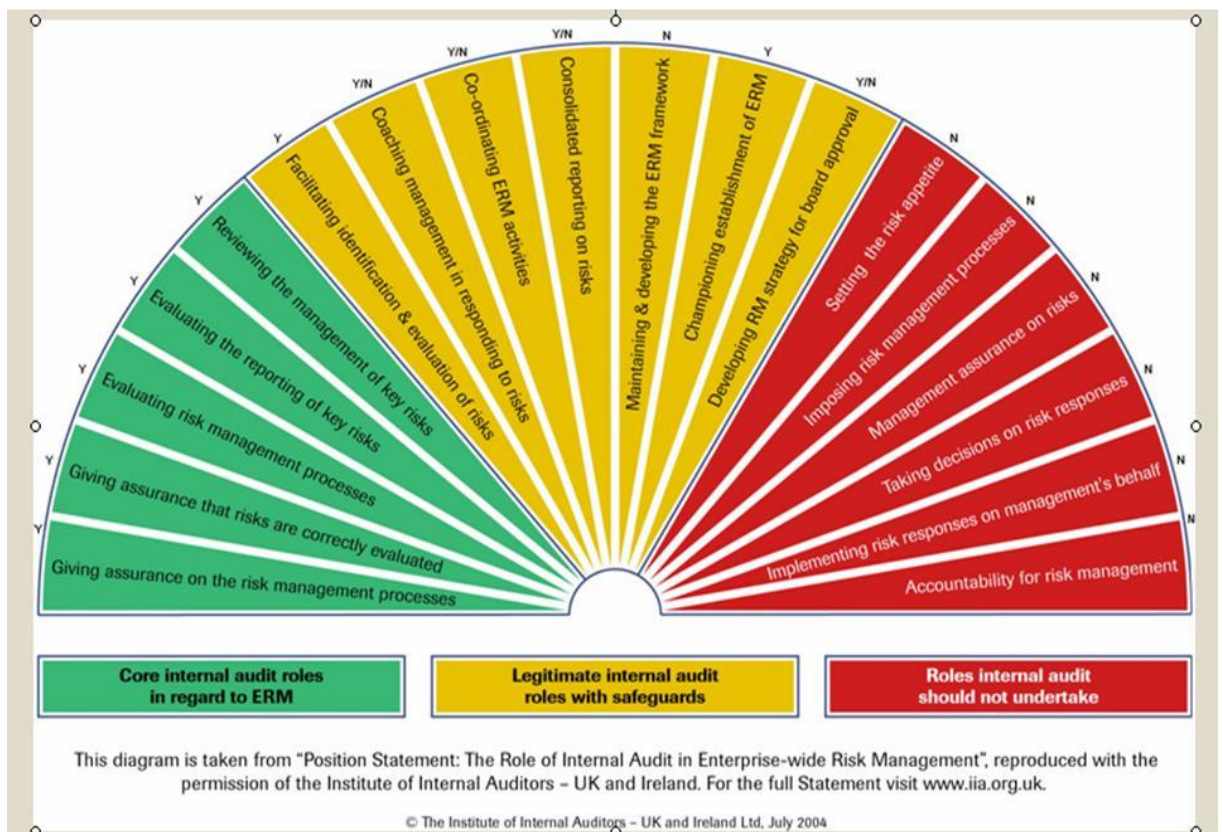
## **4 Roles & Responsibilities**

### Role of Internal Audit

4.1 To meet Internal Audit objectives, internal auditors are responsible for

- reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management systems and operations
- reviewing and assessing the effectiveness of internal controls
- assessing the appropriateness of management action for improvement, where appropriate
- reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- checking for compliance with legislation, Council policies and procedures
- promoting and assisting the Council in the effective use of resources
- ensuring governance and risk management processes are effective and robust
- undertaking independent investigations into allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation.

4.2 The diagram below illustrates the sorts of roles that Internal Audit can play, providing the necessary safeguards are in place:



## Provision of the Internal Audit Function

4.3 The Internal Audit Function is provided 'in house' and consists of the Chief Internal Auditor, 1 Audit Manager, 1 Principal Auditor, 2 Senior Auditors and 1 Auditor. The team comprises of professionally qualified and part qualified accountants and auditors (CIPFA, IIA, AAT). The Chief Internal Auditor operates in collaboration with a neighbouring local authority dividing his time on a 60:40 basis between Newport and Monmouthshire.

## Organisational Independence and Objectivity

4.4 PSIAS Standard 1100 states that the Chief Internal Auditor must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

4.5 Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Audit Committee. The Audit Committee is required to;

- approve the Internal Audit Charter;
- approve the risk based Internal Audit Plan;

- approve the internal audit budget and resource plan;
- receive communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- make appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scopes or resource limitations.

4.6 Members of the Audit Team annually declare any potential conflicts of interests and do not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.

#### Management Structure

4.7 Internal Audit is part of the Finance Service Area, with the Chief Internal Auditor reporting directly to the Head of Finance. However, in order to maintain its independence Internal Audit has a right of access to the Chief Executive and/or the Leader of the Council and/or the Chair of the Audit Committee should circumstances warrant it. The Chief Internal Auditor also reports in his own name.

4.8 Internal Audit carry out some non-audit functions, including controlling imprest accounts, issuing controlled stationery and undertaking financial appraisals for departments on request.

4.9 The Chief Internal Auditor is responsible:

- in managerial terms to the Head of Finance
- for the performance of the Internal Audit Service to the Audit Committee
- providing a level of assurance, or otherwise, to the Audit Committee.

4.10 The Chief Internal Auditor's responsibilities to the Audit Committee include:

- presenting for approval the internal audit charter
- presenting and obtaining approval of the risk-based annual audit plan
- reporting quarterly on the work undertaken by Internal Audit
- reporting any serious weaknesses found in the internal control systems, governance or risk, and any instances where corrective action has not been taken by management
- reporting any instances where responses to audit reports have not been received within a reasonable timescale of the issue of draft and/or final audit reports, and any instances where agreed management actions have not been implemented within an acceptable time period

- providing an annual audit opinion of the overall adequacy and effectiveness of the Council's internal control environment
- making the Audit Committee aware of emerging trends and successful practices in internal auditing.

4.11 The Audit Committee responsibilities are in accordance with the committee's terms of reference.

## **5 Code of Ethics**

5.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards 2013 (PSIAS) by:

- ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency
- implementing the Attribute and Performance Standards as detailed in Section 5 of the Standards

5.2 Internal Audit staff are required to make an annual affirmation of their knowledge of, and compliance with, the PSIAS Code of Ethics and must also have regard to The Committee on Standards in Public Life's *Seven Principles of Public Life* (Nolan Principles).

## **6 Service Standards**

What can be expected from Internal Audit:

6.1 Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work. It is essential that auditors are impartial so that when an audit opinion is requested it will be unbiased and based upon the facts available. Should a situation arise where impartiality could be questioned, then another auditor will be assigned to undertake the task concerned.

6.2 The Chief Internal Auditor and individual members of the IA team are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

6.3 Where an auditor was previously employed within a service/area subject to audit then the Chief Internal Auditor will ensure that the auditor concerned is not assigned audits in that area until an appropriate amount of time has lapsed.

Audit Strategy

6.4 The Chief Internal Auditor prepares a risk-based audit strategy and translates this into a three year rolling plan that shows cyclical coverage of audits. Where there is a difference between the strategy/plan and resources available, this is reported to the Audit Committee.

## Annual Audit Plan

- 6.5 To implement the audit strategy, an annual audit plan is established using a risk-based assessment methodology. The plan determines in broad terms the resources and skills needed, and is used for allocating auditors' work. Should the plan indicate a need for additional resources, this will be discussed with the Head of Finance. Heads of Service / Managers are consulted on the audit plan during the planning process and asked if there are any areas or work they wish specifically to be incorporated into the audit coverage. The plan is flexible and includes a contingency to allow for changes in priorities, emerging risks, ad hoc projects, fraud and irregularity, etc.
- 6.6 The Annual Internal Audit Plan is reported to, considered and endorsed by the Audit Committee.

## What is expected from managers and staff

- 6.7 Managers and staff should co-operate with the auditors, for example:
- Agreeing audit scopes promptly prior to the commencement of audit fieldwork;
  - Providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
  - Responding to the draft internal report, including provision of management responses to recommendations, within the timescale requested by the audit team (Where a response is not forthcoming a reminder will be issued. However, if a response is not received then the matter will be referred up to the next level of management, and ultimately to the Head of Service, Chief Officer, Chief Executive or Audit Committee, as appropriate);
  - Implementing agreed audit recommendations in accordance with the agreed timescales;
  - Updating Internal Audit with progress made on audit recommendations;
  - Informing Internal Audit of proposed changes and developments in processes and systems and newly identified significant risks.
- 6.8 Managers and staff are encouraged to feedback any comments which would help improve the future delivery of internal audit services during the audit and through the client questionnaire issued at the conclusion of each audit.

## **7 Reporting**

### Audit Reports



7.1 All audit assignments will be the subject of formal reports or memoranda. Where appropriate draft reports will be sent to the managers responsible for the area under review for agreement of the factual accuracy of findings. After agreement, the final reports will be issued to the relevant Head of Service. All reports will be issued on behalf of the Chief Internal Auditor and will contain a corresponding audit opinion.

7.2 Audit reports:

- show the findings based on a risk assessment e.g. significant, moderate and minor, together with control strengths identified during the audit
- include an action plan showing the agreed audit recommendations and the target date for implementation
- give an opinion of the system as at the time of the audit
- define the circulation of the draft and the final reports
- all reports will be issued on behalf of the Chief Internal Auditor.

7.3 Audit report circulation/Reporting structure:

- Operational managers receive a draft report for discussion followed by the final report
- Heads of Service (and for schools, Chairs of Governors) will receive a copy of all final reports within their service area
- Chief Executive and Senior Leadership Team will receive a copy of all quarterly update reports presented to the Audit Committee and can request individual reports as required.

Reporting Standards

7.4 Upon completion of audits, draft audit reports are internally quality reviewed and issued to the relevant line managers for them to confirm the accuracy of the audit findings. Managers are invited to contact the auditor if they wish to discuss the report and asked to show their response to the significant and moderate risk weaknesses raised in the draft report. For agreed audit recommendations, dates for action or implementation are recorded in the report and the action plan. The managers' responses are recorded in the final report.

7.5 In accordance with professional standard (2500 Monitoring Progress), follow-up audits are undertaken to ensure that the agreed controls and actions have been implemented by management.

7.6 Any agreed management actions not implemented within a reasonable timescale and any 'significant risk weaknesses that are not accepted will be reported to the Audit Committee in accordance with the committee's terms of reference.

- 7.7 Internal Audit works to the reporting quality standards benchmarked by the Welsh Chief Internal Auditors' Group, which include the timely issue of draft and final audit reports.
- 7.8 Agreed action plans within final reports will be followed-up within 12 months of the date issue of the final audit report, to ensure that the agreed audit recommendations have been implemented.

## **8 Quality Assurance**

- 8.1 The Chief Internal Auditor will maintain a process of review of the Internal Audit Service to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. Internal assessments will include:
- ongoing monitoring of the performance of the service including ensuring there is adequate supervision of work performed
  - periodic self-assessments on how the service meets the requirements of the Public Sector Internal Audit Standards
- 8.2 External assessments of the Internal Audit Service will be undertaken once every five years, in accordance with the PSIAS.
- 8.3 Internal auditors are required to enhance their knowledge, skills and other competencies through continuing professional development.
- 8.4 Audit reports are reviewed by a senior member of staff / peer reviewed prior to issue. All reports are issued by the Audit Manager (or Chief Internal Auditor).

## **9 Relationships**

- 9.1 General - in all of these relationships the person/s concerned will be treated with respect, courtesy, politeness and professionalism. Any confidential or sensitive issues raised with, or reported to, Internal Audit staff will be dealt with in an appropriate manner. Where issues could cause embarrassment to the Council, the appropriate manager will be advised immediately so that the issue can be addressed without delay.
- 9.2 Internal - the main contacts are with: Council employees, operational managers, Heads of Service, Chief Officers and the Chief Executive. Internal auditors will ensure that they explain to the person/s concerned the purpose of the audit and the various stages that the audit will follow. Internal Audit will agree with the manager concerned the timing and scope of the audit and the circulation of the audit report.
- 9.3 Councillors – the main means of communication between Internal Audit and Councillors is via the Audit Committee which meets approximately 7 times per year.
- 9.4 External – Internal Audit will liaise with the external auditors in order to:

- foster a co-operative and professional working relationship
- minimise the incidence of duplication of effort
- ensure appropriate sharing of information
- co-ordinate the overall audit effort

## **10 Fraud & Irregularities**

10.1 The Chief Internal Auditor is responsible for reviewing and updating the Council's Anti-Fraud and Corruption Strategy and for promoting an anti-fraud culture within the Council. This is achieved by the following:

- specific detailed testing in high risk areas
- participation in the Cabinet Office National Fraud Initiative data matching exercise
- investigation of all areas of concern identified through routine audit, reported to management or via the Council's Whistleblowing Policy.

10.2 Heads of Service / operational managers are responsible for managing risks in order to prevent fraud, irregularity, waste of resources, etc. Internal Audit will assist Heads of Service / operational managers to effectively manage these risks.

10.3 However, no level of controls can guarantee that fraud will not occur, even when the controls are performed diligently with due professional care.

10.4 Where there is evidence or reasonable suspicion that a fraud or irregularity has occurred, then this must be reported immediately to Internal Audit. All cases will be dealt with in accordance with the Council's '*Anti-Fraud and Corruption Strategy*' and '*Whistleblowing Policy*'.

## **11 Audit Resources**

11.1 The staffing structure of Internal Audit will comprise a mix of qualified, technician, trainee and auditor posts with a mix of professional specialisms to reflect the varied functions of the section.

11.2 As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-term basis.

11.3 Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls or being asked to be part of a project team. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.

11.4 Members of the Internal Audit Section will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises.

## **12 Audit Training**

- 12.1 Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development (Standard 1230).
- 12.2 The Chief Internal Auditor will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training covering both internal and external courses. This will complement the Council's 'Check in: check out' process.
- 12.3 The Internal Audit Team will be encouraged to attend the training programme for internal auditors on behalf of the South Wales Chief Auditors Group; a sub group of the Welsh Chief Auditors Group.

## **13 Review**

- 13.1 The Internal Audit Charter will be reviewed periodically by the Chief Internal Auditor and presented to senior management and the Audit Committee for approval.

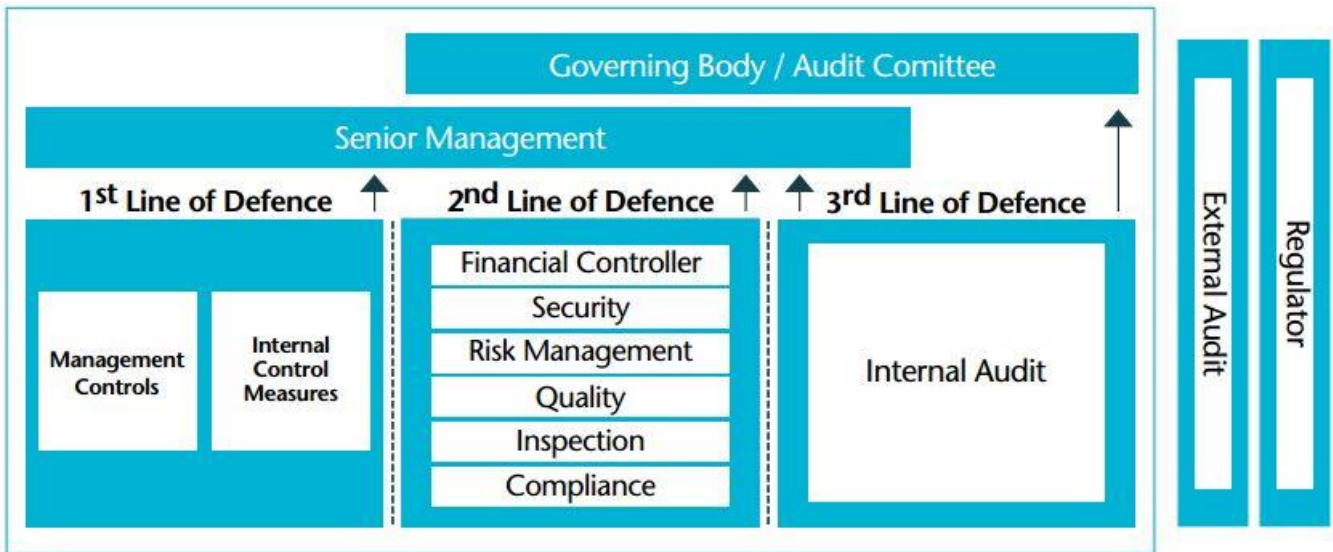
## APPENDIX 1

RATING	RISK DESCRIPTION	IMPACT
1	Significant	<p>(Significant) – Major / unacceptable risk identified.</p> <p>Risk exist which could impact on the key business objectives. Immediate action required to address risks.</p> <p>RED</p>
2	Moderate	<p>(Important) – Risk identified that requires attention.</p> <p>Risk identified which are not business critical but which require management as soon as possible.</p> <p>AMBER</p>
3	Minor	<p>(Minimal) - Low risk partially mitigated but should still be addressed</p> <p>Audit comments highlight a suggestion or idea that management may want to consider.</p> <p>YELLOW</p>
4	Strength	<p>(No risk) – Good operational practices confirmed.</p> <p>Well controlled processes delivering a sound internal control framework.</p> <p>GREEN</p>

## APPENDIX 2

<p><b>SUBSTANTIAL</b></p>	<p>Substantial level of assurance.</p> <p>Very well controlled, with numerous strengths identified and any risks being less significant in nature.</p>
<p><b>CONSIDERABLE</b></p>	<p>Considerable level of assurance</p> <p>Generally well controlled, although some risks identified which should be addressed.</p>
<p><b>REASONABLE</b></p>	<p>Reasonable level of assurance.</p> <p>Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.</p>
<p><b>LIMITED</b></p>	<p>Limited level of assurance.</p> <p>Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.</p>

# APPENDIX 3



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**SUBJECT: INTERNAL AUDIT SECTION  
PROGRESS REPORT 3 Months into 2016/17**

**DIRECTORATE: Chief Executive's  
MEETING: Audit Committee  
DATE: 15th September 2016  
DIVISION/WARDS AFFECTED: All**

## 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> June 2016.

To consider the performance of the Internal Audit Section over the first 3 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 2016/17 Operational Audit Plan and the Section's performance indicators at the three months stage of the financial year.

## 3. KEY ISSUES

3.1 The Section has started to undertake its programme of audits in accordance with the 2016/17 Operational Audit Plan.

3.2 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 3 months to 30<sup>th</sup> June 2016.

3.3 The Public Sector Internal Audit Standards came into force in April 2013 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. The new standards have been reported to the Audit Committee separately.

3.4 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 will take place during 2017.

- 3.5 The 2016/17 Audit Plan was agreed by the Audit Committee on 26<sup>th</sup> May 2016.

#### **4. REASONS**

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 10 audit jobs from its 2016/17 Operational Audit Plan, although none were opinion related; these are listed in the table shown in Appendix 1.
- 4.2 In relation to the normal audit opinion related reports, none have yet been issued during the first quarter. One report related to the annual governance statement where no opinion was given, but this forms part of the Council's annual financial statements and financial advice was given in several areas.
- 4.3 The definitions of the four internal audit opinions and the risk ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.4 Finalisation work from 2015/16 continues; of the 17 reviews at draft report stage at 31 March 2016, 2 have subsequently been finalised; SCH Debtors was issued with a Good opinion, Creditors was issued with a Reasonable opinion.
- 4.5 Audit management have also been involved with 2 special investigations to date this year, some of which have continued from 2015/16; these are often very sensitive and time consuming. Work has been undertaken on 1 unplanned area, providing additional advice and support for service managers.
- 4.6 Appendix 3 of the report gives details of the Section's performance indicators as at 30<sup>th</sup> June 2016.
- 4.7 Although only 2 audit reviews were finalised in the quarter, the acceptance of audit recommendations was good at 100%. Evaluation questionnaires have not yet been returned from operational managers so no data is available to measure how were satisfied they were with the audit service they had received.
- 4.8 Draft reports have taken 3 days to issue following receipt of management comments. It has taken 20 days to issue final reports.

- 4.9 Getting audit reports out to service managers are key indicators. The audit management will endeavour to continue to turnaround the work within the target time set for draft and final reports.
- 4.10 The percentage coverage of the audit plan at 13% (14% 2015/16) is lower than the same period of the previous year and below the profiled target of 20% at this stage of the financial year. Management will keep this indicator under careful review for the rest of the year to ensure that the audit coverage by the year end is as comprehensive as possible. The operational plan will be re-prioritised to ensure the higher risk areas are covered by the year end if resources become an issue again.
- 4.11 The team started the year with a full complement of staff in the team.
- 4.12 The team also took time out of planned work to develop a new reporting format to improve the efficiency and effectiveness of audit work. Audit opinions have also been revised and updated in order to give a better understanding of the level of assurance gained from undertaking the audit work. These have previously been presented to Audit Committee.
- 4.13 In Quarter 1 the team get involved with the verification and validation of the Council's annual performance indicators before they are submitted to Welsh Government. This is often a time consuming exercise with tight timescales. The team are also involved with 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 Heads of Service for information and appropriate action where necessary.

## **6. FOLLOW UP AUDIT REVIEWS**

- 6.1 Where unsatisfactory and unsound 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 Audit Committee.

**7. RESOURCE IMPLICATIONS**

None.

**8. CONSULTEES**

Head of Finance

**Results of Consultation:**

N/A

**9. BACKGROUND PAPERS**

Operational Audit Plan 2016/17

**10. AUTHORS AND CONTACT DETAILS**

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## AUDIT COMMITTEE SEPTEMBER 2016

### INTERNAL AUDIT SECTION PROGRESS REPORT 2016/17 – 3 MONTHS

#### APPENDIX 1

Internal Audit reviews from the 2016/17 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/16 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 very good through to unsound.

Draft issued indicates that a draft report has been issued and a response is awaited from the client before the report can be finalised.

### Status of reports as at 30 June 2016

#### Internal Audit Services - Management Information for 2016/17 – Quarter 1

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P16/17/78	Corporate		Annual Governance Statement	Not Applicable		Not applicable
P16/17/70	Corporate		BACS - Compliance with SHA-2 protocols	High		Not applicable

P16/17/04	Chief Executive's	Democracy & Regulatory Services	Audit Advice			
P16/17/12	Chief Executive's	Finance	Audit Advice			
P16/17/20	Chief Executive's	Operations	Audit Advice			
P16/17/25	Children & Young People	Resources	Audit Advice			
P16/17/41	Children & Young People	Schools	Audit Advice			
P16/17/49	Enterprise	Community-led Delivery	Audit Advice			
P16/17/61	Social Care & Health	Adult Services	Audit Advice			
P16/17/63	Social Care & Health	Children's Services	Audit Advice			

**Internal Audit Opinions**

Each report contains an opinion which is an overall assessment of the control environment reviewed. Opinions were revised during 2015/16 to reflect a better understanding of the level of assurance given. The full list of audit opinions to be used from 2016/17 onwards is shown below:

<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.

**Recommendation Ratings**

Each recommendation contained within the Internal Audit report has a 2 part priority rating. The number refers to Internal Audit assessment attached to the relevant weakness identified, whilst the letter relates to the urgency with which we believe the recommendation should be implemented (see tables below).

Rating	Assessment of the Weakness Identified
1	Fundamental weakness.
2	Highly significant weakness.
3	Significant weakness.
4	Minor weakness.

Rating	Proposed Timescale for Implementation
A	Should be actioned immediately
B	Should be implemented as soon as possible but within 3 months.
C	Ongoing requirements or within 12 months.

**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

**AUDIT COMMITTEE SEPTEMBER 2016**

**INTERNAL AUDIT SECTION PROGRESS REPORT  
2016/17 – 3 MONTHS**

**APPENDIX 3**

**Performance Indicators**

	<b>2015/16</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	14%	23%	40%	74%	(80% pa)
2	Percentage of audits completed within planned time	0%	50%	33%	27%	60%
3	Average no. of days from audit closing meeting to issue of a draft report	3 days	17 days	52 days	75 days	12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	12 days	34 days	46 days	22 days	5 days
5	Percentage of recommendations made that were accepted by the clients	100%	99%	99%	97%	90%
6	Percentage of clients at least 'satisfied' by audit process	N/A	N/A	N/A	100%	90%
7	Percentage of directly chargeable time (actual v planned)	94%	81%	120%	91%	100%
8	Number of special investigations	6	7	9	10	

	<b>2016/17</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	13%				20% (80% pa)
2	Percentage of audits completed within planned time	0%				60%
3	Average no. of days from audit closing meeting to issue of a draft report	3 days				12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	12 days				5 days
5	Percentage of recommendations made that were accepted by the clients	100%				90%
6	Percentage of clients at least 'satisfied' by audit process	N/A				90%
7	Percentage of directly chargeable time (actual v planned)	102%				100%
8	Number of special investigations	2				

N /A – not available





WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Annual Improvement Report 2015-16

## Monmouthshire County Council

Issued: August 2016

Document reference: 451A2016



This Annual Improvement Report has been prepared on behalf of the Auditor General for Wales by Non Jenkins, Dave Wilson and Allison Rees under the direction of Alan Morris.

**Huw Vaughan Thomas  
Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ**

The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office Board, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the National Assembly.

The Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national parks and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Assembly Commission and National Health Service bodies in Wales.

The Auditor General and staff of the Wales Audit Office aim to provide public-focused and proportionate reporting on the stewardship of public resources and in the process provide insight and promote improvement.

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# Summary report

## About this report

- 1 This Annual Improvement Report (AIR) summarises the audit work undertaken by the staff of the Wales Audit Office on behalf of the Auditor General at Monmouthshire County Council (the Council) since the last such report was published in November 2015. This report also includes a summary of the key findings from reports issued by relevant regulators, namely: the Care and Social Services Inspectorate Wales (CSSIW); Her Majesty's Inspectorate for Education and Training in Wales (Estyn); and the Welsh Language Commissioner (the Commissioner). Nonetheless, this report does not represent a comprehensive review of all the Council's arrangements or services. The conclusions in this report are based on the work carried out at the Council by relevant external review bodies and, unless stated otherwise, reflect the situation at the point in time that such work was concluded.
- 2 Taking into consideration the work carried out during 2015-16, the Auditor General will state in this report whether he believes that the Council is likely to make arrangements to secure continuous improvement for 2016-17.
- 3 This statement should not be seen as a definitive diagnosis of organisational health or as a prediction of future success. Rather, it should be viewed as providing an opinion on the extent to which the arrangements currently in place are reasonably sound insofar as can be ascertained from the work carried out.
- 4 We want to find out if this report gives you the information you need and whether it is easy to understand. You can let us know your views by e-mailing us at [info@audit.wales](mailto:info@audit.wales) or writing to us at 24 Cathedral Road, Cardiff, CF11 9LJ.

## 2015-16 performance audit work

- 5 The work carried out since the last AIR, including that of the 'relevant regulators', is set out below.

Project name	Brief description
Wales Audit Office Annual 'Improvement Plan' Audit	Review of the Council's published plans for delivering on improvement objectives in line with the requirements of the Measure.
Wales Audit Office Annual 'Assessment of Performance' Audit	Review of the Council's published performance assessment in line with the Measure, including testing and validation of performance information.
Wales Audit Office: Performance Management	Corporate Assessment follow-on review including testing and validation of performance information.
Estyn: Monitoring visit	Monitoring visit to assess the Council's progress against the six recommendations made following its inspection in November 2012.
Estyn: Evaluation of schools performance	A review of performance across a range of areas within schools in the Council.
CSSIW: Annual Review and Evaluation of Performance	An evaluation of the Council's performance in delivering its social services functions.
Welsh Language Commissioner	The Welsh Language Commissioner's response to the Council's 2014-15 Annual Monitoring Report.
Wales Audit Office Financial Resilience Assessment	Review of the Council's financial position and how it is budgeting and delivering on required savings.
Wales Audit Office: Governance	Corporate Assessment follow-on review.
Wales Audit Office: Gwent Frailty Programme	A review of the Gwent Frailty Programme to assess whether the Programme had delivered improvements in line with individual organisations' expectations.

Project name	Brief description
National reports	<ul style="list-style-type: none"> <li>• Community Safety Partnerships (to be published)</li> <li>• Income generation and charging (to be published)</li> <li>• Council funding of third-sector services (to be published)</li> <li>• The financial resilience of councils in Wales (published 2 April 2015)</li> <li>• Achieving improvement in support to schools through regional education consortia – an early review (published 3 June 2015)</li> <li>• Review of Corporate Safeguarding arrangements in Welsh Councils (published 21 July 2015)</li> <li>• Supporting the Independence of Older people: Are Councils Doing Enough? (published 15 October 2015)</li> <li>• Delivering Less – Leisure Services (published 3 December 2015)</li> </ul>

**Based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General believes that the Council will comply with the requirements of the measure during 2016-17 provided it continues to maintain the current pace of improvement**

6 The Auditor General has reached this conclusion because:

- The Council has continued to improve its performance management arrangements and recognises that it has more to do to ensure consistent application of corporate arrangements, and to address the requirements of the Well-being of Future Generations (Wales) Act 2015.
- Estyn judged that the Council had made strong progress in addressing two of the six recommendations arising from the inspection of November 2012, and satisfactory progress in addressing the other four. As a result, Estyn considers that the authority is no longer in need of special measures and is removing it from further follow-up activity.
- CSSIW reported that the Council made good progress with a transformation in practice agenda and was well placed to meet the requirements as set out in the Social Services and Wellbeing (Wales) Act (SSWBW Act).

- The Council had generally effective financial governance, but its financial planning and control arrangements were not fully embedded or delivering effectively, in the face of some significant financial challenges.
- The Council made progress in improving its governance arrangements, although, more work was needed to strengthen the transparency of decision making and recording.
- The Gwent Frailty Programme had demonstrated positive regional cross-sector partnership working to tackle growing community-based needs, but it had not evidenced tangible improved outcomes, which would be important as partners determine the future of the programme.

## Recommendations

- 7 Given the wide range of services provided by the Council and the challenges it is facing, it would be unusual if we did not find things that can be improved. The Auditor General is able to:
- make proposals for improvement – if proposals are made to the Council we would expect it to do something about them and we will follow up what happens;
  - make formal recommendations for improvement – if a formal recommendation is made, the Council must prepare a response to that recommendation within 30 working days;
  - conduct a special inspection, and publish a report and make recommendations; and
  - recommend to Ministers of the Welsh Government that they intervene in some way.
- 8 During the course of the year, the Auditor General did not make any formal recommendations. However, lower-priority issues, known as proposals for improvement, are contained in our other reports but may be referred to later on in this report. We will continue to monitor proposals for improvement during the course of our improvement assessment work. He does, however, make recommendations that may be relevant to the Council in his Local Government National Reports. A list of recommendations contained in reports issued in 2015-16 can be found in [Appendix 5](#).
- 9 Areas for Improvement (AFI) made by CSSIW during the course of the year are set out below.

**AFI1**

- The pace of change in rolling out the Raglan Project and the My Day – My Life project to other community hubs identified throughout Monmouthshire.
- The council should ensure that the deprivation of liberties team and the Mental Capacity Act is fully embedded in everyday practice within assessment and care management.
- Data recording in relation to carers support from the council needs to be reviewed so as to ensure that carers are being appropriately supported.

**AFI2**

- The increase in the level of children on the child protection register requires a better understanding of whether threshold levels are accurate.
- Progress work to improve transitions for children with disabilities to adult services.
- Take forward post inspection implementation plan.

**AFI3**

- Consider how children continue to be safeguarded in light of financial pressures faced by the council.



# Detailed report



# Performance

## Audit of Monmouthshire County Council's 2015-16 Improvement Plan

- 10 On 16 June 2015, we issued a certificate confirming that the Council had discharged its duties under section 15(6) to (9) of the Local Government (Wales) Measure 2009 (the Measure) and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties. The certificate is contained in [Appendix 3](#).

## Certificate of compliance for the Audit of Monmouthshire County Council's assessment of 2014-15 performance

- 11 On 13 November 2015, we issued a certificate of Compliance for the audit of the Council's assessment of 2014-15 performance. The certificate confirms that the Council has discharged its duties under sections 15(2), (3), (8) and (9) of the Measure. Our certificate is contained in [Appendix 4](#).

## The Council has continued to improve its performance management arrangements and recognises that it has more to do to ensure consistent application of corporate arrangements and to address the requirements of the Well-being of Future Generations (Wales) Act 2015

- 12 In March 2015, we carried out a Corporate Assessment at the Council. In respect of performance management, we concluded that whilst systems, procedures, and guidance were in place, the Council was not consistently managing performance, improvement and risks.
- 13 In January 2016, we reviewed the Council's progress in improving its performance management arrangements, including effectively addressing issues raised in the 2015 Corporate Assessment around performance management. We concluded that the Council had continued to improve its performance management arrangements, and recognised that it has more to do to ensure consistent application of corporate arrangements and to address the requirements of the Well-being of Future Generations (Wales) Act 2015.
- 14 We came to this conclusion because:
- the Council continued to improve the way it managed performance, although, implementation of corporate arrangements was still not consistent and its arrangements need further development to incorporate the requirements of the Well-being of Future Generations (Wales) Act 2015;
  - the Council continued to improve the way it manages the performance of its partnership working, but areas for improvement remain in how it measures outcomes and identifies resources needed to deliver improvements; and
  - although the Council had taken action to improve the accuracy and quality of its performance data, those actions have not yet been fully effective.

Estyn has judged that Monmouthshire County Council has made strong progress in addressing two of the six recommendations arising from the inspection of November 2012, and satisfactory progress in addressing the other four. As a result, Estyn considers that the authority is no longer in need of special measures and is removing it from further follow-up activity

- 15 In November 2015, Estyn undertook a monitoring visit to assess the Council's progress against the six recommendations made following its inspection in November 2012. In January 2016, Estyn published the **outcome** of the monitoring visit on its website.

### Estyn's evaluation of school performance

- 16 The proportion of pupils eligible for free school meals in Monmouthshire is the second lowest in Wales. This is taken into account when evaluating the performance in the authority. When the performance of schools in Monmouthshire is compared with that of similar schools in Wales in 2015, based on the proportion of pupils eligible for free school meals, performance is above average for the Foundation Phase indicator and for the core subject indicator in key stages 2 and 3.
- 17 At key stage 4, the proportion of pupils achieving the level 2 threshold including English or Welsh first language and mathematics has exceeded the Welsh Government's benchmark for performance for each of the last two years, having been below the benchmark in the previous three years. However, the proportion of pupils achieving the average wider capped points score in the authority has remained below the Welsh Government benchmark for the last five years. More able pupils do not perform well enough at key stage 4, with too few pupils achieving five or more A\* to A grades at GCSE or equivalent.
- 18 The performance of pupils eligible for free school meals at key stage 4 has improved substantially over time, and is now well above the Wales average for most of the main indicators.
- 19 Attendance in primary and secondary schools has been amongst the best in Wales for several years. However, the rate of exclusions of five days or less from schools has consistently been much higher than in similar authorities.

CSSIW reported that the Council made good progress with a transformation in practice agenda, and was well placed to meet the requirements as set out in the SSWBW Act

- 20 CSSIW published its **Annual Review and Evaluation of Performance 2014-15** in October 2015.
- 21 CSSIW concluded that the Council made good progress with a transformation in practice agenda, and was well placed to meet the requirements as set out in the SSWBW Act. The Council concentrated on moving forward an ambitious agenda in adults' services. There had been more difficulties in children's services where the department had been working hard to deliver on the post inspection action plan. This was developed to address the recommendations in the inspection undertaken by CSSIW into children's services in November 2014, where a number of areas of weakness were found. The action plan also identified the areas for improvement set out in last year's Annual Council Reporting Framework.
- 22 CSSIW concluded that progress had been made in a number of areas to date. In particular, the Council made improvements around statutory visits to looked after children and the timeliness of reviews for children in need, as well as recruitment to permanent posts. However, there is still a journey of improvement that children's services will need to continue over the next year.
- 23 CSSIW concluded that the Council worked well with partners across both adult and children's services to deliver better outcomes in the most efficient and effective ways. In adult services, partnership arrangements with Aneurin Bevan University Health Board (ABUHB) were mature at both strategic and operational levels. However, although work progressed, sometimes this needed to develop at a faster pace with renewed energy and clear objectives. The mental health integration work around the Listen Engage Act Participate project across the whole Council is an example of this.
- 24 CSSIW concluded that performance in adult services improved further in a number of key areas, in particular in relation to delayed transfers of care which decreased. Ongoing progress in reablement services was evident and was working effectively in the hubs where they had been implemented. However, whilst headway had been made, the pace of change to roll out services overall more systematically across the whole Council needed to increase in order to recalibrate services in an appropriate and timely way.

- 25 CSSIW concluded that there was significant support corporately and from members who had a good understanding of the challenges facing social care. This was evidenced by the protection of budgets in Social Services in 2014-15, and the agreement reached for additional funding of £1.2 million in children's services in order to deliver its statutory functions and safeguard children effectively. However, this will become more difficult in the future when there is a need to make significant savings across all services within the Council.
- 26 CSSIW concluded that the Council acknowledged that whilst its citizens have high expectations of public services, in the future, services will need to be provided in a different way, and not necessarily by the Council. Greater emphasis will be placed on support being provided through community networks and localised support.

### Welsh Language Commissioner's evaluation of Monmouthshire County Council's performance

- 27 The role of the Commissioner was created by the Welsh Language (Wales) Measure 2011. New powers to impose standards on organisations came into force through subordinate legislation on 31 March 2015. The Commissioner will continue to review Welsh language schemes by virtue of powers inherited under the Welsh Language Act 1993.
- 28 The Commissioner works with all councils in Wales to inspect and advise on the implementation of language schemes. It is the responsibility of councils to provide services to the public in Welsh in accordance with the commitments in their language schemes. Every council is committed to providing an annual monitoring report to the Commissioner outlining its performance in implementing the language scheme. The Commissioner analyses every monitoring report, provides a formal response and collects further information as required.
- 29 The Commissioner's formal response and letters issued to the Council during the year are available on the [Commissioner's website](#).

# Use of resources

## Audit of the Council's accounts

30 On 29 September 2015, the Auditor General issued an Annual Audit Letter to the Council. The letter summarises the key messages arising from his statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor, and his reporting responsibilities under the Code of Audit Practice. The Auditor General issued an unqualified opinion on the Council's accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. The Annual Audit Letter can be found in [Appendix 2](#) of this report.

## The Council had generally effective financial governance, but its financial planning and control arrangements were not fully embedded or delivering effectively in the face of some significant financial challenges

31 In April 2015, we published a national report on **The financial resilience of councils in Wales**. This report was based on fieldwork carried out in all Welsh local councils.

32 Given the continuing pressures on funding for councils in Wales, we considered whether the Council had appropriate arrangements to plan, secure, and maintain its financial resilience in the medium term (typically three to five years ahead). We undertook a review during the period from May to December 2015, and followed up issues highlighted in our 2014-15 financial resilience work. The focus of this review was on the delivery of 2014-15 savings plans, and the 2015-16 financial planning period.

33 Overall, we concluded that the Council had generally effective financial governance, but its financial planning and control arrangements were not fully embedded or delivering effectively in the face of some significant financial challenges. We came to this conclusion based on our findings in relation to financial planning, financial control, and financial governance arrangements:

- the Council's financial planning arrangements continued to improve, although, the medium-term financial plan was not fully balanced, some budget mandates did not define how savings would be achieved, and some planned savings were unlikely to deliver;
- the Council established financial control arrangements, but the Council was uncertain whether it would remain within its 2015-16 revenue budget due to pressures in Social Services and non-delivery of parts of the savings plan; and
- the Council had generally effective financial governance arrangements in place.

34 We issued the [financial resilience assessment](#) to the Council in February 2016 and it was presented to the Audit Committee in June 2016.



# Governance

The Council made progress in improving its governance arrangements, although, more work was needed to strengthen the transparency of decision making and recording

- 35 In March 2015, we carried out a Corporate Assessment at the Council. We concluded that a culture of mutual respect and trust existed between councillors and officers, leading to productive working relationships. Although, there were examples of decision making that could have been more robust, informed and subject to effective challenge.
- 36 In February 2016, we reviewed the Council's progress and we concluded that the Council made progress in improving its governance arrangements, although, more work was needed to strengthen the transparency of decision making and recording.
- 37 We came to this conclusion because:
- the Council reported on its progress in dealing with external recommendations, although, it did not always challenge whether the actions it was taking were sufficiently focused and measurable;
  - the Council had taken action to ensure prompt sign-off of committee minutes, but could further improve transparency and ease of access to records;
  - the Council was taking action to improve the quality of information to members, but reporting was not always sufficiently clear and relevant to support robust decision making or challenge; and
  - the Council was improving its scrutiny function and intended to further improve the support to scrutiny to enable better outcomes.
- 38 We issued the **Governance–Corporate Assessment follow-on report** to the Council in May 2016, and it was presented to the Audit Committee in June 2016.

The Gwent Frailty Programme had demonstrated positive regional cross-sector partnership working to tackle growing community-based needs, but it had not evidenced tangible improved outcomes, which would be important as partners determine the future of the programme

- 39 From April 2011, ABUHB and Blaenau Gwent, Caerphilly, Monmouthshire, Newport, and Torfaen Councils began implementing an ambitious integrated model of care called the Gwent Frailty Programme (the Programme)<sup>1</sup>. The Programme was funded by a Welsh Government Invest to Save loan and contributions from respective partners to create a pooled fund.

<sup>1</sup> Unless stated otherwise, the 'Programme' covers the committees and working groups, members and staff, and the overall delivery and service model.

- 40 The Programme has legal status under a Section 33 partnership agreement<sup>2</sup> between ABUHB and the five Gwent councils. The agreement ran for three years commencing in April 2011. A Gwent Frailty Joint Committee (GFJC) was created as a decision-making body holding formal accountability under the Section 33 agreement. An Operational Co-ordinating Group, a range of specialist sub-groups and local implementation structures also supported the work of the Frailty Programme Joint Committee<sup>3</sup>.
- 41 In November 2012, we reviewed the Programme and found that partners were strongly committed to the Gwent Frailty vision and had created a sound programme management framework to underpin it. We recognised that the Programme was in the early stages of implementation and it faced challenges to ensure the Programme was sustainable, to change established working practices and to demonstrate its impact.
- 42 Our latest review in May 2015 focused on whether the Gwent Frailty Programme had delivered improvements in line with individual organisations' expectations.
- 43 We concluded that 'the Programme had demonstrated positive regional cross-sector partnership working to tackle growing community-based needs, but it had not evidenced tangible improved outcomes, which would be important as partners determine the future of the programme'.
- 44 We reached this conclusion because:
- The Gwent Frailty Programme successfully brought together partners who invested time and resources to improve outcomes for frail elderly people, but the financial aims had not been achieved, and outcomes remained difficult for partners to evidence.
  - Governance arrangements over the lifetime of the programme had been generally adequate, but the Programme could have engaged partners better, benefited from clearer information, and been more open about its business. We found that:
    - the governance arrangements provided for timely decision-making, but partner organisations were not always kept adequately informed of important issues affecting the Programme, such as the emerging large underspend;
    - financial reporting arrangements within the Programme were adequate, but performance reporting was not fit for purpose;
    - public transparency and decision recording started well, but became weaker over time; and
    - routine scrutiny of decisions by the GFJC was not robust, although, most partners reported annually through their own scrutiny arrangements.

<sup>2</sup> The Section 33 agreement provides a formal basis for partnership working. The partners can employ a section 33 agreement as a mechanism to create pooled revenue and capital funding. The host's financial management and financial accounting rules apply. This means that the joint service can reclaim VAT as well as utilising other financial flexibilities available to local government bodies.

<sup>3</sup> For the purposes of this report, reference to Programme Committees covers the Gwent Frailty Joint Committee, Operational Co-ordinating Group, the range of specialist sub-groups, and local implementation structures.



- The Gwent Frailty Programme benefited from strong commitment and was at a pivotal point in its journey, but needed clarity of vision to succeed. We found that:
  - the Programme had benefited from a strong commitment from the partner organisations, this needed to be re-confirmed in the context of the financial and operational challenges facing the individual organisations; and
  - the future direction of the Programme was unclear, the partnership was at a pivotal point, and partners were yet to agree a clear vision, which would need measurable outcomes and benefits.

# Appendix 1 – Status of this report

The Local Government (Wales) Measure 2009 (the Measure) requires the Auditor General to undertake an annual improvement assessment, and to publish an annual improvement report, for each improvement authority in Wales. This requirement covers local councils, national parks, and fire and rescue authorities.

This report has been produced by staff of the Wales Audit Office on behalf of the Auditor General to discharge his duties under section 24 of the Measure. The report also discharges his duties under section 19 to issue a report certifying that he has carried out an improvement assessment under section 18 and stating whether, as a result of his improvement plan audit under section 17, he believes that the authority has discharged its improvement planning duties under section 15.

Improvement authorities are under a general duty to ‘make arrangements to secure continuous improvement in the exercise of [their] functions’. Improvement authorities are defined as local councils, national parks, and fire and rescue authorities.

The annual improvement assessment is the main piece of work that enables the Auditor General to fulfil his duties. The improvement assessment is a forward-looking assessment of an authority’s likelihood to comply with its duty to make arrangements to secure continuous improvement. It also includes a retrospective assessment of whether an authority has achieved its planned improvements in order to inform a view as to the authority’s track record of improvement. The Auditor General will summarise his audit and assessment work in a published annual improvement report for each authority (under section 24).

The Auditor General may also, in some circumstances, carry out special inspections (under section 21), which will be reported to the authority and Ministers, and which he may publish (under section 22). An important ancillary activity for the Auditor General is the co-ordination of assessment and regulatory work (required by section 23), which takes into consideration the overall programme of work of all relevant regulators at an improvement authority. The Auditor General may also take account of information shared by relevant regulators (under section 33) in his assessments.

# Appendix 2 – Annual Audit Letter

Councillor Peter Fox  
Leader  
Monmouthshire County Council  
County Hall  
Rhadyr  
Usk  
Monmouthshire  
NP15 1GA

Dear Councillor Fox

## **Annual Audit Letter – Monmouthshire County Council 2014-15**

This letter summarises the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

### **The Council complied with its responsibilities relating to financial reporting and use of resources**

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 29 September 2015, I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee and full Council in my Audit of Financial Statements report on 23 and 24 September 2015 respectively.

We reported that a number of amendments were made to the draft financial statements, and that there were also several uncorrected misstatements in the financial statements which were not material and were therefore not adjusted for. A more detailed report covering these matters, and some additional issues identified during our audit, together with our recommendations, will be presented to the Council's Audit Committee in December.

**I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work we have undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009. My recently published Annual Improvement Report, which incorporates the Corporate Assessment Report, highlights areas where the effectiveness of these arrangements has yet to be demonstrated, or where improvements could be made.

The Council continues to face significant financial challenges, and we are currently completing a review of the Council's financial resilience. Similar work is being undertaken at all other local government bodies in Wales, and it follows up work carried out in 2014-15. A report will be issued to the Council later in the year.

**I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2015**

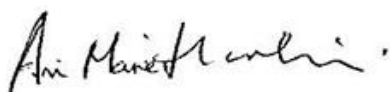
**My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2015-16 accounts or key financial systems**

Our grants certification audit work for 2014-15 at the Council is not yet fully complete. However, we have not identified any significant issues to date that I need to communicate to you within this letter. A detailed report on my grant certification work will follow in February 2016 once this year's work is complete.

**The financial audit fee for 2014-15 is currently expected to be in line with the agreed fee set out in the Annual Audit Outline**

Under the requirements of the Public Audit (Wales) Act 2013, we are required to ensure that our fees do not recover any more than the full cost of an audit. In our Annual Audit Outline, we estimated that our fee for audit of the 2014-15 financial statements would be £176,068, and we are comfortable that our actual fee will not exceed this amount. We will notify you separately should any refund be due to the Council once the final cost of the audit has been calculated in early 2016.

Yours sincerely



**Ann-Marie Harkin**

For and on behalf of the Auditor General for Wales

cc Mr Paul Matthews, Chief Executive  
Mrs Joy Robson, Head of Finance

# Appendix 3 – Audit of Monmouthshire County Council's 2015-16 Improvement Plan

## Certificate

I certify that I have audited Monmouthshire County Council's (the Council) Improvement Plan in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has discharged its duties under section 15(6) to (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

## Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to prepare and publish an Improvement Plan describing its plans to discharge its duties to:

- make arrangements to secure continuous improvement in the exercise of its functions;
- make arrangements to secure achievement of its improvement objectives; and
- make arrangements to exercise its functions so that any performance standard specified by Welsh Ministers is met.

The Measure requires the Council to publish its Improvement Plan as soon as is reasonably practicable after the start of the financial year to which it relates, or after such other date as Welsh Ministers may specify by order.

The Council is responsible for preparing the Improvement Plan and for the information set out within it. The Measure requires that the Council has regard to guidance issued by Welsh Ministers in preparing and publishing its plan.

As the Council's auditor, I am required under sections 17 and 19 of the Measure to carry out an audit of the Improvement Plan, to certify that I have done so, and to report whether I believe that the Council has discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements set out in section 15 and statutory guidance.

## Scope of the Improvement Plan audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit, I am not required to form a view on the completeness or accuracy of information, or whether the Improvement Plan published by the Council can be achieved. Other assessment work that I will undertake under section 18 of the Measure will examine these issues. My audit of the Council's Improvement Plan, therefore, comprised a review of the plan to ascertain whether it included elements prescribed in legislation. I also assessed whether the arrangements for publishing the plan complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing its plan.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.

### **Huw Vaughan Thomas**

Auditor General For Wales

CC: Leighton Andrews, Minister for Public Services

Non Jenkins, Manager

Dave Wilson, Performance Audit Lead

# Appendix 4 – Audit of Monmouthshire County Council’s assessment of 2014-15 performance

## Certificate

I certify that, following publication on 29 October 2015, I have audited Monmouthshire County Council’s (the Council’s) assessment of its performance in 2014-15 in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe 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.

## Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to annually publish an assessment which describes its performance:

- in discharging its duty to make arrangements to secure continuous improvement in the exercise of its functions;
- in meeting the improvement objectives it has set itself;
- by reference to performance indicators specified by Welsh Ministers, and self-imposed performance indicators; and
- in meeting any performance standards specified by Welsh Ministers, and self-imposed performance standards.

The Measure requires the Council to publish its assessment before 31 October in the financial year following that to which the information relates, or by any other such date as Welsh Ministers may specify by order.

The Measure requires that the Council has regard to guidance issued by Welsh Ministers in publishing its assessment.

As the Council’s auditor, I am required under sections 17 and 19 of the Measure to carry out an audit to determine whether the Council has discharged its duty to publish an assessment of performance, to certify that I have done so, and to report whether I believe that the Council has discharged its duties in accordance with statutory requirements set out in section 15 and statutory guidance.

## Scope of the audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information. Other assessment work that I will undertake under section 18 of the Measure may examine these issues. My audit of the Council's assessment of performance, therefore, comprised a review of the Council's publication to ascertain whether it included elements prescribed in legislation. I also assessed whether the arrangements for publishing the assessment complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing it.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.

### **Huw Vaughan Thomas**

Auditor General For Wales

CC: Leighton Andrews, Minister for Public Services  
Non Jenkins, Manager  
Dave Wilson, Performance Audit Lead



# Appendix 5 – National report recommendations 2015-16

Date of report	Title of review	Recommendation
April 2015	<p><b>The Financial resilience of Councils in Wales</b></p>	<p>R1 Councils should ensure that their corporate plan:</p> <ul style="list-style-type: none"> <li>• is the core driver for the service plans and other supporting strategies including workforce, information technology and capital expenditure;</li> <li>• maintains at least a three to five year forward view and is aligned with the medium term financial plan and other supporting strategies; and</li> <li>• should clearly articulate the desired role of the council in five years - the model for delivering priority services and the infrastructure and resources needed to deliver future priorities within available finances.</li> </ul> <p>R2 The medium term financial plan should identify the major financial risks and key assumptions and senior officers and councillors should subject them to effective scrutiny and challenge before adopting the plan.</p> <p>R3 Councils need to ensure that funding deficits are accurately projected and fully reconciled to detailed savings plans for each year over the life of the medium term financial plan.</p> <p>R4 Councils should review the adequacy of the financial assurance arrangements that underpin the delivery of annual savings plans, including the level of scrutiny and challenge provided by councillors.</p> <p>R5 Councils should ensure that they have a comprehensive reserves strategy that outlines the specific purpose of accumulated useable reserves as part of their Medium term Financial Plan.</p> <p>R6 Councils should develop corporate wide policies on income generation with a view to increasing revenue streams and relieving financial pressures.</p> <p>R7 Councils should:</p> <ul style="list-style-type: none"> <li>• strengthen budget setting and monitoring arrangements to ensure financial resilience; and</li> <li>• review the coverage and effectiveness of their internal and external assurance financial systems and controls to ensure they are fit for purpose and provide early warning of weaknesses in key systems.</li> </ul>

Date of report	Title of review	Recommendation
April 2015	<p>The Financial resilience of Councils in Wales</p>	<p>R8 Councils must review their finance teams and ensure that they have sufficient capacity and capability to meet future demands.</p> <p>R9 Council officers need to equip councillors with the knowledge and skills they need to deliver effective governance and challenge by extending training opportunities and producing high quality management information.</p>
June 2015	<p>Achieving improvement in support to schools through regional education consortia – an early view.</p>	<p>R1 To clarify the nature and operation of consortia. We found there to be continuing uncertainty about some aspects of the nature of regional consortia and their present and future scope (paragraphs 2.2 to 2.20). We therefore recommend:</p> <ul style="list-style-type: none"> <li>Local authorities should clarify whether consortia services are jointly provided or are commissioned services (services provided under joint-committee arrangements are jointly provided services and are not commissioned services).</li> </ul> <p>R2 To focus on outcomes through medium-term planning. We found that the development of effective regional consortia was hindered by a focus on short-term actions and uncertainty about the future of consortia (paragraphs 2.33 to 2.36; 3.16 to 3.17). We therefore recommend:</p> <ul style="list-style-type: none"> <li>As any possible local authority re-organisation will not be fully implemented until 2020, the Welsh Government and regional consortia should develop three-year plans for the further development, scope, and funding of regional consortia linked to appropriate strategic objectives.</li> </ul>

Date of report	Title of review	Recommendation
June 2015	<p>Achieving improvement in support to schools through regional education consortia – an early view.</p>	<p>R3 To develop more collaborative relationships for the school improvement system. The development of the National Model for Regional Working involved many school improvement partners but we found that this had not led to the development of sufficiently collaborative relationships (paragraphs 2.25 to 2.32). We therefore recommend:</p> <ul style="list-style-type: none"> <li>• Regional consortia should develop improved arrangements for sharing practice and supporting efficiency (for example, one consortium could take the lead on tackling an issue or have functional responsibility for the development of a policy).</li> <li>• The Welsh Government, local authorities and regional consortia should recognise the interdependency of all partners fulfilling their school improvement roles and agree an approach to: <ul style="list-style-type: none"> <li>– information sharing and consultation about developments related to school improvement;</li> <li>– developing collaborative relationships of shared accountability; and</li> <li>– undertaking system wide reviews, and an alignment of the understanding and position of regional consortia across all Welsh Government relevant strategies.</li> </ul> </li> </ul> <p>R4 To build effective leadership and attract top talent. Regional consortia, local authorities and the Welsh Government have all found difficulties in recruiting to senior leadership for education and we found there had been limited action to address this (paragraphs 2.37 to 2.40). We therefore recommend:</p> <ul style="list-style-type: none"> <li>• the Welsh Government and local authorities should collaborate to improve the attractiveness of education leadership roles to attract the most talented leaders for the school improvement system; and</li> <li>• local authorities should collaborate to support the professional development of senior leaders and to ensure appropriate performance management arrangements are in place for senior leaders.</li> </ul>

Date of report	Title of review	Recommendation
June 2015	<p>Achieving improvement in support to schools through regional education consortia – an early view.</p>	<p>R5 To improve the effectiveness of governance and management of regional consortia. Whilst continuing progress is being made, we found that regional consortia have not yet developed fully effective governance and financial management arrangements (paragraphs 3.2 to 3.36). We therefore recommend that local authorities and their regional consortia should:</p> <ul style="list-style-type: none"> <li>• improve their use of self-evaluation of their performance and governance arrangements and use this to support business planning and their annual reviews of governance to inform their annual governance statements;</li> <li>• improve performance management including better business planning, use of clear and measurable performance measures, and the assessment of value for money;</li> <li>• make strategic risk management an integral part of their management arrangements and report regularly at joint committee or board level;</li> <li>• develop their financial management arrangements to ensure that budgeting, financial monitoring and reporting cover all relevant income and expenditure, including grants funding spent through local authorities;</li> <li>• develop joint scrutiny arrangements of the overall consortia as well as scrutiny of performance by individual authorities, which may involve establishment of a joint scrutiny committee or co-ordinated work by local authority scrutiny committees;</li> <li>• ensure the openness and transparency of consortia decision making and arrangements;</li> <li>• recognise and address any potential conflicts of interest; and where staff have more than one employer, regional consortia should ensure lines of accountability are clear and all staff are aware of the roles undertaken; and</li> <li>• develop robust communications strategies for engagement with all key stakeholders.</li> </ul>

Date of report	Title of review	Recommendation
July 2015	<p><b>Review of Corporate Safeguarding Arrangements in Welsh Councils</b></p>	<p>R1 Improve corporate leadership and comply with Welsh Government policy on safeguarding through:</p> <ul style="list-style-type: none"> <li>• the appointment of a senior lead officer who is accountable for safeguarding and protecting children and young people with corporate responsibilities for planning improvements;</li> <li>• the appointment of a lead member for safeguarding; and</li> <li>• regularly disseminating and updating information on these appointments to all staff and stakeholders.</li> </ul> <p>R2 Ensure there is a corporate-wide policy on safeguarding covering all Council services to provide a clear strategic direction and clear lines of accountability across the Council.</p> <p>R3 Strengthen safe recruitment of staff and volunteers by:</p> <ul style="list-style-type: none"> <li>• ensuring that Disclosure and Barring Service (DBS) checks and compliance with safe recruitment policies cover all services that come into contact with children;</li> <li>• creating an integrated corporate compliance system to record and monitor compliance levels on DBS checks; and</li> <li>• requiring safe recruitment practices amongst partners in the third sector and for volunteers who provide services commissioned and/or used by the Council which are underpinned by a contract or service level agreement.</li> </ul> <p>R4 Ensure all relevant staff, members and partners understand their safeguarding responsibilities by:</p> <ul style="list-style-type: none"> <li>• ensuring safeguarding training is mandated and coverage extended to all relevant Council service areas, and is included as standard on induction programmes;</li> <li>• creating a corporate-wide system to identify, track and monitor compliance on attending safeguarding training in all Council departments, elected members, schools, governors and volunteers; and</li> <li>• requiring relevant staff in partner organisations who are commissioned to work for the Council in delivering services to children and young people to undertake safeguarding training.</li> </ul>

Date of report	Title of review	Recommendation
July 2015	<p>Review of Corporate Safeguarding Arrangements in Welsh Councils</p>	<p>R5 In revising guidance, the Welsh Government should clarify its expectations of local authorities regarding the roles and responsibilities of the designated officer within education services, and the named person at senior management level responsible for promoting the safeguarding.</p> <p>R6 Improve accountability for corporate safeguarding by regularly reporting safeguarding issues and assurances to scrutiny committee(s) against a balanced and Council-wide set of performance information covering:</p> <ul style="list-style-type: none"> <li>• benchmarking and comparisons with others;</li> <li>• conclusions of internal and external audit/ inspection reviews;</li> <li>• service-based performance data;</li> <li>• key personnel data such as safeguarding training, and DBS recruitment checks; and</li> <li>• the performance of contractors and commissioned services on compliance with Council safeguarding responsibilities.</li> </ul> <p>R7 Establish a rolling programme of internal audit reviews to undertake systems testing and compliance reviews on the Council's safeguarding practices.</p> <p>R8 Ensure the risks associated with safeguarding are considered at both a corporate and service level in developing and agreeing risk management plans across the Council.</p>

Date of report	Title of review	Recommendation
October 2015	Supporting the Independence of Older People: Are Councils Doing Enough?	<p>R1 Improve governance, accountability and corporate leadership on older people's issues through:</p> <ul style="list-style-type: none"> <li>• the appointment of a senior lead officer who is accountable for coordinating and leading the Council's work on older people's services;</li> <li>• realigning the work of the older people's strategy coordinators to support development and delivery of plans for services that contribute to the independence of older people;</li> <li>• the appointment of a member champion for older people's services; and</li> <li>• regularly disseminating and updating information on these appointments to all staff and stakeholders.</li> </ul> <p>R2 Improve strategic planning and better coordinate activity for services to older people by:</p> <ul style="list-style-type: none"> <li>• ensuring comprehensive action plans are in place that cover the work of all relevant council departments and the work of external stakeholders outside of health and social care; and</li> <li>• engaging with residents and partners in the development of plans, and in developing and agreeing priorities.</li> </ul> <p>R3 Improve engagement with, and dissemination of, information to older people by ensuring advice and information services are appropriately configured and meet the needs of the recipients.</p> <p>R4 Ensure effective management of performance for the range of services that support older people to live independently by:</p> <ul style="list-style-type: none"> <li>• setting appropriate measures to enable Members, officers and the public to judge progress in delivering actions for all council services;</li> <li>• ensuring performance information covers the work of all relevant agencies and especially those outside of health and social services; and</li> <li>• establishing measures to judge inputs, outputs and impact to be able to understand the effect of budget cuts and support oversight and scrutiny.</li> </ul>

Date of report	Title of review	Recommendation
October 2015	<p>Supporting the Independence of Older People: Are Councils Doing Enough?</p>	<p>R5 Ensure compliance with the Public Sector Equality Duty when undertaking equality impact assessments by:</p> <ul style="list-style-type: none"> <li>• setting out how changes to services or cuts in budgets will affect groups with protected characteristics;</li> <li>• quantifying the potential impact and the mitigation actions that will be delivered to reduce the potentially negative effect on groups with protected characteristics;</li> <li>• indicating the potential numbers who would be affected by the proposed changes or new policy by identifying the impact on those with protected characteristics; and</li> <li>• ensuring supporting activity such as surveys, focus groups and information campaigns includes sufficient information to enable service users to clearly understand the impact of proposed changes on them.</li> </ul> <p>R6 Improve the management and impact of the Intermediate Care Fund by:</p> <ul style="list-style-type: none"> <li>• setting a performance baseline at the start of projects to be able to judge the impact of these overtime;</li> <li>• agreeing the format and coverage of monitoring reports to enable funded projects to be evaluated on a like-for-like basis against the criteria for the fund, to judge which are having the greatest positive impact and how many schemes have been mainstreamed into core funding; and</li> <li>• improving engagement with the full range of partners to ensure as wide a range of partners are encouraged to participate in future initiatives and programmes.</li> </ul>



Date of report	Title of review	Recommendation
December 2015	Delivering with less - leisure services	<p>R1 Improve strategic planning in leisure services by:</p> <ul style="list-style-type: none"> <li>• setting an agreed council vision for leisure services;</li> <li>• agreeing priorities for leisure services;</li> <li>• focusing on the Council's position within the wider community sport and leisure provision within the area; and</li> <li>• considering the potential to deliver services on a regional basis.</li> </ul> <p>R2 Undertake an options appraisal to identify the most appropriate delivery model based on the Council's agreed vision and priorities for leisure services which considers:</p> <ul style="list-style-type: none"> <li>• the availability of capital and revenue financing in the next three-to-five years;</li> <li>• options to improve the commercial focus of leisure services;</li> <li>• opportunities to improve income generation and reduce council 'subsidy';</li> <li>• a cost-benefit analysis of all the options available to deliver leisure services in the future;</li> <li>• the contribution of leisure services to the Council's wider public health role;</li> <li>• better engagement with the public to ensure the views and needs of users and potential users are clearly identified;</li> <li>• the impact of different options on groups with protected characteristics under the public sector equality duty; and</li> <li>• the sustainability of service provision in the future.</li> </ul>

Date of report	Title of review	Recommendation
December 2015	Delivering with less - leisure services	<p>R3 Ensure effective management of performance of leisure services by establishing a suite of measures to allow officers, Members and citizens to judge inputs, outputs and impact. This should cover council-wide and facility specific performance and include:</p> <ul style="list-style-type: none"> <li>• capital and revenue expenditure;</li> <li>• income;</li> <li>• council 'subsidy';</li> <li>• quality of facilities and the service provided;</li> <li>• customer satisfaction;</li> <li>• success of 'new commercial' initiatives;</li> <li>• usage data – numbers using services/facilities, time of usage, etc; and</li> <li>• impact of leisure in addressing public health priorities.</li> </ul> <p>R4 Improve governance, accountability and corporate leadership on leisure services by:</p> <ul style="list-style-type: none"> <li>• regularly reporting performance to scrutiny committee(s);</li> <li>• providing elected Members with comprehensive information to facilitate robust decision-making;</li> <li>• benchmarking and comparing performance with others; and</li> <li>• using the findings of internal and external audit/inspection reviews to identify opportunities to improve services.</li> </ul>



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## Performance Management – Corporate Assessment Follow-on Review

### **Monmouthshire County Council**

**Audit year:** 2015-16

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# Status of report

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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.

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The team who delivered the work comprised Dave Wilson, Phil Morgan and Emily Owen.

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# Summary report

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## Summary

1. Effectively managing performance is key to helping councils deliver improvement, demonstrate that they are delivering efficient and effective services, and are making the best use of resources. All staff and members in Monmouthshire County Council (the Council) have a role to play in managing performance. For example:
  - members need good-quality performance information to make well-informed decisions, scrutinise performance, and identify areas for improvement;
  - targets provide a clear indication of where the Council intends to improve and should be in line with its Improvement Plan and priorities;
  - performance monitoring and management provide an indication of whether plans are being delivered, and what corrective action is required to address any underperformance;
  - self-evaluation and review of activity form an important part of continuous improvement; and
  - a sound performance management framework supports consistency of approach and shared learning across the organisation.
2. In March 2015, the Wales Audit Office carried out a Corporate Assessment at the Council. We published the findings from the Corporate Assessment in our Annual Improvement Report in November 2015. In respect of performance management, our review considered whether the Council was effectively managing its improvement programme.
3. Our Corporate Assessment concluded that whilst systems, procedures and guidance were in place, the Council was not consistently managing performance, improvement and risks. We came to this conclusion because:
  - the Council had discharged its improvement planning duties under the Local Government Measure; however, more needed to be done to strengthen arrangements to support robust and effective decision making and improvement; and
  - the Council's performance management arrangements were getting better and needed further development to fully support robust and effective decision making and improvement.



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4. Performance management was relevant to several sections of the Corporate Assessment. For example, we examined how the Council defined its vision and ambition in strategic plans, how the Council held partners to account by setting clear targets, and how the Council could demonstrate progress against its improvement objectives.
5. In our Annual Improvement Report 2014-15, where we summarised the findings from the Corporate Assessment, we made the following proposal for improvement relating specifically to performance management:
- Improve strategic planning by:
    - ensuring clear links between strategies and agreed priorities; and
    - developing cohesive strategies to underpin and support robust decision making.
  - Further develop and embed performance management arrangements to allow the Council to hold partners to account and to support the Local Service Board (LSB) to deliver its plans.
  - Improve performance management arrangements by:
    - ensuring planned improvements are tangible;
    - improving target setting to better reflect desired improvement and ensuring resources are allocated to deliver Council priorities through the Medium Term Financial Plan (MTFP);
    - developing arrangements to identify intended outcomes, targets and data collection arrangements when services are being delivered through alternative models; and
    - improving data quality arrangements to ensure that performance reporting is accurate and that decisions are made based on robust information.

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6. The Well-being of Future Generations (Wales) Act 2015 (the Act) requires each public body to carry out sustainable development and to set, publish, and take all reasonable steps towards achieving objectives, designed to maximise its contribution to achieving each of the national wellbeing goals<sup>1</sup>. Each public body is also required to act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. In 2015, the Council requested that the Auditor General undertook a review of the Council's preparedness for the proposed Act as part of the support provided under the Welsh Local Government Association's Early Adopters' Programme<sup>2</sup>. In respect of improvement planning and reporting, we concluded that 'despite the prominence given in the Council's Improvement Plan to the Future Generations Bill<sup>3</sup>, and other corporate initiatives to strengthen the Council's desire to embed sustainability issues, its improvement planning and reporting was not yet effectively supporting its ambition to make sustainable development central to the way the Council operates.'
  7. In January 2016, we reviewed the Council's progress in improving its performance management arrangements, including effectively addressing issues raised in the 2015 Corporate Assessment around performance management.
  8. We concluded that the Council has continued to improve its performance management arrangements, and recognises that it has more to do to ensure consistent application of corporate arrangements and to address the requirements of the Act.

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<sup>1</sup> The seven wellbeing goals in the Act are:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities
- A Wales of vibrant culture and thriving Welsh language
- A globally responsible Wales

<sup>2</sup> The Early Adopters' Programme of the Welsh Local Government Association helps councils consider their preparedness for the Act.

<sup>3</sup> The Future Generations Bill was a draft of the proposed law presented for approval to the National Assembly for Wales about how public bodies are organised to improve wellbeing in accordance with the sustainable development principle. Having been passed by the National Assembly for Wales and having received Royal assent, it is enacted and is the Well-being of Future Generations (Wales) Act 2015.

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## Proposals for improvement

9. We have made the following additional proposals for improvement that recognise the progress made by the Council and reflect emerging issues.

P1	Develop a high-level, strategic approach linking the Council's sustainable development principle duties under the Act to its strategic vision, overall direction of travel, and the developing local wellbeing plan under the Act.
P2	Demonstrate clearly the links between the Council's strategies and service plans to show how actions will deliver its strategic targets and outcomes.
P3	Set out clearly the financial implications of the Council's service changes within its service improvement plans.
P4	Implement improvements to the budget setting and service planning processes to address weaknesses identified through heads of service challenge sessions.
P5	Review the effectiveness of the data hub in monitoring and managing performance.
P6	Ensure new Public Service Board delivery plans clearly set out relevant actions and resources needed to deliver shared priorities so that each partner, including the Council, is clear what is expected of them.
P7	Ensure accurate data collection and reporting.

# Detailed report

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The Council has continued to improve its performance management arrangements, and recognises that it has more to do to ensure a consistent application of corporate arrangements, and to address the requirements of the Well-being of Future Generations (Wales) Act 2015

The Council continues to improve the way it manages performance, although, implementation of corporate arrangements is still not consistent, and its arrangements will need further development to incorporate the requirements of the Well-being of Future Generations (Wales) Act 2015

The Council is committed to improving its performance management arrangements

10. The Council has responded positively to our conclusions and proposals for improvement following the Corporate Assessment in 2015. In January 2016, it presented our Annual Improvement Report 2014-15 that incorporated the findings from the Corporate Assessment, and its response to the proposals for improvement, to Cabinet and Audit Committee.
11. The Council has committed to the following actions to improve performance management:
  - Develop the future business model for the Council by March 2016.
  - Ensure the Council's key delivery strategies (Improvement Plan, MTFP, People Strategy, Asset Management Plan and iCounty) all align to the business model by June 2016.
  - Develop a work programme for the next round of the Single Integrated Plan Performance Group by March 2016.
  - Hold member training sessions on scrutinising partnership activity by March 2016.
  - Complete the transition of the LSB to a Public Service board (PSB) by April 2016.
  - Ensure that feedback from residents and regulators is used in developing the Council's annual Improvement Plan by May 2016.
  - Continue to quality assure the Council's performance measurement database to ensure target changes are captured, and an audit trail of changes maintained. Timescale is stated as 'ongoing'.

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- Strengthen target setting arrangements, and revise and recirculate target setting guidance by April 2016.
  - Allocate Internal Audit time appropriately to focus on the data systems underpinning data, as well as the accuracy of the outputs of the data, by May 2016.
  - Implement a policy development and evaluation framework and timetable by June 2016.

These actions indicate a positive and prompt response to the Corporate Assessment proposals for improvement related to performance management.

12. The Council also carried out a self-assessment of the effectiveness of its performance management arrangements and reported this to its Audit Committee in December 2015. For each main element of the improvement framework, officers attributed a subjective rating<sup>4</sup>. The Council rated itself as 'very good' for delivery of the Welsh Government Outcome Agreement<sup>5</sup>; 'good' for improvement planning, service planning, performance data and self-evaluation; and 'adequate' for staff appraisal and risk assessment.

**The Council has started to make better links between strategies and to prepare to meet its responsibilities under the Act**

13. We concluded in the 2015 Corporate Assessment, that 'the Council had a clearly articulated vision and sense of purpose that took account of its local context, but needed to be supported by a coherent organisational strategy to drive change and deliver its ambition.'
14. In our recent review of the Council's progress in improving its performance management arrangements, we found that the Council had sought to strengthen its strategic planning.
15. The Council's Conservative and Liberal Democrat groups produced a Partnership Continuation Agreement in February 2015, setting the agreed political direction of the Council for the period up to May 2017 when the next local authority elections will take place. These are education, safeguarding vulnerable people, and supporting local businesses and job creation. Since the Partnership Continuation Agreement was agreed, the Council has approved its Improvement Plan for 2015-17 and a MTFP that sets out how the Council plans to use its financial resources.

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<sup>4</sup> The six-point rating is as follows: 1 = unsatisfactory, 2 = weak, 3 = adequate, 4 = good, 5 = very good and 6 = excellent.

<sup>5</sup> Monmouthshire County Council signed a three year Outcome Agreement with Welsh Government (2013/16). This sets stretching targets and milestones, working towards the issues of national importance as described in Wales' Programme for Government, and matches them against objectives set locally.

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16. The Council published its Improvement Plan 2015-2017 on 20 May 2015. The plan is in accordance with section 17 of the Local Government (Wales) Measure 2009, incorporates the additional improvement priority 'maintaining locally accessible services' set out in the Partnership Continuation Agreement, is well structured, and provides the reader with a range of data showing the Council's recent and planned performance. Inevitably, opportunities to make the Improvement Plan more informative exist. For example, it is sometimes unclear in the plan how actions support delivery of specific improvement priorities, or how selected performance indicators will help measure success. In addition, some targets for 2016-17 suggest lower performance than was achieved in previous years; it is therefore unclear how these targets represent improvement.
  17. The Council updates its MTFP throughout the budget setting process every year to reflect changes in funding, budget pressures, and savings proposals. This provides the Council with an up-to-date analysis of its future spending plans. The MTFP and the Improvement Plan are the key strategic plans for the Council that deliver commitments made in the Partnership Continuation Agreement.
  18. The Council is developing a future business model setting out how it will deliver services, and it plans to align its other key strategies such as the People Strategy, Asset Management Plan and iCounty with the new business model by June 2016. Where managers develop new strategies, they are expected to identify resource implications and, where relevant, complete a 'pressure mandate' showing the impact on the MTFP.
  19. In October 2015, the Council approved the Income Optimisation Strategy, and Youth Service – Not in Education, Employment and Training (NEET) Reduction Strategy. Both of these documents refer to the Improvement Plan 2015-17, the People and Organisational Development Strategy (People Strategy), and other relevant strategies. The Income Maximisation Strategy makes clear links to the MTFP. The NEET strategy does not refer to the MTFP. This shows that as the Council develops new strategies, it is starting to make connections between key related strategies, which will help it better coordinate delivery of improvement objectives.
  20. The Council is at an early stage in developing its approach to meeting its responsibilities under the Act. It has not yet developed a high-level, strategic approach linking its sustainable development principle duties under the Act to its strategic vision and overall direction of travel. The Council has, however, developed a checklist designed to prompt managers to consider key aspects of the act when developing new policies and strategies.

The Council's performance management arrangements are not implemented fully or consistently across the organisation to support implementation of its key strategies

21. It is important that strategies provide a clear direction to support a council's service delivery, and that clear links are made between strategies; however, the Council's strategies do not always set clear direction for improved service delivery.

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- 22.** The Council's Improvement Plan 2015-2017 describes the Asset Management Plan, MTFP, People Strategy, Local Development Plan, and iCounty as key strategies to 'mobilise assets to improve services'. The People Strategy makes clear links with the other Council strategies such as the Asset Management Plan, iCounty, and the Improvement Plan 2015-2017. In addition, the People Strategy makes clear links with service improvement plans that will support its delivery; however, the Council's Income Optimisation and the NEET Reduction strategies do not refer to their directorate's service improvement plans. The Income Optimisation Strategy includes no specific targets and success measures setting the intended outcomes from the strategy. The NEET reduction strategy includes two performance indicators that provide a focus for service delivery, and the NEET Strategy Action Plan 2015-16 describes the actions the service will take to deliver the NEET reduction strategy, although, some are not SMART<sup>6</sup>. The absence of consistently clear targets and actions make it difficult for managers to develop robust service plans to deliver the strategies.
- 23.** The Council has directorate service plans underpinning its strategies. The Corporate Performance Team provides directorates with a standard service plan template, and the Performance Team oversees the plans, as they develop, to ensure a consistent approach and ensure managers address key issues when planning service changes. The template includes sections covering an evaluation of the previous year's performance, actions for the duration of the service plan, a balanced scorecard, and risks. We reviewed two service improvement plans that supported two new strategies the Council had approved since our Corporate Assessment in March 2015. We found that the Youth Service and Head of Finance service improvement plans used the corporate template and all sections of the template were populated. Both plans referred to the Council's Improvement Plan 2015-2017, although, only the Head of Finance service plan referred to the MTFP.
- 24.** The Council expects managers to assess the resources they need to deliver service plans. Whilst in most cases these will be from within existing budgets, any extra costs will need to be considered during the decision-making process. Senior managers and corporate services have a role in overseeing the quality of service plans and challenging the deliverability and resource implications of proposed service changes. However, neither the Youth Service nor Finance Service plans identified actual costs needed to deliver the plans, nor the need for additional resources. Nevertheless, both plans did indicate where costs would be met from – generally existing budgets or external sources such as grants, suggesting that there were cost implications of delivering the plans.

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<sup>6</sup> SMART is the acronym for Smart, Measureable, Achievable, Realistic and Timely – key elements for measuring deliverability of actions.

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- 25.** Members and senior managers are able to monitor performance and implementation of service plans via the Council's data hub<sup>7</sup>. The Corporate Performance Team and operational managers update this system regularly. The data hub is also able to provide tailored reports to meet the users' needs. The Leader of the Council routinely uses the data hub to challenge, monitor and manage performance, which demonstrates the potential benefits of the system. However, the take up of tailored reports by other members and managers was low and is not encouraged by the Council, suggesting that the potential benefits of the system are not maximised by the Council.
- 26.** Officers routinely report progress on delivering the budget and performance improvements to members to challenge performance and inform when and how the Council should take corrective action. The messages from the separate finance and performance reports are not clear and consistent. For example, performance reports presented to Cabinet cover the Council's progress in delivering targets. The Council's finance reports presented to Cabinet cover budget pressures and how these are to be managed. A joint report would help to show both financial performance alongside achievement of improved performance at a directorate level.
- 27.** During 2015, the Council held a series of heads of service challenge sessions<sup>8</sup>. These sessions included a thorough discussion on both financial and performance progress, ensuring that each of the Council's services was subject to detailed challenge once during the year. The sessions also provided an opportunity for managers and members to understand the reasons for budget pressures or lower-than-expected performance, and to identify ways in which they can improve the effectiveness and robustness of budget setting and service planning processes. For example, these sessions provided an opportunity to help the Council understand why the Youth Service or Finance Service plans did not include the actual costs needed to deliver planned service changes.

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<sup>7</sup> The data hub is a council-wide system that enables members and officers to track and monitor performance data and activity.

<sup>8</sup> The Leader of the Council, Chief Executive and Cabinet members attend heads of service challenge sessions which are intended to evaluate and challenge performance in service areas and increase ownership and accountability for service improvement.



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The Council continues to improve the way it manages the performance of its partnership working, but areas for improvement remain in how it measures outcomes and identifies resources needed to deliver improvements

The Council plays an effective role in planning improvement through partners

28. Our 2015 Corporate Assessment proposed that the Council should ‘further develop and embed performance management arrangements to allow the Council to hold partners to account and to support the Local service Board (LSB) to deliver its plans.’
29. From April 2016, as required by the Act, LSBs across Wales have been replaced by PSBs. PSBs bring together key partners within each county across Wales. The PSB must prepare and publish a wellbeing plan (which replaces the LSB’s previous statutory Single Integrated Plan (SIP) for the county) no later than 12 months from the next local government election in May 2017. The wellbeing plans must set out how the objectives of each PSB will contribute to achieving the national wellbeing goals as set out by the Act. The new wellbeing plans must also set out how they have had regard to the Assessment of Local Well-being<sup>9</sup> undertaken locally in setting objectives. Whilst the responsibilities of the new PSBs in comparison with the previous LSBs have changed, Monmouthshire’s PSB support arrangements remain largely the same as those for its previous LSB. As such, messages from our 2015 Corporate Assessment remain equally relevant to the Council and the new PSB.
30. In 2016, we reviewed progress made by the Council to improve the way it manages performance when working in partnership with other organisations. Our fieldwork was undertaken during January 2016 when the county’s LSB was still in being, and the new PSB, required by the Act, had not yet been established. However, the Council can learn from the work of the LSB in informing the effectiveness of the new PSB.

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<sup>9</sup> Assessment of Local Well-being’ must include:

- Which communities comprise the area
- Analysis of the state of wellbeing of each county as a whole
- Analysis of state of wellbeing of each community (ward profiles)
- Predictions of likely future trends in the economic, social and environmental wellbeing of the area
- Any other related analytical data and information that the PSB considers appropriate

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- 31.** Our review found that the Council played a key role in helping the LSB to function effectively. The Council's Chief Executive chaired LSB meetings, Council staff provided administrative support to the LSB and the Council website provided information to the public on the LSB's priorities.
  - 32.** The strategic direction of partnership working through the LSB was set out in the SIP. The Council's Improvement Plan 2015-17 reflected the SIP themes, therefore, the Council's aims were consistent with those of its partners. Once the PSB has clarified its priorities within the wellbeing plan, the Council will need to consider whether its own aims and improvement objectives under the new Act are consistent with the PSB priorities.
  - 33.** The LSB agreed a set of performance indicators to measure progress against the SIP at its meeting in April 2015. This clarified the extent of the LSB's ambition, provided a focus for SIP delivery plans, and helped the LSB measure progress and hold those responsible for delivery to account. The PSB will need to undertake a similar exercise to agree a set of performance measures to monitor and manage its progress in achieving its priorities and outcomes. The Council will also need to review its own priorities and service delivery arrangements to ensure it can deliver its responsibilities to effectively support the delivery of the wider PSB's wellbeing plan. However, our review found that processes essential to effective implementation of shared priorities between the LSB partners within the county were not fully developed and will need further development to reflect the responsibilities of the new PSB.
  - 34.** Six LSB delivery plans underpinned the SIP. Our 2015 Corporate Assessment found that LSB delivery plans were in their early stages of development. Our 2016 review identified that the LSB had further developed delivery plans, but noted a lack of consistency in their content, and poor links between its LSB objectives and performance indicators chosen to measure progress and impact of delivery. Five of the LSB delivery plans followed an agreed format, but it was the Families First Programme delivery plan, which did not follow the agreed format, that provided the clearest links to planned outcomes.
  - 35.** In addition, in some of the LSB's delivery plans, which followed the corporate template, the information set out in columns headed 'how much/often/well' did not provide robust performance information. For example, this section sometimes referred to ongoing activities and outputs, rather than future measures of success. Once the PSB has agreed its priorities, it will need to learn from the LSB's experience and develop more robust plans to support delivery of its priorities.
  - 36.** The Council is taking action to improve the way it manages partnership performance. It plans to better integrate the management of partnership performance with its own performance management framework. For example, by developing a specific section on the Council's data hub dedicated to partnership performance, intended to improve the links between LSB delivery plans and Council service plans. The Council's heads of service have reviewed the LSB delivery plans to ensure that they and Council service plans align, and will need to do similar for the new PSB delivery plans.

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- 37.** In the past, the LSB did not effectively co-ordinate the use of collective resources to deliver the SIP. As in most LSBs, individual organisations managed their own resources to deliver their responsibilities within LSB delivery plans; this resulted in the LSB having a minimal appreciation of the overall resources needed to deliver the shared priorities. There was often a lack of discussion about collective resource implications and this resulted in a lack of reference to resources within LSB delivery plans. As the PSB develops, it will need to define clearly the resources needed to deliver its wellbeing plan – as a whole, per delivery plan, and per partner, particularly as resources become tighter.

**Although the Council has taken action to improve the accuracy and quality of its performance data, these actions have not yet been fully effective**

**The Council continues to evaluate the effectiveness of its performance reporting**

- 38.** The Council has put in place arrangements to improve the accuracy of data that it uses to manage and monitor performance. It has issued guidance to staff on collecting data on local performance and use of corporate data pro formas. In addition, its guidance on completing national performance indicators includes deadlines and standard pro formas.
- 39.** The Council's Internal Audit team reviews the quality of the Council's performance data collection processes and accuracy of data. In early 2015, the Internal Audit report on data quality concluded that:
- there was evidence of completion and authorisation of the Council's calculation pro forma for each performance indicator;
  - most of the indicators reviewed were calculated accurately;
  - all except two performance indicators met the publishing deadline;
  - there were some issues with interpretation of definitions;
  - no problems were noted in the storage and transfer of data; and
  - the overall error rate was 10.4 per cent – eight calculation errors were noted.
- 40.** Based on its findings, Internal Audit gave an overall audit opinion of 'good' and made 10 recommendations.

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### Sample testing continues to identify errors in reported performance data

**41.** As part of our 2016 review, we reviewed seven performance indicators; one that we reviewed in 2015 that had then been reported inaccurately (SCC/025) and six more. Of the seven performance indicators, we found no errors in the reporting of the following:

- SCC004 Looked After Children with three or more placements
- Jobs created (local performance indicator)
- NEETs (local performance indicator)
- Staff Appraisal (CICO) completion (local performance indicator)

**42.** We found errors in the reporting of the following:

- SCC025 Statutory Visits – Staff do not always update records promptly. Therefore, some data input after the performance indicator deadline was not included in the original data submission to the Data Unit Wales. The reported data was therefore inaccurate.
- CHR002 Sickness Absence – Significant undercounting of sickness absence resulting in inaccurately reported data.
- LCS002b Leisure Centre visits – An error in the collation of the data resulted in the Council inaccurately reporting the number of visits to leisure centres.



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## Management response

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**Report title:** Performance Management – Corporate Assessment Follow-on Review

**Authority:** Monmouthshire County Council

**Issued:** July 2016

**Document reference:**

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## Proposals for improvement

Ref	Proposal for improvement	Intended outcome/ benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
P1 Page 218	Develop a high-level, strategic approach linking the Council's sustainable development principle duties under the Act to its strategic vision, overall direction of travel and the developing local well-being plan under the Well-being of Future Generations (Wales) Act 2015.	The Council's performance management arrangements will reflect the requirements of the Well-being of Future Generations (Wales) Act 2015 and they will become integral to strategic and service planning.		Accepted	The council has now adopted a new sustainable development policy and incorporated this into its policy framework. This will ensure greater alignment of future programmes to The Act. During 2016-2017 we are undertaking two substantial assessments of need and wellbeing within the County as a consequence of the Wellbeing of Future Generations Act and the Social Services and Well-being Act. The information that is gained during this work will provide a much deeper evidence base and inform the development of the council's well-being objectives by 31st March 2017 and will form the basis of a high level strategic approach to fulfil our duties under the Act.	March 2017	Will Mclean



Ref	Proposal for improvement	Intended outcome/benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
P2	Demonstrate clearly the links between the Council's strategies and service plans to show how actions will deliver its strategic targets and outcomes.	The Council will better coordinated its actions to improve delivery of its priorities.	✓	Accepted	In May 2016 Cabinet agreed to commission a strategic programme of whole-authority work called 'Future Monmouthshire'. That will see the development of a new operating model for the Council in order to equip it to meet its goals amidst increasing change and uncertainty. The new operating model will have a clear purpose: to create solutions to some of the county's biggest challenges. Linked to this work we will ensure the council's key delivery strategies (Improvement Plan, MTFP, People Strategy, Asset Management Plan and iCounty) all align to the business model.	Timescale will be informed by Future Monmouthshire	SLT
P3	Set out clearly the financial implications of the Council's service changes within its service improvement plans.	The Council will understand the cost of delivering service improvement plans during the decision making process.	✓	Accepted	Service Improvement Plans already have a column to indicate where costs will be met from. These plans are not used by elected members to make decisions and more detailed cost information would need to be provided prior to a decision of Cabinet or Council. Service improvement planning guidance for managers' will be revised to ensure clear requirements on completing financial implications of actions identified in service improvement plans.	March 2017	Matthew Gatehouse

Ref	Proposal for improvement	Intended outcome/benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
P4	Implement improvements to the budget setting and service planning processes to address weaknesses identified through heads of service challenge sessions.	Budget setting and service planning processes will be improved through internal learning and challenge.	✓	Not accepted	<p>Our focus is on using learning from the head of service challenges undertaken to implement future strategic challenge programmes as part of the Future Monmouthshire programme of work and aligning these more closely with budget setting process and our responsibilities under the Well-being of Future Generations Act.</p> <p>As a fundamental part of Future Monmouthshire we have comprehensively reviewed and refreshed the budget setting process for 2017/18.</p>		No new action required.
P5	Review the effectiveness of the data hub in monitoring and managing performance.	The data hub will provide better management information at little additional cost.		Not accepted.	<p>Since we developed the authority-wide performance measurement system for the Council, the “data hub” it has enabled members and officers to track and monitor key data at any point in time from key strategic plans to directorate level “dashboards”. We have always recognised the need to continue to ensure the information on the hub is easily accessible to as wide a range of audience as possible to ensure it is fully utilised by those who need it and have and will continue to review its effectiveness and iterate its design.</p>	Ongoing	Matthew Gatehouse

Ref	Proposal for improvement	Intended outcome/ benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
P6	Ensure new Public Service Board (PSB) delivery plans clearly set out relevant actions and resources needed to deliver shared priorities so that each partner, including the Council, is clear what is expected of them.	Action plans will be more likely to support delivery of PSB priorities	✓	Accepted	<p>Partnerships are reviewing their delivery plans for 2016/17 to provide a more focussed approach on key outcomes for the year. The Strategic Partnership Team will continue to work with partners to strengthen the clarity of delivery plans and monitoring of progress.</p> <p>In the medium term the development of the PSB's wellbeing plan by March 2018 will require the PSB to allocate and prioritise resources to meet their wellbeing objectives and establish clear delivery plans to achieve this.</p>	<p>March 2017</p> <p>Ongoing</p>	Sharran Lloyd
P7	Ensure accurate data collection and reporting.	Performance reporting is more accurate.	✓	Accepted	Continue to strengthen the data quality process using external and internal audit feedback and liaise with Internal Audit to allocate their time appropriately to identified risks in data quality arrangements	May 2017	Matthew Gatehouse

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<b>SUBJECT:</b>	<b>People Services Annual Report June 2016</b>
<b>MEETING:</b>	<b>Cabinet</b>
<b>DATE:</b>	<b>27 July 2016</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>None</b>

**1. PURPOSE:**

To present Cabinet with the first People Services Annual report for information and comment.

**2. RECOMMENDATION:**

Cabinet consider the contents of the first People Services Annual Report and identify any issues that they would like the People Services Team to consider going forward.

**3. KEY ISSUES:**

- 3.1 Our People are at the heart of everything we do. The collective purpose, passion and talents of our colleagues, on and off the payroll are the foundations to our success as a council and a county.
- 3.2 We believe that people join public service to make a difference and we have developed our people services in order to ensure that we are best placed to engage, support and develop our workforce , to ensure they are able to do just that, make a difference.
- 3.3 To provide clarity of purpose and direction we developed a People and Organisational Strategy, underpinned by an ambitious delivery work programme. We have reported progress against the strategy in 2015/16 and the attached People Services annual Report, June 2016, provides a summary of activity against our areas for improvement during the year.
- 3.4 We can be proud of what the service has achieved during the year and this will now form the base line for monitoring future activity. Bringing the different elements of People services together has delivered a more coherent, effective and efficient service organised around a common purpose.

**4. REASON:**

To provide cabinet with information regarding the activity of People Services against key areas identified in the Council's People and Organisational Strategy.

**5. RESOURCES:**

None

**6. SUSTAINABLE DEVELOPMENT AND EQUALITY IMPLICATIONS**

The People and Organisational Development strategy well – being of future generations assessment is attached, as appendix 2, which forms the basis of the activity which is reflected in the People Service’s Annual Report.

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# Agenda Item 12

## AUDIT COMMITTEE FORWARD WORK PROGRAMME

15TH SEPTEMBER 2016	
<i>Deadline for finalised reports to Cheryl – Thursday 1st September</i>	
<i>Finalised reports to Committee Section -Friday 2nd September</i>	
MCC Audited Accounts 2015/16 (formal approval)	WAO/Mark Howcroft/Jon Davies
ISA 260 report - MCC Accounts	WAO/Mark Howcroft/Jon Davies
Internal Audit Charter	Andrew Wathan
Internal Audit Progress report 2016/17 quarter 1	Andrew Wathan
Annual Improvement report - Direct	WAO (Matt Gatehouse)
Corporate Assessment follow up:Performance Management - Direct	Matt Gatehouse
People Services Annual Report & workforce plan - Direct	Peter Davies
Quarterly Monitoring of Reserves - qtr 1	Mark Howcroft
13TH OCTOBER 2016	
<i>Deadline for finalised reports to Cheryl –</i>	
<i>Finalised reports to Committee Section –</i>	
Review of MRP	
Audited Welsh Church Fund Trust Fund Accounts 2015/16	Mark Howcroft
Audited Monmouthshire Farm School Trust Fund Accounts 2015/16	Mark Howcroft
Audited Llanelly Hill Social Welfare Centre Trust Fund Accounts 2015/16	Mark Howcroft
ISA 260 reports - Trust Funds	WAO
Review of Human Resources	WAO
Information Technology	WAO
Whole Authority Complaints, Comments & Compliments report	Annette Evans
17TH NOVEMBER 2016	
<i>Deadline for finalised reports to Cheryl –</i>	

## AUDIT COMMITTEE FORWARD WORK PROGRAMME

<b><i>Finalised reports to Committee Section –</i></b>	
Half Yearly Treasury Update	Joy Robson
Quarterly Monitoring of Reserves	Joy Robson
Internal Audit progress report 2016/17 - quarter 2	Andrew Wathan
Unsatisfactory Audit Opinions	Andrew Wathan

<b>15TH DECEMBER 2016</b>	
<b><i>Deadline for finalised reports to Cheryl –</i></b>	
<b><i>Finalised reports to Committee Section –</i></b>	
Implementation of Audit Recommendations	Andrew Wathan
Update on Special Investigations	Andrew Wathan
Quarterly Monitoring of Reserves - Qtr 2	Mark Howcroft