

## Audit of Accounts Report – Rhondda Cynon Taf County Borough Council

Audit year: 2019-20

Date issued: November 2020

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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 Audit Wales at [infoofficer@audit.wales](mailto:infoofficer@audit.wales).

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

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We intend to issue an unqualified audit report on your Accounts. There are no issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with Director of Finance & Digital Services
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £8.3m for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
  - Senior Officer Salaries £1000
  - Related Parties £1000
- 6 We have now substantially completed this year's audit
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this Year's Audit

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

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

<b>Timetable</b>	<ul style="list-style-type: none"> <li>• The deadline for completion of the draft accounts was 15<sup>th</sup> June 2020</li> <li>• We received the draft accounts on 14 July 2020</li> <li>• We expect your audit report to be signed on 26<sup>th</sup> November 2020.</li> </ul>
<b>Electronic signatures</b>	<p>Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. We may need to use electronic signatures for this purpose. We will liaise with management to ensure arrangements are in place irrespective of the approach taken.</p>
<b>Audit evidence</b>	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> <li>• officers provided electronic working papers in accordance with our agreed Audit Deliverables Report;</li> <li>• officers provided audit evidence to the audit team via email or the shared folder accessible by auditors through the Council laptops;</li> <li>• officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and</li> </ul> <p>Audit Wales also secured remote read only access to the ledger system which enabled the audit team to run reports and view evidence.</p>
<b>Other</b>	<ul style="list-style-type: none"> <li>• Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit.</li> <li>• Video conference-based Audit Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance</li> </ul>

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

## Proposed Audit Opinion

- 11 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 14 Our proposed audit report is set out in **Appendix 2**
- 15 This audit report includes an emphasis of matter paragraph. The audit report also includes an Emphasis of Matter which draws attention to uncertainties, disclosed in note 4, arising from circumstances caused by the Covid-19 pandemic:
  - There are material valuation uncertainties at the end of the reporting period, relating to the carrying amounts of the Council's property; and
  - There are material valuation uncertainty clauses in the valuation reports on Pooled Property Funds held by the RCT Pension Fund. The disclosure relating to the material uncertainty in the council's share of pension assets was not included in the original draft accounts.

My opinion is not modified in respect of these matters.

## Significant Issues arising from the Audit

### Uncorrected misstatements

- 16 There is one uncorrected misstatement.
  - As in previous years, finance staff discussed with us their intention **not to consolidate** all their joint committee figures into RCT CBC's accounts, on the basis that these figures would not be material individually or collectively. We can confirm that this is the case, and consequently will have no impact upon our audit opinion. The Joint Committees not consolidated are Glamorgan Archives; Vale, Valleys and Cardiff Regional Adoption Collaborative; Coychurch Crematorium and Llwydcoed Crematorium.

## Corrected misstatements

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

## Other Significant Issues arising from the Audit

- 18 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.
- 19 Recommendations from our audit work will be taken to the audit committee.

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

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

[Date]

### Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of Rhondda Cynon Taf County Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

### Management representations

#### Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019-20; 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 the 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. A summary of these can be seen below;

- There is one uncorrected misstatement. As in previous years, finance staff do not intend to consolidate all their joint committee figures into RCT CBC's accounts, on

the basis that these figures would not be material individually or collectively. The Joint Committees not consolidated are Glamorgan Archives; Vale, Valleys and Cardiff Regional Adoption Collaborative; Coychurch Crematorium and Llwydcoed Crematorium

## **Representations by Rhondda Cynon Taf County Borough 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 Members of Rhondda Cynon Taf County Borough Council on 25 November 2020.

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]

Date:

# Appendix 2

## Proposed Audit Report

### The independent auditor's report of the Auditor General for Wales to the members of Rhondda Cynon Taf County Borough Council

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

##### Opinion

I have audited the financial statements of:

- Rhondda Cynon Taf County Borough Council

for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

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

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 2019-20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Rhondda Cynon Taf County Borough Council as at 31 March 2020 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

##### Basis for opinion

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

## **Emphasis of Matter – effects of Covid-19 on the Council's assets and property pension fund valuations**

I draw attention to Notes 4 to the financial statements, which describe material valuation uncertainty clauses in the valuation reports on the Council's property and on Pooled Property Funds held by the Rhondda Cynon Taf Pension Fund arising from circumstances caused by the Covid-19 pandemic. My opinion is not modified in respect of these matters.

## **Conclusions relating to going concern**

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

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

## **Other information**

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

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

## **Report on other requirements**

### **Opinion on other matters**

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

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and

the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20;

- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

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

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

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

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

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

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

### **Responsibilities**

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

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

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

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

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

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

Adrian Crompton  
For and on behalf of the Auditor General for Wales  
26 November 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of Corrections Made

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

**Exhibit 3: summary of corrections made**

Value of correction (£'000)	Nature of correction	Reason for correction
£8,300	Increase Capital commitment	To ensure the commitments are complete as the threshold that was originally used materially misstated the accounts
£8,910	Reclassified expenditure from cost of service to Other comprehensive expenditure.	To reflect CIPFA's guidance on the accounting treatment for change in estimate for the McCloud judgement.
£3,877	Increase in value of Infrastructure assets	The Council had derecognised assets incorrectly, this had further implications on the depreciation charged for the year relating to this asset.
£1,014	Derecognition of Infrastructure Assets	RCT are contributing towards a Welsh Government building and therefore cannot be recognised as the Council's asset.

Value of correction (£'000)	Nature of correction	Reason for correction
£5	Additional related party	In the process of our audit we identified a related party that had not been disclosed which needed to be included within the note.
N/A	Restated prior year Cost of Service	Due to the restructure, prior year figures need to be restated to comply with CIPFA code.
N/A	Various narrative and presentational changes.	To improve the users understanding of the accounts.





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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

## Audit of Accounts Report – Rhondda Cynon Taf Pension Fund

Audit year: 2019-20

Date issued: November 2020

Document reference: 2146A2020-21

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We intend to issue an unqualified audit report on your Accounts. There are no issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 annual accounts in this report.
- 2 We have already discussed these issues with Director of Finance and Digital Services
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £33.6m for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader, including related parties.
- 6 We have now completed this year's audit work.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this Year's Audit

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

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

<b>Timetable</b>	<ul style="list-style-type: none"> <li>We received the draft accounts on 15<sup>th</sup> July 2020.</li> <li>We expect your audit report to be signed on 26<sup>th</sup> November 2020.</li> </ul>
<b>Electronic signatures</b>	<p>Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. We may need to use electronic signatures for this purpose. We will liaise with management to ensure arrangements are in place irrespective of the approach taken.</p>
<b>Audit evidence</b>	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> <li>officers provided electronic working papers in accordance with our agreed Audit Deliverables Report;</li> <li>officers provided audit evidence to the audit team via email or the shared folder accessible by auditors through the Council laptops;</li> <li>officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and</li> </ul> <p>Audit Wales also secured remote read only access to the ledger system which enabled the audit team to run reports and view evidence.</p>
<b>Other</b>	<ul style="list-style-type: none"> <li>Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit.</li> <li>Video conference-based Audit Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance</li> </ul>

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

## Proposed Audit Opinion

- 11 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 14 Our proposed audit report is set out in **Appendix 2**. This audit report includes an emphasis of matter paragraph. The aim of this paragraph is to draw the attention of the reader of the accounts to note 4 which includes reference to material uncertainty clauses disclosed in year-end valuation reports for a pooled property fund.
- 15 The audit opinion is not modified in respect of this matter.

## Significant Issues arising from the Audit

### Uncorrected misstatements

- 16 There are no misstatements identified in the financial statements which remain uncorrected.

### Corrected misstatements

- 17 There were no corrected misstatements to the accounts, only minor narrative and presentational changes throughout the course of the audit.

## Other Significant Issues arising from the Audit

- 18 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

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

[Date]

### Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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

### Management representations

#### Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom UK 2019-20; 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 the Pension fund 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.

## Representations by Rhondda Cynon Taf County Borough 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 the Council on 25 November 2020.

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]

Date:

# Appendix 2

## Proposed Audit Report

### **The independent auditor's report of the Auditor General for Wales to the members of Rhondda Cynon Taf County Borough Council as administering authority for Rhondda Cynon Taf Pension Fund**

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

##### **Opinion**

I have audited the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004. Rhondda Cynon Taf Pension Fund financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

##### **Basis for opinion**

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

## **Emphasis of matter – effects of the Covid-19 pandemic on the valuation of property fund and alternative assets**

I draw attention to Note 4 of the financial statements, which describes the impact of a material uncertainty disclosed in the fund managers year-end valuation reports for the UK property fund and alternatives fund they manage on behalf of the Rhondda Cynon Taf Pension Fund. The Fund has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

## **Conclusions relating to going concern**

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

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

## **Other information**

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

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

## **Report on other requirements**

### **Opinion on other matters**

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

- the information contained in the introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the pension fund accounts.

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

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

## **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Rhondda Cynon Taf Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

## **Responsibilities**

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

As explained more fully in the Statement of Responsibilities for the financial statements set out on pages 4 to 5, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Adrian Crompton  
Auditor General for Wales  
26 November 2020

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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.



**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**  
**COUNCIL**

**25<sup>th</sup> November 2020**

**STATEMENT OF ACCOUNTS FOR RHONDDA CYNON TAF CBC AND THE  
RHONDDA CYNON TAF PENSION FUND 2019/20**

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**

**AUTHOR:** Barrie Davies (01443) 424026

**1.0 PURPOSE OF REPORT**

- 1.1 This report ensures that the Authority complies with the legal requirements relating to the production of a “Statement of Accounts” for the financial year ended 31<sup>st</sup> March 2020 with regard to Rhondda Cynon Taf CBC and the Rhondda Cynon Taf Pension Fund.

**2.0 RECOMMENDATIONS**

It is recommended that Members:

- (a) Approve and note the Statement of Accounts of Rhondda Cynon Taf CBC (Appendix 1), and associated Letter of Representation (Appendix 2).
- (b) Approve and note the Statement of Accounts for Rhondda Cynon Taf Pension Fund (Appendix 3), and associated Letter of Representation (Appendix 4).
- (c) Approve and note the audited final out-turn position for the Council with regard to the financial year 2019/2020 and the level of General Fund Balances (paragraph 8.4); and

- (d) Note the considerations and comments of the 20<sup>th</sup> July 2020 and 5<sup>th</sup> October 2020 Audit Committee meetings as required by the Local Government Measure (paragraphs 11.1 and 11.2).

### **3.0 STATUTORY APPROVAL PROCESS**

- 3.1 The Accounts and Audit (Wales) Regulations require that Council approve the **audited** Statement of Accounts by the 15<sup>th</sup> September.
- 3.2 The regulations require the Responsible Financial Officer to certify unaudited accounts by the 15<sup>th</sup> June following financial year end and further information in this regard is set out in Section 5.
- 3.3 The Authority has administrative responsibility for the production of the Annual Return for Llwydcoed Crematorium Joint Committee. The unaudited Annual Return for the year ended 31<sup>st</sup> March 2020 was reported to the Joint Committee on 13<sup>th</sup> July 2020 and, since this time, the external audit of the Annual Return has been completed with no amendments required. As such, this will be reported back to Joint Committee for information with no further approval required.
- 3.4 The Authority also has administrative responsibility for the production of the Statement of Accounts for the Central South Consortium Joint Education Service Joint Committee which has been audited and was approved by the relevant Joint Committee on 14<sup>th</sup> September 2020.

### **4.0 ACCOUNTS AND AUDIT (WALES) (AMENDMENT) REGULATIONS 2018**

- 4.1 The Accounts and Audit (Wales) (Amendment) Regulations 2018 require Local Authorities to produce and publish Statements of Accounts in accordance with the table below:

<b>Financial Year</b>	<b>Draft Statement of Accounts certification</b>	<b>Audited Statement of Accounts publication</b>
2017/18	30 <sup>th</sup> June	30 <sup>th</sup> September
2018/19	15 <sup>th</sup> June	15 <sup>th</sup> September
2019/20	15 <sup>th</sup> June	15 <sup>th</sup> September
2020/21	31 <sup>st</sup> May	31 <sup>st</sup> July

- 4.2 To enable officers to meet the earlier closure requirements, and prior to the COVID 19 pandemic, a timetable had been prepared as follows:

<b>Financial Year</b>	<b>Draft Statement of Accounts certification</b>		<b>Audited Statement of Accounts publication</b>	
	<b>Regulations</b>	<b>RCT CBC</b>	<b>Regulations</b>	<b>RCT CBC</b>
2017/18	30 <sup>th</sup> June	31 <sup>st</sup> May	30 <sup>th</sup> Sept	19 <sup>th</sup> Sept
2018/19	15 <sup>th</sup> June	31 <sup>st</sup> May	15 <sup>th</sup> Sept	31 <sup>st</sup> July

2019/20	15 <sup>th</sup> June	31 <sup>st</sup> May	15 <sup>th</sup> Sept	31 <sup>st</sup> July
2020/21	31 <sup>st</sup> May	31 <sup>st</sup> May	31 <sup>st</sup> July	31 <sup>st</sup> July

## **5.0 IMPACT OF COVID 19 UPON THE STATUTORY APPROVAL PROCESS**

- 5.1 The Accounts and Audit (Wales) Regulations 2014 (as amended) require the Responsible Financial Officer (for Rhondda Cynon Taf, the Director of Finance and Digital Services) to certify unaudited accounts by 15<sup>th</sup> June following financial year-end as detailed in Section 3. The regulations include a provision whereby if the Responsible Financial Officer does not certify the draft accounts by 15<sup>th</sup> June, there is a requirement to publish a statement setting out the reasons for non-compliance. In accordance with the requirements, appropriate notices were published on the Council website from the 15<sup>th</sup> June 2020.
- 5.2 Welsh Government clarified their expectation for the timescales of the preparation and publication of statutory financial accounts for 2019/20 by confirming there is no requirement to amend regulations and recommending that Welsh authorities adopt a timetable for the 2019/20 accounts in line with the revised English requirements. This required preparation and certification of draft accounts by 31<sup>st</sup> August 2020 and publication of final audited accounts by 30<sup>th</sup> November 2020 for all local government bodies in Wales.
- 5.3 Officers have maintained regular dialogue with Audit Wales with regards to timescales for the production and audit of the Statements of Account. Finance teams are currently working effectively (from home) and whilst we were initially targeting the 31<sup>st</sup> May to prepare a draft Statement of Accounts (to be audited by July) this target date was re-set to mid-July to enable focus and priority to be afforded to supporting key front line and essential support services to our residents and businesses and to assessing the ongoing financial implications of COVID-19 on the Council.
- 5.4 The draft Statements of Account for Rhondda Cynon Taf County Borough Council and the Rhondda Cynon Taf Pension Fund were certified by the Director of Finance and Digital Services on the 14<sup>th</sup> July 2020 in line with the re-set plans.

## **6.0 STATEMENT OF ACCOUNTS**

- 6.1 The approval of this year's accounts provides Members with the continued assurance that the Council operates within the statutory requirements and builds further upon the robust financial management arrangements which the Council has in place.
- 6.2 The 2019/20 Statements of Account for Rhondda Cynon Taf CBC and Rhondda Cynon Taf Pension Fund are attached at Appendices 1 and 3.

These accounts are “final” and the external audit process has been completed in line with statutory timescales.

## **7.0 LETTER OF REPRESENTATION**

- 7.1 It is normal practice for Audit Wales to request that the Responsible Finance Officer provides a “Letter of Representation”, which highlights material issues relating to the completeness and/or accuracy of the information included in their financial statements and could, therefore, influence his audit opinion. This is to ensure that the accounts properly reflect financial standing and is consistent with the approach taken by Audit Wales in prior years.
- 7.2 The draft Letters of Representation for this Council and the Pension Fund, which have been prepared after full consultation with the Council’s Senior Leadership Team, are provided at Appendices 2 and 4.

## **8.0 OUT-TURN UPDATE, GENERAL FUND BALANCES & EARMARKED RESERVES**

- 8.1 The unaudited outturn for 2019/20 was presented to the Cabinet on the 28<sup>th</sup> July 2020, within the Council Performance report. Within this report, the variance against the revenue budget was an overspend of £0.289M. This together with the release of funds (17<sup>th</sup> and 21<sup>st</sup> February) of £1.5M for Storm Dennis recovery work, results in the General Fund balances reducing from £10.498M to £8.709M.
- 8.2 During the intervening period, the external audit process has taken place resulting in a number of amendments to the Statement of Accounts. As detailed in the presentation to those charged with governance, the auditor identified a number of misstatements within the Financial Statements, which have been corrected in the version now presented to Council for approval. There is also one planned and non-material misstatement relating to non-consolidation of Joint Committees which has not been corrected. None of the misstatements impact upon General Fund balances.
- 8.3 In line with the 2020/21 Revenue Budget Strategy report presented to Council on 4<sup>th</sup> March 2020, it is my view, as Section 151 Officer, that £10M represents the minimum level of General Fund Balances the Council should maintain to ensure financial flexibility and stability going forward. Whilst the current level of General Fund reserves is below this minimum level, I am satisfied that plans are in place to replenish to the recommended level. The level of General Fund reserves will be kept under on-going review taking into account the overall quantum of the budget and the financial risks therein and facing the Council.
- 8.4 The level of balances maintained by the Council at the end of financial year 2019/2020 are detailed below :

## **General Fund Balances**

	<b>£M</b>
General Fund Balances as at 1 <sup>st</sup> April 2019	(10.498)
Storm Dennis recovery work funding	1.500
2019/2020 Net Overspend reported to Cabinet 28 <sup>th</sup> July 2020	0.289
Audited General Fund Balances as at 31 <sup>st</sup> March 2020	(8.709)

## **Earmarked Reserves**

8.5 At the 31<sup>st</sup> March 2020, revenue stream funding earmarked reserves amounted to £39.028M. These are detailed within the Statement of Accounts (note 13.2 to the accounts).

8.6 For Members information, I provide some detail on a number of these below.

Revenue Grant Reserves IFRS (£2.6M) – this represents accounting for grants entries necessary to comply with International Financial Reporting Standards (it is not distributable).

Financial Management and Human Resources Risk Management (£13.3M) – this represents a risk based judgement as to financial risks into the future and protects the annual revenue budget from foreseeable volatility (e.g. economic downturn) and risk assessed future liabilities.

Prior Year Commitments (£8.4M) – represents monies allowed for carry forward from one year to another as a result of budgeted / committed spend not actually being incurred before the 31<sup>st</sup> March (as reported in the Council's quarterly Performance Reports).

Revenue Budget Strategy 2020/21 (£0.8M) – this reflects the money released from earmark reserves as funding for the 2020/21 budget, as approved by Council (4<sup>th</sup> March 2020).

Medium Term Financial Planning and Service Transformation (£3.6M) – this represents transitional funding to support medium term financial and service planning requirements.

Investment / Infrastructure (£6.2M) – this represents funding for the costs of maintaining and enhancing infrastructure across the County Borough.

8.7 In addition to the above, there are specific reserves relating to Capital Funding, Insurance and Treasury Management.

Capital Developments (£59.0M) – this relates to funding needed to balance the existing 3 year capital programme. This Council's capital funding strategy is to maximise the use of capital resources in the first instance,

retaining revenue funding for latter years, thereby providing greater future year flexibility if necessary. Included here are the resources identified but not yet expended in respect of the additional capital investment agreed during 2019/20 (aligned to Corporate Plan Investment Priorities).

Insurance Reserve (£8.1M) – funding identified as needed for financing the Council's insurance liabilities over the medium term.

Treasury Management (£2.5M) – funding for known and potential future pressures upon the Capital Financing budget.

## **9.0 INTERNATIONAL STANDARD ON AUDITING (ISA) 260**

- 9.1 The External Auditor is required, under ISA260, to report to "those charged with governance", to communicate relevant matters relating to the audit of the financial statements. This is to be provided to those charged with governance, as distinct from management, before an opinion is given on the financial statements.
- 9.2 The auditor, in his report on the Rhondda Cynon Taf CBC Statement of Accounts, draws attention to an "Emphasis of Matter" relating to uncertainties, also disclosed in Note 4 to the accounts.
- There are material valuation uncertainties at the end of the reporting period, relating to the carrying amounts of the Council's property; and
  - There are material valuation clauses in the valuation reports on Pooled Property Funds held by RCT Pension Fund.
- 9.3 With regards to the Rhondda Cynon Taf Pension Fund Statement of Accounts, the auditor draws attention to an "Emphasis of Matter" relating to the material uncertainty of pooled property valuations, also disclosed in Note 4 to the Pension Fund accounts.
- 9.4 Audit Wales intend to issue an unqualified auditor's report on the financial statements of both Rhondda Cynon Taf CBC and Rhondda Cynon Taf Pension Fund.

## **10.0 UNCORRECTED MISSTATEMENT**

- 10.1 The ISA260 report on the Rhondda Cynon Taf CBC Statement of Accounts identifies an area where the draft accounts were misstated. This relates to the decision not to consolidate non-material Joint Committee accounts into the Council's Statement of Accounts. This position was agreed prior to the drafting of the 2019/20 Statement of Accounts.

## **11.0 LOCAL GOVERNMENT MEASURE REQUIREMENTS**

- 11.1 The Statutory Guidance from the Local Government Measure 2011 was published in June 2012 which provided clarity on the role of Audit Committees in the approval process of a Council's Statement of Accounts. The relevant excerpt is shown below.

### ***Financial statements***

*9.21 Before their approval by the authority, the audit committee should consider and comment on the authority's certified draft financial statements. They will want to see to what extent the statements take cognisance of audit reports during the year, and changes in accounting policy and internal control mechanisms. Audit committees may approve the financial statements themselves where local authorities have delegated that power to them under regulation 9 of the Accounts and Audit Regulations (Wales) 2005 (as amended).\**

*\* The Statutory Guidance referred to above references regulation 9 of the Accounts and Audit Regulations (Wales) 2005 (as amended). However, this has now been replaced by regulation 10 of the Accounts and Audit Regulations (Wales) 2014. Welsh Government have advised that references to the 2005 regulations in subordinate legislation and statutory guidance will be replaced with the 2014 regulation references in due course.*

- 11.2 Audit Committee considered the draft accounts on 20<sup>th</sup> July 2020 and also received a verbal update from Audit Wales on the progress of the audit on 5<sup>th</sup> October 2020. Based on the verbal update of progress, Audit Committee concluded that there were no issues that would prevent Council from approving the Statement of Accounts.

## **12.0 EQUALITY AND DIVERSITY IMPLICATIONS**

- 12.1 The report provides the legal requirements for the approval of the Council's Statement of Accounts in accordance with the Accounts and Audit (Wales) (Amendment) Regulations 2018. As a result, no Equality Impact Assessment is required for the purposes of this report.

## **13.0 CONSULTATION**

- 13.1 There are no consultation requirements emanating from the recommendations set out in the report.
- 13.2 Following approval of this report by Council, Audit Wales will produce a "Management Letter" for consideration by Audit Committee. This will detail how Council Officers and Audit Wales will work together to ensure continuous improvement in the quality of the Statement of Accounts and their continued timely completion in accordance with the timescales of the Accounts and Audit (Wales) (Amendment) Regulations 2018.

#### **14.0 FINANCIAL IMPLICATION(S)**

- 14.1 The financial results / implications within this report have been reported to Cabinet on 28<sup>th</sup> July 2020. The Council's financial performance will continue to be monitored within quarterly Performance Reports during 2020/21. Such reports are presented to Cabinet and are also subject to scrutiny by the Finance and Performance Scrutiny Committee.
- 14.2 There are no additional financial implications as a result of the recommendations set out in the report.

#### **15.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

- 15.1 The report ensures the Council complies with the Accounts and Audit (Wales) (Amendment) Regulations 2018 and in doing so is in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

#### **16.0 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT**

- 16.1 This report supports the Council's Corporate Plan 2020-24 – "Making a Difference", in particular through supporting the 'Living Within Our Means' theme.
- 16.2 The report also supports the Well-being of Future Generations Act in particular 'a globally responsible Wales' through responsible management of the Council's financial resources.

#### **17.0 CONCLUSION**

- 17.1 The certification of the draft Statement of Accounts by 14<sup>th</sup> July demonstrates the continued effective financial management arrangements at this Council despite the challenges of COVID 19.
- 17.2 The completion of the external audit and sign off of the 2019/20 final accounts represents further assurance as to the Council's general financial standing.
- 17.3 The level of General Fund Balances will be replenished going forward.

**Other information:**

**Audit Committee 20<sup>th</sup> July 2020 and 5<sup>th</sup> October 2020**

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# Statement of Accounts 2019/20



**Rhondda Cynon Taf County Borough Council****Statement of Accounts 2019/20**

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## **Narrative Report**

### **1. Introduction**

Rhondda Cynon Taf is the third largest Council in Wales with a population of 239,127 (2017 mid year estimate), serving an area in the South Wales Valleys covering 424 square kilometres, stretching from the Brecon Beacons National Park in the north to the Capital City of Cardiff in the south.

The accounts for 2019/20 have been prepared in accordance with:

- Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based on International Financial Reporting Standards (IFRS).
- Accounts and Audit (Wales) Regulations 2014 (as amended).

The accounts set out on pages 1 to 142 comply with the above.

### **2. Impact of Major Events**

#### **2.1 Storm Dennis**

In February 2020 Storm Ciara and Storm Dennis caused significant flood damage to many communities across Rhondda Cynon Taf, with Storm Dennis being by far the most destructive weather event the area has experienced for a generation. The Council worked with emergency services, volunteers and community organisations to provide an immediate response on the ground and took timely action to approve the allocation of £1.5m from the Council's General Reserves (Council Fund Balances) to support the relief effort.

The funding allocated from the Council's General Reserves was used to support a range of measures that included providing a Community Flood Recovery Grant for residents and businesses affected and also grant funding for the renovation of flood impacted properties; free school meals for a 4 week period for children of families living in properties impacted by flooding and also £100 per pupil to support the replacement requirement for a school uniform; and a three month local relief for Non Domestic Rate payers. In addition, Welsh Government provided additional grant funding to further support households impacted by flooding, and these payments were processed by the Council on behalf of Welsh Government.

As part of the decision making process to approve the allocation of the above Council funding, it was deemed wholly appropriate that General Reserves were used in this way to support such an unprecedented event. The same process also set out that the Council should maintain the level of General Reserves at a minimum of £10m; the level of General Reserves as at 31<sup>st</sup> March 2019 stood at £10.498m from which the allocation of £1.5m has been made (see also Section 3 of this Narrative Report – 'Impact of Economic Climate' in respect of the Council's approach to replenish General Reserve balances).

In parallel, the Council applied for and received funding from Welsh Government under its Emergency Financial Assistance Scheme (EFAS) to contribute to the short term response costs incurred as a result of Storm Dennis, for example, clearing debris from highways, pavements, footpaths and parks, initial repairs to

roads and inspections of bridges, culverts and river walls. A summary of the response costs incurred by the Council and the Welsh Government EFAS funding received are shown in the following table:

<b>Storm Dennis</b>	<b>Total £</b>
Total Cost to Council	3,762,168*
Less EFAS Grant	(1,696,913)*
<b>Net Cost to Council</b>	<b>2,065,255</b>
General Fund allocation	(1,500,000)
<b>Balance funded by the Council in 2019/20</b>	<b>565,255</b>

\* Total Cost to Council / Less EFAS Grant - £979,218 of the total amount is costs incurred / funding received relating to the 2020/21 financial year.

In respect of the medium to long term impact of Storm Dennis, the Council is progressing the assessment of damage to its infrastructure, which at present is estimated to be in excess of £60m. Discussions are on-going with Welsh Government and the UK Government in this regard.

## **2.2 COVID 19**

The Report of the Chief Executive to the Council's Cabinet on 21<sup>st</sup> May 2020 gave an update on the COVID-19 position in Rhondda Cynon Taf, setting out a comprehensive summary of the action taken by the Council since the COVID-19 restrictions were imposed by the UK and Welsh Governments and the next steps the Council will take to prepare for the future phased lifting of these restrictions.

In particular, the Report set out:

- How the Council has responded to COVID-19 – this included:
  - Staff continuing to provide social care services and support to vulnerable adults, children and families (including homelessness, domestic abuse and substance misuse services);
  - Establishment of multi-agency regional and local command responses to coordinating the critical safeguarding activities of our partner agencies;
  - The Environmental Health, Procurement and the Social Care Commissioning teams working together to provide infection control support and guidance along with Personal Protective Equipment to the care sector;
  - Deployment of staff to a variety of service areas to build resilience e.g. social care; meals on wheels; food distribution centre;
  - Development of a Well Being helpline and Counselling Service for staff;
  - Processing the COVID-19 Business Grant (NDR) Payments, funded by Welsh Government, to help businesses through the pandemic;
  - Making weekly payments to over 9,000 families entitled to free school meals;
  - Setting up emergency childcare provision in school settings for vulnerable children and children of key workers; and
  - Working with contractors to continue to safely deliver major construction projects such as Llys Cadwyn.

- Next Steps – this covered the next few months, as the UK and Welsh Governments seek to phase the release of the lockdown measures, with the Council having 5 key tasks:
  - Contact Tracing - the Council playing a key role in leading on Contact Tracing across Cwm Taf Morgannwg in partnership with the local health board, Bridgend and Merthyr Tydfil Councils and Public Health Wales;
  - Recovery and Service Planning - the Council's Senior Leadership Team preparing recovery plans that consider how the Council can begin to reopen services when the Welsh Government begins to lift the restrictions;
  - Decision Making and Democratic Engagement - including making arrangements for virtual committee meetings;
  - Counting the Cost (now and into the future) - putting in place arrangements to capture the additional costs to the Council of responding to the COVID-19 pandemic, together with loss of income that will be generated from a range of services; and
  - Economic Resilience - recognising that more resilience is needed in terms of local supply chains and therefore more manufacturing in the UK. This will require the public sector in Wales to undertake a radical re-evaluation of our supply chains.

With specific regard to 'Counting the Cost', for 2019/20, Rhondda Cynon Taf received £618k from the Emergency Hardship Fund set up by Welsh Government to support councils for the additional costs incurred as a result of COVID-19. This work will continue in 2020/21 with further claims submitted by the Council to Welsh Government, in line with the agreed processes, for additional expenditure incurred, income loss and for other adverse financial implications as a result of COVID-19. Regular financial updates will also be provided to full Council and Cabinet.

Cabinet was updated with the financial implications of COVID-19 for the Council on 25<sup>th</sup> June. Significant work continues to be undertaken on the assessment of the financial implications across all Council services. There are a number of emerging cost pressures which are continuing to arise, such as:

- Supporting the sustainability of the social care sector;
- Council Tax Collection;
- Ongoing increases in Council Tax Reduction Scheme claimants;
- Contractual extension of time claims (capital);
- Waste Management costs as a consequence of increased volume and changing composition of kerbside waste;
- Increasing numbers of Children Looked After;
- Ongoing and longer term PPE requirements;
- Provision of support (e.g. food parcels) to the vulnerable;
- Ongoing cost of cover where staff are "shielding" or have caring responsibilities;
- Enabling and supporting different ways of working, including ICT costs associated with homeworking; and
- External / Grant Funding risks.

Forecasting the financial implications beyond the short term is clearly dependent upon numerous assumptions which are subject to change on a regular basis as Welsh Government continue to review the restrictions and arrangements within Wales. It is important that we continuously refresh our modelling alongside working with Welsh Government to find funding solutions for Wales.

The last quarter of the 2019/20 financial year has been challenging on an unprecedented scale for the Council, local businesses and residents with the COVID-19 pandemic quickly following Storm Dennis. Life is unlikely to return to normal for many months if not a couple of years, and the Council and communities of Rhondda Cynon Taf need to change the way we live and work, where social distancing, personal hygiene and shielding the vulnerable becomes the norm. Throughout this pandemic, the Council has put in place the necessary plans to effectively respond to the potential impacts of COVID-19 and it has continued to deliver essential services and protect local communities and our staff.

#### Material Valuation Uncertainty for Asset Valuations,

The Council has received a notice from its external valuers detailing the impact of COVID-19 upon asset valuations. The narrative provided by the valuers is as follows:

“The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11<sup>th</sup> March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per Valuation Technical and Performance Standards (VPS) 3 and Valuation Practice Guidance Application (VPGA) 10 of the Royal Institute of Chartered Surveyors (RICS) Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review.”

#### Cashflow Management:

The cashflow of the Council is monitored on a daily basis. More specifically during the COVID-19 period there have been many factors that have caused upward and downward movements in the cashflow in the medium to long term period. Information gathered via our financial control systems has been used to plan for key significant items of expenditure and income such as the Business Grant (NDR) Payments, new government grants, less income from Council Tax and services, and revisions to some delivery timescales of major capital schemes.

### **3. Impact of Economic Climate**

Prior to the impact of COVID-19 and storms Dennis and Ciara, the economic climate continued to be a significant challenge for this and all other local authorities. The 19<sup>th</sup> December 2018 letter from the Minister for Housing and Local Government (Julie James AM) to local authorities providing details of the 2019/20 local government settlement, announced an overall increase in Revenue Support Grant (RSG) and Non-Domestic Rates funding of 0.2%, with an increase for Rhondda Cynon Taf of 0.8%. Council officers and Members continue to take their fiduciary duty extremely seriously and this has been demonstrated by the setting of prudent, equitable and fair budgets. The financial results and position demonstrated in this Statement of Accounts reflect sound financial stewardship despite continuing financial pressures.

Given the continuing financial pressures the Council is working under, it remains the view of the Section 151 Officer that the Council should hold a minimum of £10m as General Fund Balances (i.e. its working balance). This level is set given the context of the need for continued strong financial management that is felt to be essential to ensure that the Council maintains financial flexibility and stability going forward. As stated earlier, the Council allocated £1.5m from its General Reserves during 2019/20 to deliver the work required in supporting residents and businesses to recover from the impact of Storm Dennis and the level of these reserves will be replenished going forward as and when Welsh Government funding is confirmed, as part of future budget strategies and / or from any opportunities to release earmarked reserves.

### **4. Medium Term Financial Plan 2019/20 to 2022/23**

As reported to Cabinet on 18<sup>th</sup> July 2019, the Council has set out assumptions within its Medium Term Financial Plan 2019/20 to 2022/23. The Medium Term Financial Plan is the cornerstone of good governance and is an enabler of service delivery and service improvement within the constraints of available resources. Future Medium Term Financial Plans will be set in the context of the public sector continuing to operate within a very challenging financial climate, with increasing demand and costs associated with many services in particular social care services, and the significant uncertainty that the impact of COVID-19 will have on the delivery of services into the future.

Locally, this Council has demonstrated its ability and willingness to invest in services, linked to our Corporate Plan priorities, in order to meet the changing needs of our people and communities. The significant additional investment already agreed by Members during recent years is providing real improvements across many areas including Leisure Centres, Roads and Information Technology.

Whilst investment through the use of one-off funds has been very positive, the Council recognises that it must still address base budget shortfalls and make difficult decisions to balance its ongoing revenue budget into the medium term.

The Council continues to focus on the budget gap position over the medium term and has successfully implemented a strategy of early identification and delivery of base budget reducing measures in-year. This has enabled the Council to deliver

financial savings early and to replenish the Medium Term Financial Planning and Service Transformation Reserve which has been used proactively as part of the budget strategy for a number of years.

An updated Medium Term Financial Plan (mid-year budget review) was reported to Cabinet on 13<sup>th</sup> October 2020 and to full Council on 21<sup>st</sup> October 2020.

## 5. The Council's Corporate Plan 2016-2020

For 2019/20 The Council's Corporate Plan 2016-2020 was the key strategic plan, focusing on 3 priorities:

- Economy – Building a strong economy.
- People – Promoting independence and positive lives for everyone.
- Place – Creating neighbourhoods where people are proud to live and work.

In order to meet these priorities, 4 key principles have been set:

- Providing essential services well - In the coming years, there will be less money available and the Council will have to make sure the money is spent where the need is greatest.
- Helping people and communities help themselves - Giving people and communities the support they need to manage their community assets and have more control over the services in their community.
- Building a sustainable County Borough, supporting initiatives that stimulate economic growth and create jobs within the Borough.
- Living within our means – Our priorities need to focus on minimising running costs without affecting front line services. Financially, the Council has to make difficult decisions in order to manage the budget and ensure value for money for our residents.



During 2019/20, the Council's Cabinet received progress updates on the delivery of the three Corporate Plan priorities, these being reported as part of the Council's quarterly reporting arrangements and Cabinet confirmed that they were satisfied with the progress made. Following this, the Performance Reports were reported to

the Council's Finance and Performance Scrutiny Committee for review and challenge for quarters 1 and 2, with the meeting scheduled to scrutinise the quarter 3 report cancelled due to COVID-19. The Council's Quarter 4 Performance Report (year-end) as at 31<sup>st</sup> March 2020 was reported to Cabinet on 28<sup>th</sup> July 2020 and to the Overview and Scrutiny Committee on 30<sup>th</sup> July 2020.

The Council also publishes a Corporate Performance Report each year setting out an assessment of performance across its Corporate Plan priorities for the previous year and priority plans for the year ahead. The Corporate Performance Report will be published later than usual this year, again due to COVID-19, with plans for 2020/21 based on the new priorities of 'Prosperity', 'People' and 'Places' as included within the new Corporate Plan 2020-2024 "Making a Difference" approved by Council on 4<sup>th</sup> March 2020. The publication of the Corporate Performance Report will ensure the Council complies with its statutory responsibilities to assess its performance and set out plans for the year ahead in line with the Well-being of Future Generations Act 2015 and the Local Government (Wales) Measure 2009.

To guide the delivery of Corporate Plan priorities, in September 2017, Cabinet agreed that the Council will focus on five workstreams to improve the essential services provided:

- Digitalisation - in line with the Council's Digital Plan approved by Cabinet on 22<sup>nd</sup> June 2017:
  - Working with residents to improve their digital skills and access to technology to empower more people to interact digitally with the Council; and
  - Enabling more of the Council's workforce to be agile to help further boost productivity and reduce the need for office space.
- Commercialisation - creating the conditions within the Council in terms of capacity and capability to widen opportunities to trade with external organisations.
- Early Intervention and Prevention - investing in preventative services to support the delivery of savings in the medium term, in particular:
  - The creation of community hubs to bring similar services together and create economies of scale in terms of staffing and building costs, which will enable the Council to continue to provide a comprehensive range of services within key communities; and
  - Introducing new approaches that support resilient families who will not require statutory intervention and also a new approach to reducing the number of victims and perpetrators of domestic abuse.
- Independence - modernising and reshaping services to ensure independence is promoted for vulnerable residents; this includes building extra care facilities and linking into community hub provision.
- Efficient and Effective Organisation - challenging on-going service delivery and driving out further efficiencies through bringing together similar back-office functions, reducing administration costs and also the size of the property portfolio.

In addition to these modernisation changes, the Council has committed to a strategic capital investment programme, a number of which will link in with and complement the Cardiff Capital Region City Deal:

- Highways and Transportation Infrastructure;
- 21<sup>st</sup> Century Schools Programme;
- New Housing e.g. independent living and bringing empty properties back into use;
- Community Assets e.g. community hubs, parks and playgrounds, leisure centres and library facilities; and
- Town Centre and Economic Regeneration projects e.g. Llys Cadwyn (Taff Vale Development)

The Council is also a key partner in the Cwm Taf Public Services Board. Its purpose is to improve the economic, social, environmental and cultural well-being in this area by strengthening joint working and published its first well-being plan in May 2018.

The Cwm Taf Well-being Objectives are:

- Thriving Communities;
- Healthy People;
- Strong Economy; and
- Tackling Loneliness and Isolation.

The objectives set out in the Council's Corporate Plan and the Cwm Taf Well-being Plan will help the Council and Cwm Taf Public Services Board to contribute to the seven national Well-being goals, as set out in the Well-being of Future Generations Act:

- A globally responsible Wales;
- A prosperous Wales;
- A resilient Wales;
- A healthier Wales;
- A more equal Wales;
- A Wales of cohesive communities; and
- A Wales of vibrant culture and thriving Welsh Language.

## 6. Explanation of Core Financial Statements

The Statement of Accounts that follow this Narrative Report contains the following Core Financial Statements:

- **Movement in Reserves Statement (MiRS)** – analyses the movement in usable and unusable reserves.
- **Comprehensive Income and Expenditure Statement (CI&ES)** – reflects income and expenditure in accordance with IFRS and is analysed into service areas which reflect the way in which services operate and performance is managed.

- **Balance Sheet** – reflects all assets, liabilities and reserves of the Council as at the end of the financial year.
- **Cash Flow Statement** – analyses the movement in cash and cash equivalents for the year.

The Annual Governance Statement is included within the Statement of Accounts. This statement details the Council's governance arrangements and reviews its effectiveness.

In the financial statements for 2019/20, two joint committees are consolidated:

- Central South Consortium Joint Education Service (CSCJES); and
- Cardiff Capital Region City Deal (CCRCD).

## 7. **Revenue Income and Expenditure 2019/20**

The Comprehensive Income and Expenditure Statement provides an analysis of the Council's gross revenue expenditure and income in accordance with IFRS.

The broad objectives of The Council's 2019/2020 Revenue Budget Strategy were to:

- Support the delivery of our key strategic priorities, particularly around the need to build a strong economy, promote people's independence and create a County Borough where people are proud to live and work.
- Retain the support of the Audit Wales for the approach the Council has adopted to securing strong financial management.
- Continue with the delivery of our key services and protect as many local jobs as possible even with diminishing financial resources.
- Take a responsible attitude towards agreeing the level of the Council Tax.

### **Senior Management Restructure**

At the Cabinet meeting of 24<sup>th</sup> January 2019, Members agreed a revised senior management structure (following completion of the necessary staff consultation process). The effect of the revision has changed the reporting structure of the Council from:

- Education and Inclusion Services;
- Community and Children's Services;
- Chief Executive;
- Corporate and Frontline Services; and
- Authority Wide Budgets;

to the following for 2019/20:

- Education and Inclusion Services;
- Community and Children's Services;
- Chief Executive;
- Prosperity, Development and Frontline Services; and
- Authority Wide Budgets;

The revisions to the Council's senior management structure has resulted in the realignment of functions that come within each Group. The realigned functions are as follows:

- **Chief Executive** - Providing the authority wide functions of Human Resources; Democratic Services & Communications; Legal Services; the frontline services of Customer Care, Housing Benefit & Council Tax administration; and key support services of Finance, ICT & Digital Services, Corporate Estates Management and Procurement.
- **Prosperity, Development & Frontline Services** - Providing the frontline services of Highways; Transport; Strategic Projects; Streetcare Services (including Waste and Street Cleansing); together with Regeneration and Planning Services and Housing Strategy.
- **Education & Inclusion Services** - Providing support services to schools; Access and Inclusion; School Admissions and Governance; Attendance and Wellbeing; 21<sup>st</sup> Century Schools; Asset and Data Management; Catering Services; and school improvement support and challenge in partnership with the Central South Consortium.
- **Community & Children's Services** - Providing Adult Services (Community Care Services and Health & Social Care Services); Children's Services; Community Housing Services; Public Health & Protection; Leisure, Countryside & Cultural Services (including Theatres); Visitor Attractions & Heritage; Community Learning Services; Libraries; Welsh Language Services; Youth Engagement & Participation and Employment Programmes.

The following table details each of the service groups' actual net expenditure and budget during 2019/20. Further details were published on the Council's website within the year-end Performance Report for 2019/20.

This represents the net revenue expenditure of the Council in line with the statutory provisions that need to be taken into account when setting local taxes.

The variance against budget contributes to the movement on the Council Fund Balance:

Service Group	Budget	Spend	Variance
	£'000	£'000	£'000
Chief Executive	25,921	25,614	(307)
Community & Children's Services	152,986	153,543	557
Education & Inclusion Services	179,240	179,135	(105)
Prosperity, Development & Frontline Services	56,864	56,936	72
<b>Total</b>	<b>415,011</b>	<b>415,228</b>	<b>217</b>
Authority Wide Budgets	68,458	68,530	72
<b>Total</b>	<b>483,469</b>	<b>483,758</b>	<b>289</b>

	<b>£'000</b>
<b>Council Fund Reserves as at 31<sup>st</sup> March 2019</b>	<b>10,498</b>
Release of Council Fund Reserves to support Storm Dennis recovery work	(1,500)
Revenue Budget Out-turn	(289)
<b>Council Fund Reserves as at 31<sup>st</sup> March 2020</b>	<b>8,709</b>

Expenditure on services amounted to £781m and this can be analysed over the following expenditure categories:

<b>Type of Expenditure</b>	<b>£'m</b>	<b>%</b>
Employees	340	43
Premises	29	4
Transport	20	3
Supplies and Services	73	9
Payments to Third Parties	125	16
Transfer Payments	97	12
Capital Charges	93	12
Other Operating Costs (e.g. Support Services)	4	1
<b>Total Gross Expenditure</b>	<b>781</b>	<b>100</b>

Income during the year totalled £816m and came from the following sources:

<b>Income Analysis</b>	<b>£'m</b>	<b>%</b>
<u>Direct Service Income</u>		
Specific Grants	178	22
Sales, Fees & Charges	38	5
Other Income	34	4
<b>Sub-Total Direct Service Income</b>	<b>250</b>	<b>31</b>
<u>Other Income</u>		
Council Tax	136	17
Non-Domestic Rates	76	9
Non-Ringfenced Government Grants	293	36
Capital Grants and Contributions	59	7
Other	2	0
<b>Total Income</b>	<b>816</b>	<b>100</b>

## 8. Capital Expenditure and Income 2019/20

During the year the Council incurred £121.3m of capital expenditure, as summarised below:

<b>Group</b>	<b>£'000</b>
Chief Executive	6,397
Prosperity, Development & Frontline Services	77,168
Community & Children's Services	9,835
Education & Inclusion Services	27,884
<b>Total</b>	<b>121,284</b>

The type of capital expenditure incurred during the year is summarised below:

<b>Capital Expenditure</b>	<b>£'000</b>
Tangible Long-Term Assets	99,157
Intangible Long-Term Assets	1,830
Revenue Expenditure Funded from Capital under Statute	20,297
<b>Total</b>	<b>121,284</b>

This expenditure was financed as follows:

<b>Capital Financing</b>	<b>£'000</b>
Revenue Funding	17,840
Capital Receipts	3,724
Borrowing	36,495
Grants	54,403
Third Party Contributions	8,822
<b>Total</b>	<b>121,284</b>

Significant expenditure was incurred on:

- Llys Cadwyn (Taff Vale) Development;
- Highways Improvements;
- Mountain Ash Cross Valley Link;
- Materials Recycling Facility Bryn Pica (supporting the Council's Waste Strategy); and
- School Modernisation - Rhondda and Tonyrefail.

## 9. Summary of Future Capital and Revenue Plans

The priorities included within the Council's new Corporate Plan need to be underpinned by robust financial management. Forward looking financial and service planning arrangements are critical in ensuring the Council's priorities are affordable and lead the work to become more efficient, transform services and deliver investment priorities.

Capital and revenue budgets are approved annually by full Council. The Capital Programme is approved for a rolling 3-year period and updated annually. Revenue

budgets are set annually in line with the Welsh Government settlement announcements.

A summary of the Capital Programme 2020-2023 agreed by Council in March 2020 is as follows:

Group Expenditure	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000
Chief Executive	2,019	1,625	1,625	5,269
Prosperity, Development & Frontline Services	56,969	15,996	8,270	81,235
Education & Inclusion Services	25,243	4,422	4,039	33,704
Community & Children's Services	7,484	2,090	1,990	11,564
<b>Total</b>	<b>91,715</b>	<b>24,133</b>	<b>15,924</b>	<b>131,772</b>

Estimated resources required to fund the future Capital Programme are:

Estimated Resources Required to Fund Capital Programme	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000
Supported Borrowing	6,829	6,829	6,829	20,487
Unsupported Borrowing	22,139	5,586	24	27,749
Capital Grants	23,571	4,252	4,156	31,979
Third Party Contributions	1,038	10	0	1,048
General Fund Capital Resources	12,590	3,523	3,515	19,628
Revenue Contributions	25,548	3,933	1,400	30,881
<b>Total</b>	<b>91,715</b>	<b>24,133</b>	<b>15,924</b>	<b>131,772</b>

As at 31<sup>st</sup> March 2020, major capital commitments over the next three years (per the Capital Programme 2020-2023) include the following schemes:

Scheme	£'000
Robertstown Development	5,102
Llys Cadwyn (Taff Vale Development)	5,289
Hirwaun Primary School Structures	6,431
Vehicles	6,651
Transportation, Travel & Infrastructure Schemes	8,085
Highways Improvements	11,774
Highways Improvements	12,355
Disabled Facilities Grants/Adaptations (DFG)	12,400

A summary of the Council's revenue budget for 2020/21 (agreed in March 2020) is outlined below:

Service Area	£'000
Authority Wide	70,693
Individual Schools Budget	161,638
Community & Children's Services	162,604
Prosperity, Development and Frontline Services	55,980
Chief Executive	26,759
Education & Inclusion Services	31,073
<b>Total</b>	<b>508,747</b>

## 10. Borrowing Arrangements and Sources of Funds

Each year, in accordance with the Local Government Act 2003 and the Prudential Code, the Council is required to set limits in relation to borrowing and to set various other prudential and treasury indicators.

The limits set at the start of the financial year were as follows:

### **Authorised borrowing limit £512.0m**

The Council's borrowing totals £375.4m, of which £314.7m is long-term and £60.7m is short-term. This external borrowing is from the Public Works Loan Board (PWLB) £242.4m, £133.0m from market loans and other sources.

The Council is required to prepare a Treasury Management Strategy and a Capital Strategy for the forthcoming year, and these were approved by full Council on 27<sup>th</sup> March 2019 for the 2019/20 financial year. The Council's Treasury Management Practices allow the Council to raise funds from a variety of sources, including the PWLB and the money market. The Section 151 Officer is authorised to take the most appropriate form of borrowing from approved sources within the overall borrowing limits set by Council.

## 11. Pensions Assets and Liabilities

As a result of International Accounting Standard (IAS) 19 "Employee Benefits", local authorities are required to account for pensions liabilities in respect of the cost of decisions made up to the Balance Sheet date. Please refer to notes 14.4 and 32.0 to the Core Financial Statements for further details. The effect of IAS 19 upon the reserves of the Council is as follows:

	<b>£'000</b>
Net Assets excluding Pensions Reserve	857,366
Net Assets as per Balance Sheet	199,732

## 12. Cardiff Capital Region City Deal (CCRCD)

On 15<sup>th</sup> March 2016, the ten Council Leaders in South East Wales, the First Minister, the Welsh Government Minister for Finance and Government Business, the Secretary of State for Wales and the Chief Secretary to the Treasury signed the Cardiff Capital Region City Deal, an agreement between the UK Government, the Welsh Government and the ten leaders to develop and manage £1.2 billion investment in the Cardiff Capital Region's infrastructure through a 20-year Investment Fund. A Special Purpose Vehicle company, CSC Foundry Ltd, has been established by the 10 partner authorities in order to implement and contract with IQE Silicon Compounds Ltd to deliver the CSC (Compound Semi Conductor) project. For 2019/20 the Joint Committee accounts of CCRCD (which includes the subsidiary company CSC Foundry Ltd) have been consolidated into the Council's accounts based upon the population figures as specified in the Joint Working Agreement approved by Council on 25<sup>th</sup> January 2017. The Joint Scrutiny Committee meet to monitor CCRCD project's progress against its Programme plan and make reports and recommendations to the Regional Cabinet and / or to any of

the Appointing Authorities and to any of their executives in respect of any function that has been delegated to the Regional Cabinet pursuant to the Joint Working Agreement. The Joint Committee meets up to 4 times per year. The City Deal Business Plan 2020/21, details the 2019/20 Delivery Programme highlights and priorities for 2020/21 and beyond.

## Statement of Responsibilities for the Statement of Accounts

### The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure one of its Officers has the responsibility for the administration of those affairs. In this Council, that Officer is the Director of Finance & Digital Services.
- To manage its affairs to ensure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

I confirm that these accounts were approved by Council.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

### Presiding Officer

Rhondda Cynon Taf CBC  
Pavillions  
Cambrian Park  
Clydach Vale  
Tonypany  
CF40 2XX

### The Director of Finance & Digital Services' Responsibilities

The Director is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year.

In preparing this Statement of Accounts, the Director has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the code.

The Director has also throughout the financial year:

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

## **Certificate of the Director of Finance & Digital Services on the Accounts of Rhondda Cynon Taf CBC for 2019/20**

I certify that the accounts present a true and fair view of the financial position of Rhondda Cynon Taf CBC as at 31<sup>st</sup> March 2020 and its income and expenditure for the year.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**Barrie Davies**

**Director of Finance & Digital Services**

Rhondda Cynon Taf CBC

Oldway House

Porth Street

Porth

CF39 9ST

## **Movement in Reserves Statement (MiRS)**

This Statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and “unusable reserves”. The Total Comprehensive Income and Expenditure line shows the economic cost of providing the Council’s services on an International Financial Reporting Standards basis, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the 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.

### Movement in Reserves Statement for the year ended 31<sup>st</sup> March 2019

	Council Fund Balance	Earmarked Reserves: Capital, Treasury & Insurance	Earmarked Reserves: Other Revenue Related	Delegated Schools Reserve	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	MGCC Insurance Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves of the Council
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Notes:</b>	13.1	13.2	13.2		13.3	13.4			14.0	
<b>Balance at 1<sup>st</sup> April 2018</b>	10,720	65,096	64,157	3,397	1,127	7,396	173	<b>152,066</b>	34,898	<b>186,964</b>
<b>Movement in reserves during 2018/19:</b>										
Total Comprehensive Income and Expenditure	(44,370)	0	2,439	0	0	0	0	<b>(41,931)</b>	51,013	<b>9,082</b>
<b>Adjustments between accounting basis and funding under regulations:</b>										
<b>Adjustments primarily involving the Capital Adjustment Account:</b>										
<b>Reversal of items debited/credited to CI&amp;ES:</b>										
Charges for depreciation and impairment of long-term assets	46,285	0	0	0	0	0	0	<b>46,285</b>	(46,285)	<b>0</b>
Revaluation losses on property, plant & equipment	15,619	0	0	0	0	0	0	<b>15,619</b>	(15,619)	<b>0</b>
Movement in the market value of Investment Properties	(873)	0	0	0	0	0	0	<b>(873)</b>	873	<b>0</b>
Amortisation of intangible assets	1,388	0	0	0	0	0	0	<b>1,388</b>	(1,388)	<b>0</b>
Revenue expenditure funded from capital under statute	10,964	0	(1,941)	0	0	0	0	<b>9,023</b>	(9,023)	<b>0</b>
<b>Continued Overleaf...</b>										

Amounts of long-term assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	2,715	0	0	0	2,626	0	0	5,341	(5,341)	0
<b>Insertion of items not debited/ credited to CI&amp;ES:</b>										
Statutory provision for the financing of capital investment	(11,529)	0	0	0	0	0	0	(11,529)	11,529	0
Capital expenditure charged against the Council Fund Balances	(42,541)	0	0	0	0	0	0	(42,541)	42,541	0
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>										
Capital grants and contributions unapplied credited to CI&ES	(42,649)	0	0	0	0	42,649	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	(33,079)	0	(33,079)	33,079	0
<b>Adjustments involving the Capital Receipts Reserve:</b>										
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CI&ES	0	0	0	0	0	0	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(412)	0	0	(412)	412	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	0	2	0	0	2	(2)	0
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>										
Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	(83)	0	0	0	0	0	0	(83)	83	0
<b>Adjustments involving the Pensions Reserve:</b>										
Reversal of items relating to retirement benefits debited or credited to the CI&ES	81,060	0	279	0	0	0	0	81,339	(81,339)	0
<i>Continued Overleaf...</i>										

Employer's pensions contributions and direct payments to pensioners payable in the year	(39,430)	0	(126)	0	0	0	0	(39,556)	39,556	0
<b>Adjustment involving the Unequal Pay Back Pay Adjustment Account:</b>										
Amount by which amounts charged for equal pay claims to the CI&ES are different	0	0	0	0	0	0	0	0	0	0
<b>Adjustment involving the Accumulated Absences Account:</b>										
Amount by which officer remuneration charged to the CI&ES on an accruals basis	(1,267)	0	(13)	0	0	0	0	(1,280)	1,280	0
<b>Other adjustments include:</b>										
Adjustment between the Capital Adjustment Account and the Revaluation Reserve	0	0	0	0	0	0	0	0	0	0
Depreciation of long-term asset revaluation gains	0	0	0	0	0	0	0	0	0	0
<b>Net increase or (decrease) before transfers to Earmarked Reserves</b>	(24,711)	0	638	0	2,216	9,570	0	(12,287)	21,369	9,082
<b>Transfers to or from Earmarked Reserves</b>	24,489	(1,389)	(22,928)	(390)	0	0	218	0	0	0
<b>Increase or (decrease) in the year</b>	(222)	(1,389)	(22,290)	(390)	2,216	9,570	218	(12,287)	21,369	9,082
<b>Balance at 31<sup>st</sup> March 2019</b>	<b>10,498</b>	<b>63,707</b>	<b>41,867</b>	<b>3,007</b>	<b>3,343</b>	<b>16,966</b>	<b>391</b>	<b>139,779</b>	<b>56,267</b>	<b>196,046</b>

Movement in Reserves Statement for the year ended 31<sup>st</sup> March 2020

	Council Fund Balance	Earmarked Reserves: Capital, Treasury & Insurance	Earmarked Reserves: Other Revenue Related	Delegated Schools Reserve	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	MGCC Insurance Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves of the Council
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Notes:</b>	13.1	13.2	13.2		13.3	13.4			14.0	
<b>Balance at 1<sup>st</sup> April 2019</b>	10,498	63,707	41,867	3,007	3,343	16,966	391	<b>139,779</b>	56,267	<b>196,046</b>
<b>Movement in reserves during 2019/20:</b>										
Total Comprehensive Income and Expenditure	(24,333)	0	255	0	0	0	0	<b>(24,078)</b>	27,764	<b>3,686</b>
<b>Adjustments between accounting basis and funding under regulations:</b>										
<b>Adjustments primarily involving the Capital Adjustment Account:</b>										
<b>Reversal of items debited/credited to CI&amp;ES:</b>										
Charges for depreciation and impairment of long-term assets	11,343	0	0	0	0	0	0	<b>11,343</b>	(11,343)	<b>0</b>
Revaluation losses on property, plant & equipment	59,139	0	0	0	0	0	0	<b>59,139</b>	(59,139)	<b>0</b>
Movement in the market value of Investment Properties	0	0	0	0	0	0	0	<b>0</b>	0	<b>0</b>
Amortisation of intangible assets	1,593	0	0	0	0	0	0	<b>1,593</b>	(1,593)	<b>0</b>
Revenue expenditure funded from capital under statute	20,297	0	0	0	0	0	0	<b>20,297</b>	(20,297)	<b>0</b>

Continued Overleaf...

Amounts of long-term assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	22	0	0	0	2,131	0	0	2,153	(2,153)	(0)
<b>Insertion of items not debited/ credited to CI&amp;ES:</b>										
Statutory provision for the financing of capital investment	(12,191)	0	0	0	0	0	0	(12,191)	12,191	0
Capital expenditure charged against the Council Fund Balances	(17,839)	0	0	0	0	0	0	(17,839)	17,839	0
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>										
Capital grants and contributions unapplied credited to CI&ES	(71,194)	0	0	0	0	71,194	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	(63,226)	0	(63,226)	63,226	0
<b>Adjustments involving the Capital Receipts Reserve:</b>										
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CI&ES	0	0	0	0	0	0	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(3,724)	0	0	(3,724)	3,724	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	0	0	0	0	0	0	0
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>										
Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	(86)	0	0	0	0	0	0	(86)	86	0
<b>Adjustments involving the Pensions Reserve:</b>										
Reversal of items relating to retirement benefits debited or credited to the CI&ES	72,590	0	307	0	0	0	0	72,897	(72,897)	0
<i>Continued Overleaf...</i>										

Employer's pensions contributions and direct payments to pensioners payable in the year	(40,610)	0	(80)	0	0	0	0	(40,690)	40,690	0
<b>Adjustment involving the Unequal Pay Back Pay Adjustment Account:</b>										
Amount by which amounts charged for equal pay claims to the CI&ES are different	0	0	0	0	0	0	0	0	0	0
<b>Adjustment involving the Accumulated Absences Account:</b>										
Amount by which officer remuneration charged to the CI&ES on an accruals basis	1,189	0	1	0	0	0	0	1,190	(1,190)	0
<b>Other adjustments include:</b>										
Adjustment between the Capital Adjustment Account and the Revaluation Reserve	0	0	0	0	0	0	0	0	0	0
Depreciation of long-term asset revaluation gains	0	0	0	0	0	0	0	0	0	0
<b>Net increase or (decrease) before transfers to Earmarked Reserves</b>	(80)	0	483	0	(1,593)	7,968	0	6,778	(3,092)	3,686
<b>Transfers to or from Earmarked Reserves</b>	(1,709)	5,909	(3,322)	(623)	0	0	(255)	0	0	0
<b>Increase or (decrease) in the year</b>	(1,789)	5,909	(2,839)	(623)	(1,593)	7,968	(255)	6,778	(3,092)	3,686
<b>Balance at 31<sup>st</sup> March 2020</b>	<b>8,709</b>	<b>69,616</b>	<b>39,028</b>	<b>2,384</b>	<b>1,750</b>	<b>24,934</b>	<b>136</b>	<b>146,557</b>	<b>53,175</b>	<b>199,732</b>

## **Comprehensive Income and Expenditure Statement (CI&ES)**

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. Councils 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.

## Comprehensive Income and Expenditure Statement for the year ended 31<sup>st</sup> March 2020

2018/19 (Restated)				2019/20			
Gross Exp	Gross Income	Net Exp	Note:	Gross Exp	Gross Income	Net Exp	
£'000	£'000	£'000		£'000	£'000	£'000	
101,964	(22,636)	79,328	Prosperity, Development & Frontline Services	128,546	(27,405)	101,141	
58,721	(6,232)	52,489	Chief Executive	34,885	(9,588)	25,297	
253,798	(47,801)	205,997	Education & Inclusion Services	267,717	(55,736)	211,981	
230,659	(75,900)	154,759	Community & Children's Services	247,613	(83,057)	164,556	
104,030	(75,952)	28,078	Authority Wide Budgets	100,185	(72,546)	27,639	
2,178	(4,683)	(2,505)	Joint Committees	1,711	(1,945)	(234)	
<b>751,350</b>	<b>(233,204)</b>	<b>518,146</b>	<b>Cost of Services</b>	<b>780,657</b>	<b>(250,277)</b>	<b>530,380</b>	
			<b>Other Operating Expenditure</b>				
19,626	0	19,626	Precepts	28.3	21,852	0	21,852
11,802	0	11,802	Levies	28.3	11,949	0	11,949
2,716	0	2,716	(Gains) or Losses on Disposal of Non-Current Assets		22	0	22
			<b>Financing and Investment Income and Expenditure</b>				
10,369	0	10,369	Interest Payable and Similar Charges	7.2	11,505	0	11,505
15,381	0	15,381	Net Interest on Net Defined Liability	32.2	13,657	0	13,657
0	(1,191)	(1,191)	Interest Receivable and Similar Income	7.2	0	(652)	(652)
			<b>Taxation and Non-Specific Grant Income</b>				
0	(130,542)	(130,542)	Council Tax Income	26.0	0	(135,930)	(135,930)
0	(75,620)	(75,620)	NDR Distribution	25.0	0	(76,383)	(76,383)
0	(288,556)	(288,556)	Non-Ringfenced Government Grants		0	(293,404)	(293,404)
0	(40,339)	(40,339)	Capital Grants and Contributions		0	(58,951)	(58,951)
87	0	87	Corporation Tax - Joint Committees		86	0	86
<b>811,331</b>	<b>(769,452)</b>	<b>41,879</b>	<b>(Surplus) or Deficit on the Provision of Services</b>		<b>839,728</b>	<b>(815,597)</b>	<b>24,131</b>
4,163	(10,120)	(5,957)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets		13,344	(57,950)	(44,606)
0	(45,004)	(45,004)	Remeasurement of the Net Defined Benefit Liability		16,789	0	16,789
<b>4,163</b>	<b>(55,124)</b>	<b>(50,961)</b>	<b>Other Comprehensive Income and Expenditure</b>		<b>30,133</b>	<b>(57,950)</b>	<b>(27,817)</b>
<b>815,494</b>	<b>(824,576)</b>	<b>(9,082)</b>	<b>Total Comprehensive Income and Expenditure</b>		<b>869,861</b>	<b>(873,547)</b>	<b>(3,686)</b>

Cost of Services analysis reflects the Senior Management Restructure as detailed at Narrative Report paragraph 7

## Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council at the financial year end. The net assets (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Council 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) and reserves that hold timing differences shown in the Movement in Reserves Statement section 'Adjustments between accounting basis and funding basis under regulations'.

Balance Sheet as at 31<sup>st</sup> March 2020

31/03/19				31/03/20		
£'000			Note:	£'000	£'000	
	<b>Long-Term Assets</b>	Property, Plant & Equipment:	6.0			
603,087		Other Land & Buildings		697,963		
439,111		Infrastructure		451,333		
7,107		Vehicles, Plant & Equipment		8,262		
4,850		Community Assets		4,850		
76,473		Assets Under Construction		40,526		
145		Heritage Assets		145		
3,805		Investment Properties		3,805		
3,312		Long-Term Intangible Assets		3,548		
4,500		Long-Term Investments	7.1	4,250		
3,013		Investment in Subsidiaries		3,017		
803		Long-Term Debtors		4,939		
<b>1,146,206</b>		<b>TOTAL LONG-TERM ASSETS</b>				<b>1,222,638</b>
		<b>Current Assets</b>	Short-Term Investments	7.1	35,405	
26,083	Assets Held for Sale			623		
3,060	Short-Term Intangible Assets			0		
279	Inventories			717		
728	Short-Term Debtors		8.0	83,479		
69,234	Cash and Cash Equivalents		9.0	10,181		
8,361						
<b>107,745</b>	<b>TOTAL CURRENT ASSETS</b>				<b>130,405</b>	
	<b>Current Liabilities</b>	Cash and Cash Equivalents	9.0	(14,905)		
(11,535)		Short-Term Borrowing	7.1	(60,776)		
(84,987)		Other Short-Term Liabilities		0		
(279)		Short-Term Provisions	11.0	(1,749)		
(2,193)		Short-Term Creditors	10.0	(93,593)		
(94,483)						
<b>(193,477)</b>	<b>TOTAL CURRENT LIABILITIES</b>				<b>(171,023)</b>	
	<b>Long-Term Liabilities</b>	Long-Term Creditors		(7,019)		
(4,738)		Long-Term Provisions	11.0	(2,649)		
(1,822)		Long-Term Borrowing	7.1	(314,278)		
(248,518)		Other Long-Term Liabilities	12.0	(658,219)		
(609,227)		Donated Asset Account		(123)		
(123)						
<b>(864,428)</b>	<b>TOTAL LONG-TERM LIABILITIES</b>				<b>(982,288)</b>	
<b>196,046</b>	<b>NET ASSETS</b>				<b>199,732</b>	

Continued Overleaf...

10,498	<b>Usable Reserves</b>	Council Fund Balance	13.1	8,709	
		Earmarked Reserves:	13.2		
63,707		Capital, Treasury and Insurance Reserves	13.2	69,616	
41,867		Other Revenue Related Reserves	13.2	39,028	
3,007		Delegated Schools Reserve		2,384	
3,343		Usable Capital Receipts Reserve	13.3	1,750	
16,966		Capital Grant Unapplied Account	13.4	24,934	
391		MGCC Insurance Reserve		136	
<b>139,779</b>			<b>TOTAL USABLE RESERVES</b>		
171,042	<b>Unusable Reserves</b>	Revaluation Reserve	14.1	209,318	
3		Deferred Capital Receipts Reserve		1,272	
503,909		Capital Adjustment Account	14.2	511,372	
(5,573)		Financial Instruments Adjustment Account	14.3	(5,487)	
(608,638)		Pensions Reserve	14.4	(657,634)	
(4,476)		Short-Term Accumulating Compensated Absence Account		(5,666)	
<b>56,267</b>		<b>TOTAL UNUSABLE RESERVES</b>			<b>53,175</b>
<b>196,046</b>		<b>TOTAL RESERVES</b>			<b>199,732</b>

## **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council 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 Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council'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 Council.

## Cash Flow Statement 2019/20

2018/19			2019/20	
£'000		Note:	£'000	£'000
41,879	Net (Surplus) or Deficit on the Provision of Services		24,131	
(115,449)	Adjustments to Net (Surplus) or Deficit on the Provision of Services for Non-Cash Movements	15.0	(115,595)	
42,965	Adjustments for Items Included in the Net (Surplus) or Deficit on the Provision of Services that are Investing and Financing Activities	16.0	61,082	
<b>(30,605)</b>	<b>Net Cash Flows from Operating Activities</b>			<b>(30,382)</b>
87,718	Investing Activities	18.0	73,629	
(60,909)	Financing Activities	19.0	(41,697)	31,932
<b>(3,796)</b>	<b>Net Increase or Decrease in Cash or Cash Equivalents</b>			<b>1,550</b>
6,970	Cash and Cash Equivalents at the Beginning of the Reporting Period	9.0		3,174
<b>3,174</b>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	9.0		<b>4,724</b>

## **Expenditure and Funding Analysis**

The Expenditure and Funding Analysis brings together the Council's performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the Council Fund.

Proper accounting practices measure the resources that have been generated and consumed in the year including such things as the use of property (depreciation) and the value of pension benefits earned by the employees. Statutory provisions determine how much of the Council's expenditure needs to be met from council tax each year.

The Expenditure and Funding Analysis;

- shows for each of the Council's services a comparison of the net resources applied and the net charge against council tax, and
- provides an opportunity to explain significant differences between the two.

This analysis promotes accountability and stewardship by providing a direct link with the annual decision making process of the Council and its budget i.e. the Council Fund. It follows the performance framework of the Council.

**Expenditure and Funding Analysis Statement for the year ended 31<sup>st</sup> March 2019**

	2018/19 (Restated)		
	Income and Expenditure Chargeable to the Council Fund	Adjustments Between Funding and Accounting Basis	Net Expenditure for the Equivalent Amounts for CI&ES
	£'000	£'000	£'000
Prosperity, Development & Frontline Services	63,886	15,442	79,328
Chief Executive	12,540	39,949	52,489
Education & Inclusion Services	175,454	30,543	205,997
Community & Childrens Services	149,807	4,952	154,759
Authority Wide Budgets	70,137	(42,059)	28,078
Joint Committees	0	(2,505)	(2,505)
<b>Cost of Services</b>	<b>471,824</b>	<b>46,322</b>	<b>518,146</b>
<b>Other Income and Expenditure</b>	<b>(471,602)</b>	<b>(4,665)</b>	<b>(476,267)</b>
<b>(Surplus) or Deficit</b>	<b>222</b>	<b>41,657</b>	<b>41,879</b>
Opening Council Fund at 31 <sup>st</sup> March 2018	(10,720)		
Less (Surplus) Deficit on Council Fund in Year	222		
<b>Closing Council Fund at 31<sup>st</sup> March 2019</b>	<b>(10,498)</b>		

**Expenditure and Funding Analysis Statement for the year ended 31<sup>st</sup> March 2020**

	2019/20		
	Income and Expenditure Chargeable to the Council Fund	Adjustments Between Funding and Accounting Basis	Net Expenditure for the Equivalent Amounts for CI&ES
	£'000	£'000	£'000
Prosperity, Development & Frontline Services	56,936	44,205	101,141
Chief Executive	25,614	(317)	25,297
Education & Inclusion Services	179,135	32,846	211,981
Community & Children's Services	153,543	11,013	164,556
Authority Wide Budgets	68,530	(40,891)	27,639
Joint Committees	0	(234)	(234)
<b>Cost of Services</b>	<b>483,758</b>	<b>46,622</b>	<b>530,380</b>
<b>Other Income and Expenditure</b>	<b>(481,969)</b>	<b>(24,280)</b>	<b>(506,249)</b>
<b>(Surplus) or Deficit</b>	<b>1,789</b>	<b>22,342</b>	<b>24,131</b>
Opening Council Fund at 31 <sup>st</sup> March 2019	(10,498)		
Less (Surplus) Deficit on Council Fund in Year	1,789		
<b>Closing Council Fund at 31<sup>st</sup> March 2020</b>	<b>(8,709)</b>		

## Notes to the Core Financial Statements

### 1.0 Significant Accounting Policies

#### 1.1 Accruals of Expenditure and Income

The accounts of the Council have been prepared on an accrual of income and expenditure basis in accordance with the Code of Practice on Local Authority Accounting. This ensures activity is accounted for in the year that it takes place not when cash payments are made or received.

Revenue from the sale of goods or services is recognised when the Council transfers the significant risks and rewards of goods, or provides the services to the purchaser, and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Supplies are recorded as expenditure when they are consumed. Where the Balance Sheet date falls between supplies receipt and consumption, where significant, they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure in the Comprehensive Income and Expenditure Statement on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows determined by the contract. Statutory adjustments relating to interest are reflected in the Movement in Reserves Statement.

Capital transactions are also recorded on an accrual basis, as prescribed by the Code of Practice on Local Authority Accounting.

#### 1.2 Cash and Cash Equivalents

Cash and Cash Equivalents are sums of money available for immediate use by the Council. Such items are deemed to be cash balances held in the Council's bank accounts (less unpresented cheques), any overdrawn bank balance and petty cash balances.

Short-term investments are not deemed to be cash and cash equivalents as these are not readily available without incurring penalties.

#### 1.3 Contingent Liabilities

A contingent liability is a possible item of expenditure that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control.

Such contingent liabilities are not reflected in Provisions in the Balance Sheet as it may not be probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Material contingent liabilities are disclosed in Notes to the Core Financial Statements.

## 1.4 **Employee Benefits**

All costs relating to employee benefits are accounted for on an accruals basis.

### **Termination Benefits**

These are amounts payable by the Council as a result of a decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy. Such costs are charged on an accruals basis to the Comprehensive Income and Expenditure Statement.

When terminations involve the enhancement of pensions, statutory provisions require the Council Fund to be charged with the amount payable by the Council. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional entries for pension enhancements and replace them with amounts paid and payable.

### **Pensions**

The Council participates in two separate pension schemes that meet the needs of employees in particular services:

Teachers - This is an unfunded scheme administered by Teachers' Pensions on behalf of the Department of Education. Contribution rates are set on the basis of a notional fund. Whilst this is a Defined Benefit Scheme, Teachers' Pensions is unable to identify the Council's share of the underlying assets and liabilities and accordingly, the Council has accounted for its contributions to the scheme as if it were a Defined Contribution Scheme.

Other employees - Rhondda Cynon Taf CBC administer a fund on behalf of employees under the Local Government Pension Scheme Regulations, under which contribution rates are set by the Fund's actuary based on triennial actuarial valuations. Under the regulations, contribution rates are set in order to lead to full funding of the overall liability of the Fund over time. The Local Government Scheme is accounted for as a Defined Benefit Scheme.

- The liabilities of the Rhondda Cynon Taf Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.3% in 2019/20 (2.4% in 2018/19).
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

Quoted Securities	–	Current Bid Price
Unitised Securities	–	Current Bid Price
Property	–	Market Value

- The change in the net pensions liability is analysed as follows:
  - 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 plus administration expenses.
  - 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.
  - 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 section of the Comprehensive Income and Expenditure Statement.
  - Expected Return On Assets – the annual investment return on the fund assets attributable to the Council based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
  - Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their financial, demographic or experience assumptions – debited or credited to the Pensions Reserve.
  - Contributions Paid to the Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense in the Comprehensive Income and Expenditure Statement.

In relation to retirement benefits, statutory provisions require the Council Fund Balance to be charged with the amount payable by the Council 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 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.

### **Discretionary Benefits**

The Council is able to make discretionary awards of retirement benefits in the event of early retirements. Any such liabilities arising are accrued in the year of decision to make the award.

## **Accumulated Absence**

The Council accrues for staff holidays earned but not taken at each year-end. The Welsh Government has issued regulations to mitigate the impact of this charge upon Councils. This Council has taken advantage of the regulations and charged the additional costs to the Short-Term Accumulating Compensated Absence Account in Unusable Reserves.

### **1.5 Events after the Reporting Period**

Events after the reporting period are those both favourable and unfavourable that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Two types of events can be identified;

- a) those that provide evidence of conditions existing at the end of the reporting period (adjusting events that shall be recognised in the financial statements);
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events that are not reflected in accounting statements but, where material, disclosure is made in the Notes to the Core Financial Statements).

### **1.6 Financial Instruments**

Financial Instruments consist of Financial Liabilities and Financial Assets.

#### **Financial Liabilities**

Financial Liabilities are carried at amortised cost. Annual charges to 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. Where a loan has a single rate of interest over its term, it results in the amount presented in the Balance Sheet being the outstanding principal repayable, and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable in the loan agreement. Where loans have a rate that is lower in the initial years, the effective interest rate charge to the Comprehensive Income and Expenditure Statement “smooths” the interest rate differential. The difference between the effective interest rate charge and actual interest paid is adjusted in the Movement in Reserves Statement.

For most borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains (discounts) and losses (premiums) on the repurchase or early settlement of borrowing are credited/debited to the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase/early settlement is deemed to be a modification of existing instruments, the discounts/premiums are incorporated into the value of the instrument and written down to the Comprehensive Income and Expenditure Statement over the life of the loan via an adjustment to the effective interest rate.

Where premiums or discounts have been applied to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the Council Fund Balance to be spread over future years equal to the life of the replaced or replacement loan.

## Financial Assets

Financial Assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost;
- Fair value through profit or loss; and
- Fair value through other comprehensive income.

Rhondda Cynon Taf CBC's business model is to hold investments to collect contractual cashflows. Financial assets are therefore classified at amortised cost.

Loans and Receivables are initially recognised at fair value and subsequently carried at amortised cost. Interest Receivable and Similar Income in the Comprehensive Income and Expenditure Statement is based upon the carrying amount of the asset multiplied by the effective interest rate for the instrument. This means that the value in the Balance Sheet is the outstanding principal plus any accrued income, and the income recognised in the Comprehensive Income and Expenditure Statement is based upon the rate quoted in the loan agreement.

Interest that is due but unpaid at year-end is categorised in the Balance Sheet as a current asset or liability. This is the case even if the financial asset or liability it relates to is a long-term instrument.

There needs to be a calculation for an "expected credit loss" on financial assets held at amortised costs, either on a 12 month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cashflows might not take place because the borrower could default on their obligations. Where risk has significantly increased since an asset was originally recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

## 1.7 Intangible Assets

Intangible assets are those Long-Term Assets that do not have physical substance but are identifiable by the access to future economic benefits that are controlled by the Council through custody or legal rights.

Software and Licences are capitalised at cost and are amortised over their economic lives, which are reviewed at the end of each reporting period and revised if necessary.

An asset is tested for impairment whenever there is an indication that the asset may be impaired. Any losses 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 reflected in the Other Operating Expenditure section in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an effect upon Council Fund Balances and are reversed in the Movement in Reserves Statement.

## 1.8 Leases

Whether a lease is finance or operating depends upon the substance of the transaction rather than the legal form.

Leases are reviewed at inception and classed as finance or operating by reviewing arrangements such as:

- Transfer of ownership at the end of lease contract.
- Option to purchase asset at a price lower than fair value.
- Lease term is for a major part of the economic life of the asset.
- Present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset.
- Leased assets are of a specialised nature and only the lessee can use them without major modifications.

Leases of land and buildings are considered separately for the purpose of lease classification.

### **Finance Leases**

A finance lease is one which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

Where the Council is lessee, an asset and liability is recognised at lease inception. The asset is subsequently depreciated and revalued as though it were the legal property of the Council. The liability reduces as lease payments are made.

Where the Council is lessor, the lease payment receivable is recognised as a repayment of principal with the interest element of the payment being recognised in the Comprehensive Income and Expenditure Statement. No asset is recognised.

## Operating Leases

An operating lease is deemed to be any lease other than a Finance Lease.

Where the Council is lessee, lease payments are recognised as an expense in the Comprehensive Income and Expenditure Statement on a straight-line basis unless another systematic basis is more representative of the benefits received.

Where the Council is lessor, the income should be recognised on a straight-line basis unless another systematic basis is more representative of the benefits received. Other Land & Buildings leased out under an operating lease will be subject to depreciation in the same manner as other assets within the same category.

## 1.9 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment. Depreciation is charged on a straight-line basis on most tangible assets with a finite useful life, excluding non-depreciable land. Asset lives have been identified on an individual basis.

### 1.9.1 Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council, and the cost of the item can be measured reliably. The Council operates a £10k de-minimis policy for recognising such expenditure as capital. Expenditure on assets not owned by the Council, but where continuing benefit is received, is also capitalised on an accruals basis. Although capitalised, this expenditure is amortised in the year it is incurred.

The Council operates a de-minimis policy for recording assets in the asset register. De-minimis levels are in place as follows:

<b>Asset Type</b>	<b>£'000</b>
Land & Buildings	20
Vehicles	10
Plant & Equipment	10
Infrastructure	20
Community Assets	Nil

### 1.9.2 Measurement

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs.

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

Tangible Long-Term assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS). Property, Plant and Equipment assets are generally valued on the basis of existing use value (EUV) which is deemed to be "current value". Specialist items (e.g. schools) are valued on a depreciated replacement cost basis (DRC). This method of valuation calculates the cost of constructing modern equivalent buildings and structures, depreciating them to account for the age and future economic life. This cost calculation is known as Modern Equivalent Valuation (MEV). Investment properties are generally valued on the basis of open market value (OMV). Infrastructure assets are included at historic cost, and adjusted to reflect depreciation. Adopted roads, built by private developers, are deemed to have zero historical cost to the Council and therefore are not recognised in the Statement of Accounts.

Where assets are not in use but do not meet the criteria for Assets Held for Sale, then they are classed as Surplus Assets within the Property, Plant and Equipment and Other Land and Building categories. Surplus Assets are valued at fair value. Fair value is the price that would be received between willing market participants. The highest and best use of the asset needs to be considered. Inputs to the valuation techniques in respect of these assets are categorised as the following hierarchy levels:

Level 1 – quoted prices in active markets for identical assets or liabilities that the Council can access at the measurement date.

Level 2 – inputs other than quoted prices that are observable for the asset or liability. For example, market conditions; recent sale prices.

Level 3 – unobservable inputs, for example, assumptions about rent growth; discount rates, etc.

Fair value measurement differentiates between measurements that are recurring i.e. at the end of each period, for example surplus assets and those that are non-recurring measured on particular circumstances, for example assets held for sale.

In the accounts there are approximately 164 Surplus Assets with a recurring fair value of £4.0m. Most of the assets are valued at level 2 inputs, with the exception of one asset

which has been valued at £800k using level 3 inputs. For this asset an adjustment has been made to the level 2 inputs to take into account the condition of the asset.

Community assets are valued on an historic cost basis. These have no determinable useful life and are assets that the Council intend to hold in perpetuity. Examples of community assets are parks and memorials.

Assets under Construction are valued at historic cost until they become operational. When they are brought into use they are revalued on the relevant basis.

Heritage Assets are recognised as such if they are material non-operational assets that are held purely for cultural or knowledge gaining purposes. These assets are recognised at cost or market value, are reviewed for impairment but not depreciated.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

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

Where decreases in value are identified, they are accounted for as follows:

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

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

### 1.9.3 Impairment

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

Where impairment losses are identified, they are accounted for as follows:

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

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

Where an impairment loss is 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.

#### 1.9.4 Depreciation

Depreciation is charged on a straight-line basis on most property, plant and equipment. All asset lives have been identified on an individual basis.

Exceptions are made for:

- Heritage Assets.
- Assets without a determinable finite useful life such as freehold land.
- Assets that are not yet available for use i.e. assets under construction and assets held for sale.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Depreciation is calculated in the year of acquisition and not in the year of disposal.

#### 1.9.5 Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. These assets are measured at the lower of the value they had when it was agreed they would be sold and fair value less costs to sell.

The valuation in the balance sheet can be split as follows:

	<b>£'000</b>
Fair value	505
Carrying value	118
<b>Total value in Balance Sheet</b>	<b>623</b>

The non-recurring fair value is measured using level 2 in the input hierarchy (refer to note 1.9.2 for explanation of levels). Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the (Surplus) or Deficit on

Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations), and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. The criteria for recognising assets as being held for sale are:

- Available for immediate sale in present condition.
- Sale highly probable.
- Actively marketed.
- Sale completion expected within 12 months.

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 section in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10k are categorised as capital receipts. Receipts are required to be credited to the Usable Capital Receipts Reserve, and can then be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Usable Capital Receipts Reserve from the Council Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of long-term 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.

## **1.10 Reserves**

The Council 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 ensure this is not a charge against the Council Fund Balance, the expenditure is funded via an adjustment in the Movement in Reserves Statement.

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

### **1.11 Revenue Expenditure Funded from Capital Under Statute**

This is expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a Long-Term Asset. It is charged as expenditure to the relevant service line(s) in the Comprehensive Income and Expenditure Statement in the year. Where the Council funds such expenditure from capital resources, a transfer in the Movement in Reserves Statement to the Council Fund Balance from the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

### **1.12 Government Grants and Other Contributions**

Government grants and other contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis and recognised in the Comprehensive Income and Expenditure Statement when there is reasonable assurance that;

- the conditions for their receipt have been/will be complied with; and
- the grant or contribution will be received.

Monies advanced where there is no reasonable assurance of the above two criteria are held as creditors in the Balance Sheet.

Revenue grants are credited to the relevant service and capital grants are credited to the Taxation and Non-Specific Grant Income section of the Comprehensive Income and Expenditure Statement.

Where a revenue grant has been recognised in the Comprehensive Income and Expenditure Statement but not yet used to fund expenditure, it is set aside as an Earmarked Reserve.

Where a capital grant has been recognised as income but not yet used to finance capital expenditure, it is credited to Capital Grants Unapplied via the Movement in Reserves Statement. Subsequently, when the funds are used, the grant is transferred from Capital Grant Unapplied Account to Capital Adjustment Account.

Where a claim has yet to be signed off by Audit Wales, Balance Sheet values in relation to grants are included on an unaudited draft claim basis.

### **1.13 Charges to Revenue for Long-Term Assets**

Services are debited with the following items to record the cost of holding Long-Term 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 Assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. Therefore, these charges to the Comprehensive

Income and Expenditure Statement are reversed in the Movement in Reserves Statement.

#### **1.14 Minimum Revenue Provision/Provision for the Repayment of Debt**

The Local Government Act 2003 requires each local authority to set aside a Minimum Revenue Provision (MRP) for debt redemption. In accordance with the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 the Council's accounting treatment is as follows:

**Supported Borrowing:** The MRP on supported borrowing is written off on a straight line basis over 40 years, linked (broadly) to the lives of the Council's assets.

**Unsupported Borrowing:** MRP is charged to the Council Fund Balance as follows:

- Charge in equal instalments (or to match the benefits derived) over the life of the asset created (asset life must be applied for any expenditure capitalised under a Capitalisation Direction);
- Annuity method;
- Charge in accordance with the depreciation of the asset; or
- An alternative appropriate method permitted by the guidance.

**Finance Leases:** In accordance with MRP guidance issued by the Welsh Government, MRP for finance leases, represents the principal element of repayments made by the Council (refer to Lease policies).

#### **1.15 Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

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

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

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

The Council has interests in companies and other entities which are required to be included in the financial statements.

Amgen Cymru Ltd. and Amgen Rhondda Ltd. meet the criteria of subsidiaries and are represented within Long-Term Assets in the Balance Sheet of the financial statements.

Capita Glamorgan Consultancy Ltd. meets the criteria of an associated company.

Due to materiality, Group financial statements have not been produced. The accounts for Amgen Cymru Ltd., Amgen Rhondda Ltd. and Capita Glamorgan Consultancy Ltd. will be available separately once audited.

The Council participates in various Joint Committee arrangements. In line with materiality considerations, only two of these Joint Committees, Central South Consortium Joint Education Service (CSCJES) and Cardiff Capital Region City Deal (CCRCD), have been included within the Council's financial statements. The consolidation has been done on a line-by-line basis, calculated using a reasonable apportionment methodology.

## **2.0 Accounting Standards Issued, Not Adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The standards that may be relevant for additional disclosures that will be required in the 2019/20 and 2020/21 financial statements in respect of accounting changes that are introduced in the 2020/21 Code are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

Appendix C of the 2020/21 Code only includes standards adopted in the Code and therefore for 2019/20 local authorities are not required to include IFRS 16 in their consideration of accounting standards that have been issued but not yet adopted, although this is subject to approval of the 2020/21 Code.

It is not anticipated that the above amendments will have a material impact on the Council's Statement of Accounts.

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

In applying the Accounting Policies set out in note 1.0, the Council has had to make certain judgements about complex transactions and those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

### **3.1 Grants and Contribution Conditions**

Judgements are made in terms of conditions attached to both capital and revenue grants. Grants are recognised as income when received/receivable. Unless there are assumptions that conditions of the grant are breached, a return obligation is not recognised. As a result, capital grants received, with no expected return obligation are reflected in the Capital Grants Unapplied Account until they are used to fund the Capital

Programme. Similarly, revenue grants received with no expected return obligation that are to be used to fund future years' expenditure are reflected in Earmarked Reserves in the Balance Sheet.

### **3.2 Voluntary Aided and Voluntary Controlled Schools**

The Code confirms that the accounting treatment of local authority maintained schools in England and Wales depends on the balance of control. For voluntary aided schools any long-term assets that are not owned by the Council but by another legal body, such as the Diocese, are not to be shown on the Balance Sheet.

The Balance Sheet includes land at St Margaret's Catholic School and playing fields at both St John Baptist Church in Wales High School and Cardinal Newman Comprehensive School, as ownership lies with the Council. When reviewing the existing criteria, the Council does not consider it has any voluntary controlled schools.

### **4.0 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

This Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because assets and liabilities cannot always be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31<sup>st</sup> March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

#### **4.1 Pensions Asset and Liability (including McCloud Judgement, Cost Management process and GMP equalisation and indexation)**

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. AON Hewitt is engaged to provide the Council with advice about the assumptions to be applied.

The effects on the net pension liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways. During 2019/20, AON Hewitt advised that the funded proportion of the Council's net pension liability had decreased by £24.7m due to estimates being corrected as a result of experience and increased by £33.6m attributable to updating of financial assumptions. Refer to note 32.0 for further details.

The Court of Appeal found that the transitional protection arrangements put in place when firefighters' and judges' pension schemes were reformed were age discriminatory. This potentially could have implications for other public sector schemes that were reformed around the same time (including the LGPS) and could potentially lead to members deemed to be discriminated against being compensated. The Supreme Court

denied the Government's application for permission to appeal this judgement on 27<sup>th</sup> June 2019.

The matter will now be referred back to the Employment Tribunal for a remedy hearing. Once a Tribunal makes a finding on remedy, compensation will be awarded and the schemes amended as appropriate.

Legislation requires HM Treasury and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. This is referred to as the "Cost Management Process". HM Treasury and the SAB had paused their reviews following the McCloud judgement in the Court of Appeal. The Cost Management Process will recommence taking into account the remedy and any scheme amendments. No allowance has been made in the disclosures for the outcome of this process.

The pension liability in the Balance Sheet makes allowance for full indexation on all GMPs for members who's state pension age is on or after 6<sup>th</sup> April 2016.

The Coronavirus (COVID-19) pandemic has impacted on global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the RCT Local Government Pension Scheme included statements that there is a material valuation uncertainty related to pooled property funds managed on behalf of the RCT Local Government Pension Scheme. The total value of these funds as at 31<sup>st</sup> March 2020 is £208.9m, of which £68.8m (32.94%) is attributable to RCT CBC.

## **4.2 Insurance Provision**

The Council makes provision for all claims received (but not yet paid) according to the "reserve" value attached to that claim. The reserve value represents the most likely value to settle the claim, not taking into account probability of settlement. Reserve values are provided by the Council's in-house insurance team, claims handlers and loss adjusters depending on the claim type and estimated value of the claim. Motor and property claims are provided for at 100% of the reserve value. Liability claims are provided for at a percentage based on the length of time a claim remains unresolved. This reflects that not all claims received are paid. Some are successfully repudiated. Refer to note 11.0 for further details.

The risks attached to misstatement are that existing claims will change in value (increase or decrease) or be successfully repudiated. An earmarked reserve is established to meet the additional costs relating to the impact of these potential changes in estimates. The earmarked reserve also funds claims or incidents that have occurred but claims are yet to be received. Refer to note 13.2 for further details.

## **4.3 Property, Plant and Equipment**

External valuers undertake formal valuations within a maximum of a 5 year rolling programme to ensure that assets in the Balance Sheet are represented at "current value". Valuations are undertaken in accordance with guidance issued by the Royal Institute of Chartered Surveyors (RICS). Within the computation of the current value valuation, assumptions are made upon the useful lives of assets which could be subject to change in future years.

Our external valuers have advised us that all valuations are subject to the following clause:

### Material Valuation Uncertainty

“The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11<sup>th</sup> March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per Valuation Technical and Performance Standards (VPS) 3 and Valuation Practice Guidance Application (VPGA) 10 of the Royal Institute of Chartered Surveyors (RICS) Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review.”

## **5.0 Events After the Reporting Period**

The audited Statement of Accounts was authorised for issue by the Director of Finance & Digital Services, as Chief Finance Officer, on 25<sup>th</sup> November 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The ongoing response to COVID 19 continues with significant disruption across Council Services with many repurposed, reduced or suspended fully.

In line with legal advice, we have taken advantage of the Governments Coronavirus Job Retention Scheme and registered staff who are in roles funded by fees and charges for services, e.g. Leisure and Catering, in order to mitigate our income losses.

Discussions continue with Welsh Government on funding in respect of the unprecedented financial pressures which all councils in Wales are facing. A Hardship Fund has been agreed at an all Wales level, including support for homelessness, Adult Social Care, Free School Meals and loss of income, against which councils claim for additional costs and income loss in respect of COVID-19.

**6.0 Property, Plant and Equipment****6.1 Movements on Balances****Movements in 2018/19:**

	Other Land & Buildings	Infrastructure	Vehicles, Plant & Equipment	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>						
At 1 <sup>st</sup> April 2018	660,332	609,290	36,805	4,420	60,938	<b>1,371,785</b>
Joint Committees Opening Balance	0	0	0	0	3,112	<b>3,112</b>
Additions	40,703	19,239	5,399	0	45,549	<b>110,890</b>
Revaluation Increases/ (Decreases) Recognised in the Revaluation Reserve	8,174	0	0	0	0	<b>8,174</b>
Revaluation Increases/ (Decreases) Recognised in the Surplus/Deficit on the Provision of Services	(15,361)	0	0	0	0	<b>(15,361)</b>
Derecognition – Disposals	(6,011)	0	(2,168)	0	0	<b>(8,179)</b>
Derecognition – Other	0	0	(2,454)	0	0	<b>(2,454)</b>
Assets Reclassified (to)/from Held for Sale	(1,765)	0	0	0	0	<b>(1,765)</b>
Other Reclassifications	28,869	0	0	1,278	(33,126)	<b>(2,979)</b>
Other Movements in Cost or Valuation	18					<b>18</b>
<b>At 31<sup>st</sup> March 2019</b>	<b>714,959</b>	<b>628,529</b>	<b>37,582</b>	<b>5,698</b>	<b>76,473</b>	<b>1,463,241</b>

*Continued Overleaf...*

<b>Accumulated Depreciation and Impairment</b>						
At 1 <sup>st</sup> April 2018	(84,098)	(177,652)	(28,542)	(743)	0	<b>(291,035)</b>
Joint Committees Opening Balance	0	0	0	0	0	<b>0</b>
Depreciation Charge	(13,333)	(11,523)	(4,018)	0	0	<b>(28,874)</b>
Depreciation Written Out of the Revaluation Reserve	2,474	0	0	0	0	<b>2,474</b>
Depreciation Written Out to the Surplus/Deficit on the Provision of Service	851	0	0	0	0	<b>851</b>
Impairment (Losses)/Reversals Recognised in the Revaluation Reserve	(4,370)	0	0	0	0	<b>(4,370)</b>
Impairment (Losses)/Reversals Recognised in the Surplus/Deficit on the Provision of Services	(15,678)	(243)	(2,454)	0	0	<b>(18,375)</b>
Derecognition – Disposals	1,456	0	2,085	0	0	<b>3,541</b>
Derecognition – Other	0	0	2,454	0	0	<b>2,454</b>
Assets Reclassified (to)/from Held for Sale	691	0	0	0	0	<b>691</b>
Other Reclassifications	153	0	0	(105)	0	<b>48</b>
Other Movements in Cost or Valuation	(18)	0	0	0	0	<b>(18)</b>
<b>At 31<sup>st</sup> March 2019</b>	<b>(111,872)</b>	<b>(189,418)</b>	<b>(30,475)</b>	<b>(848)</b>	<b>0</b>	<b>(332,613)</b>
<b>Net Book Value:</b>						
<b>At 31<sup>st</sup> March 2019</b>	<b>603,087</b>	<b>439,111</b>	<b>7,107</b>	<b>4,850</b>	<b>76,473</b>	<b>1,130,628</b>
<b>At 31<sup>st</sup> March 2018</b>	<b>576,234</b>	<b>431,638</b>	<b>8,263</b>	<b>3,677</b>	<b>64,050</b>	<b>1,083,862</b>

**Movements in 2019/20:**

	Other Land & Buildings	Infrastructure	Vehicles, Plant & Equipment	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>						
At 1 <sup>st</sup> April 2019	714,959	628,529	37,582	5,698	70,918	1,457,686
Joint Committees Opening Balance	0	0	0	0	5,555	5,555
Additions	52,240	26,710	7,852	574	11,796	99,172
Revaluation Increases/ (Decreases) Recognised in the Revaluation Reserve	26,903	0	0	0	0	26,903
Revaluation Increases/ (Decreases) Recognised in the Surplus/Deficit on the Provision of Services	(59,152)	0	0	(26)	0	(59,178)
Derecognition – Disposals	(2,069)	0	(3,231)	0	0	(5,300)
Derecognition – Other	0	0	(3,340)	0	0	(3,340)
Assets Reclassified (to)/from Held for Sale	877	0	0	0	0	877
Other Reclassifications	47,743	0	0	0	(47,743)	0
Other Movements in Cost or Valuation	0	0	0	0	0	0
<b>At 31<sup>st</sup> March 2020</b>	<b>781,501</b>	<b>655,239</b>	<b>38,863</b>	<b>6,246</b>	<b>40,526</b>	<b>1,522,375</b>

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<b>Accumulated Depreciation and Impairment</b>						
At 1 <sup>st</sup> April 2019	(111,872)	(189,418)	(30,475)	(848)	0	<b>(332,613)</b>
Joint Committees Opening Balance	0	0	0	0	0	<b>0</b>
Depreciation Charge	(15,922)	(12,338)	(3,257)	0	0	<b>(31,517)</b>
Depreciation Written Out of the Revaluation Reserve	15,095	0	0	0	0	<b>15,095</b>
Depreciation Written Out to the Surplus/Deficit on the Provision of Service	4,721	0	0	0	0	<b>4,721</b>
Impairment (Losses)/Reversals Recognised in the Revaluation Reserve	2,623	0	0	0	0	<b>2,623</b>
Impairment (Losses)/Reversals Recognised in the Surplus/Deficit on the Provision of Services	21,484	(2,150)	(3,340)	(548)	0	<b>15,446</b>
Derecognition – Disposals	422	0	3,131	0	0	<b>3,553</b>
Derecognition – Other	0	0	3,340	0	0	<b>3,340</b>
Assets Reclassified (to)/from Held for Sale	(89)	0	0	0	0	<b>(89)</b>
Other Reclassifications	0	0	0	0	0	<b>0</b>
Other Movements in Cost or Valuation	0	0	0	0	0	<b>0</b>
<b>At 31<sup>st</sup> March 2020</b>	<b>(83,538)</b>	<b>(203,906)</b>	<b>(30,601)</b>	<b>(1,396)</b>	<b>0</b>	<b>(319,441)</b>
<b>Net Book Value:</b>						
<b>At 31<sup>st</sup> March 2020</b>	<b>697,963</b>	<b>451,333</b>	<b>8,262</b>	<b>4,850</b>	<b>40,526</b>	<b>1,202,934</b>
<b>At 31<sup>st</sup> March 2019</b>	<b>603,087</b>	<b>439,111</b>	<b>7,107</b>	<b>4,850</b>	<b>76,473</b>	<b>1,130,628</b>

## 6.2 Capital Commitments

At 31<sup>st</sup> March 2020 the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years, budgeted to cost £16.9m. Similar commitments at 31<sup>st</sup> March 2019 were £42.5m.

Within this amount the significant contract values as at 31<sup>st</sup> March 2020 are:

<b>Scheme</b>	<b>£'000</b>
Treorchy Secondary School	1,213
Tonyrefail School Modernisation	3,033
Llys Cadwyn (Taff Vale Development)	2,720
Hirwaun Primary School	5,906
Mountain Ash Cross Valley Link	3,284
<b>Total</b>	<b>16,156</b>

## 6.3 Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every 5 years. Valuations are carried out by the Council's appointed valuer. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the current values are:

- Valuations include the cost of construction on a modern equivalent basis.
- The cost has been depreciated to account for the age and future economic life of the buildings.
- Valuations are subject to the prospect and viability of the continuance of the occupation and use of the property.

Please refer to note 4.3 for the material uncertainty clause on our valuations.

## 7.0 Financial Instruments

### 7.1 Categories of Financial Instruments

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

<b>Assets</b>	<b>Long-Term</b>		<b>Current</b>	
	<b>31/03/19</b>	<b>31/03/20</b>	<b>31/03/19</b>	<b>31/03/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Investments: Loans and Receivables	4,500	4,250	26,083	35,405
Debtors: Financial Assets Carried at Contract Amounts	803	4,939	69,234	83,479
<b>Total</b>	<b>5,303</b>	<b>9,189</b>	<b>95,317</b>	<b>118,884</b>

Liabilities	Long-Term		Current	
	31/03/19	31/03/20	31/03/19	31/03/20
	£'000	£'000	£'000	£'000
Borrowings: Financial Liabilities at Amortised Cost	248,518	314,278	84,987	60,776
Finance Lease Liabilities	384	383	1	1
Creditors: Financial Liabilities at Amortised Cost	0	0	13,733	32,151
<b>Total</b>	<b>248,902</b>	<b>314,661</b>	<b>98,721</b>	<b>92,928</b>

There are no expected credit loss calculations for the financial assets. The value of creditors in the table relates to invoices authorised for payment by the Council but remaining unpaid at year-end. This balance is included within the Balance Sheet heading *Short-Term Creditors*.

## 7.2 Income, Expense, Gains and Losses

	2018/19			2019/20		
	Financial Liabilities Measured at Amortised Cost	Financial Assets: Loans and Receivables	Total	Financial Liabilities Measured at Amortised Cost	Financial Assets: Loans and Receivables	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest Expense	10,369	0	10,369	11,505	0	11,505
Impairment Losses	0	0	0	0	0	0
<b>Total Expense in (Surplus) or Deficit on the Provision of Services</b>	<b>10,369</b>	<b>0</b>	<b>10,369</b>	<b>11,505</b>	<b>0</b>	<b>11,505</b>
Interest Income	0	(1,191)	(1,191)	0	(652)	(652)
Interest Income Accrued on Impaired Financial Assets	0	0	0	0	0	0
<b>Total Income in (Surplus) or Deficit on the Provision of Services</b>	<b>0</b>	<b>(1,191)</b>	<b>(1,191)</b>	<b>0</b>	<b>(652)</b>	<b>(652)</b>
<b>Net (Gain)/Loss for the Year</b>	<b>10,369</b>	<b>(1,191)</b>	<b>9,178</b>	<b>11,505</b>	<b>(652)</b>	<b>10,853</b>

## 7.3 Fair Value of Assets and Liabilities

Financial liabilities, financial assets (represented by loans and receivables) and long-term debtors and creditors 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:

- Loans borrowed by the Council have been valued by discounting the contractual cashflows over the whole life of the instrument at the appropriate market rate for Local Authority loans.

- No early repayment or impairment is recognised.
- Where a financial instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

The fair values calculated are as follows:

	31/03/19		31/03/20	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB Debt	170,720	232,859	242,393	305,445
Market Debt	85,523	134,713	85,515	138,058
Local Authority Debt	77,187	77,187	47,078	47,079
Other Debt	75	75	68	68
Finance Lease	385	385	384	384
Trade Creditors	13,733	13,733	32,151	32,151
<b>Total</b>	<b>347,623</b>	<b>458,952</b>	<b>407,589</b>	<b>523,185</b>

	31/03/19		31/03/20	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables	30,573	30,583	39,655	39,650

The fair values for PWLB debt and market debt have been calculated using level 2 in the fair value hierarchy. Please see note 1.9.2 in the accounting policies for the explanation of these levels.

#### **7.4 Nature and Extent of Risks Arising from Financial Instruments**

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

##### **Key Risks**

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity Risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Refinancing and Maturity Risk – the possibility that the Council may be required to renew a financial instrument on maturity at less favourable interest rates or terms.
- Market Risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

## **7.5 Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the unpredictability of the financial markets and implementing restrictions to minimise these risks. The procedures for risk management are defined in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. This Council complies with these requirements by:

- Formally adopting the requirements of the Code of Practice.
- By adopting a Treasury Management Policy Statement and Treasury Management Clauses being incorporated into Financial Procedure Rules.
- Approving annually in advance Prudential and Treasury Indicators for the following three years.
- Approving an Investment Strategy for the forthcoming year setting out criteria for both investing and selecting investment counterparties in compliance with guidance from the Welsh Government.
- Approving a Capital Strategy report which provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of Council services along with an overview of the associated risk, its management and the implications for future financial sustainability.

These are required to be reported and approved before the start of the year to which they relate. The Treasury Management Strategy outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is reported in a mid-year review to Members, in addition to a full year review and also included within quarterly performance reports.

Policies are implemented by a corporate Treasury Management team. The Council maintains 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 through Treasury Management Practices (TMPs). The TMPs are a requirement of the Code of Practice and are reviewed periodically.

The Treasury Management Strategy and Capital Strategy are available on the Council's website.

## **7.6 Credit Risk**

Credit Risk arises from deposits with banks and financial institutions as well as credit exposures to the Council's customers.

This risk is minimised through the Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. Such criteria include credit ratings assigned by credit ratings agencies. The Investment Strategy also imposes a maximum amount and duration to be invested with a financial institution. The Council undertakes appropriate due diligence and puts in place appropriate security arrangements when lending to organisations. There are also other criteria and controls in place regarding counterparty selection, further details of which can be found in the approved Treasury Management Strategy.

The following analysis summarises the Council's potential maximum exposure to credit risk. The default rates give details of the Council's experience of its customer collection levels.

	<b>31/03/20</b>	<b>Historical Experience of Default</b>	<b>Adjustment for Market Conditions at 31/03/20</b>	<b>Estimated Maximum Exposure to Default at 31/03/20</b>	<b>Estimated Maximum Exposure to Default at 31/03/19</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(a*c)</b>	
	<b>£'000</b>	<b>%</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Deposits with Government Departments & Local Authorities	39,650	0	0	0	0
Trade Debtors	14,602	0.54	0.54	79	62

The 0.54% Historical Experience of Default represents debt written off in 2019/20 expressed as a percentage of invoices raised during that year. This percentage is not the basis of the Bad Debt Provision, which is calculated using various percentages designed to reflect the risk of debts of various ages not being collectable, as opposed to the far lower rate of actual write-offs for the year.

Investments with the Debt Management Office and other Government backed public bodies have the rating applicable to Government borrowing.

The Council does not generally allow credit for its trade debtors. However, £3.9m of the £14.6m balance is debt greater than 30 days old. This debt can be analysed as follows:

	<b>31/03/19</b>	<b>31/03/20</b>
	<b>£'000</b>	<b>£'000</b>
Less than 3 months	1,309	1,057
3 – 6 months	374	392
6 months to 1 year	529	1,109
More than 1 year	1,355	1,331
<b>Total</b>	<b>3,567</b>	<b>3,889</b>

## **7.7 Liquidity Risk**

The Council manages its liquidity position through effective cash flow management procedures.

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and whilst the PWLB provides access to longer-term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to produce a balanced budget in accordance with the Local Government Finance Act 1992, which ensures sufficient

monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

## 7.8 Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits set on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the Council's Treasury Management team manage operational risks within approved parameters.

This includes;

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day-to-day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of the principal value of the Rhondda Cynon Taf CBC element of financial liabilities is as follows:

	31/03/19	31/03/20
	£'000	£'000
Less than 1 year	79,451	57,492
Between 1 and 2 years	2,376	10,420
Between 2 and 5 years	7,674	31,259
Between 5 and 10 years	38,840	22,012
More than 10 years	203,316	251,918
<b>Total</b>	<b>331,657</b>	<b>373,101</b>

The maturity analysis of financial assets is as follows:

	31/03/19	31/03/20
	£'000	£'000
Maturity greater than one year	4,500	4,250
Maturity less than one year	26,073	35,405
<b>Total</b>	<b>30,573</b>	<b>39,655</b>

Trade Debtors are not included in the table above.

## 7.9 Market Risk

### Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact upon the Council, depending how variable and fixed rates move across differing financial instrument periods.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. The Council's Treasury Management team, together with the appointed Treasury Management Advisors, monitor the market and forecast interest rates within the year to adjust the Council's exposures appropriately.

If all interest rates had been 1% higher (with all other variables being constant) the financial effect would be:

	<b>£'000</b>
Increase in interest payable on variable rate borrowings	1
Increase in interest receivable on variable rate investments	N/A
<b>Impact on Comprehensive Income and Expenditure Statement</b>	<b>1</b>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES)	38,487

The approximate impact of a 1% fall in interest rates would also be as above.

## 8.0 Short-Term Debtors

An analysis of Short-Term Debtors in the Balance Sheet is as follows:

<b>31/03/19</b>		<b>31/03/20</b>
<b>£'000</b>		<b>£'000</b>
36,853	Central Government Bodies	44,691
1,286	Other Local Authorities	8,022
7,754	NHS Bodies	10,823
16	Public Corporations and Trading Funds	510
23,325	Other Entities and Individuals	19,433
<b>69,234</b>	<b>Total</b>	<b>83,479</b>

**Debtors for Local Taxation**

The past due date but not impaired amount for Council Tax can be analysed by age as follows:

<b>2018/19</b>		<b>2019/20</b>
<b>£'000</b>		<b>£'000</b>
2,990	Less than 1 year	3,489
1,116	1 year to 2 years	1,322
723	2 years to 3 years	780
428	3 years to 4 years	535
287	4 years to 5 years	340
845	More than 5 years	894
<b>6,389</b>	<b>Total</b>	<b>7,360</b>

**9.0 Cash and Cash Equivalents**

The Cash and Cash Equivalents are made up of the following elements:

<b>31/03/19</b>		<b>31/03/20</b>
<b>£'000</b>		<b>£'000</b>
8,361	Cash Held by the Council	10,181
(11,535)	Bank Current Accounts	(14,905)
<b>(3,174)</b>	<b>Total Cash and Cash Equivalents</b>	<b>(4,724)</b>

Short-term cash surpluses are invested in line with the investment strategy and are represented in the Balance Sheet as "Short-Term Investments". Bank Current Accounts represent the position of the bank account as at 31<sup>st</sup> March 2020 adjusted for unrepresented cheques.

**10.0 Short-Term Creditors**

An analysis of Short-Term Creditors in the Balance Sheet is as follows:

<b>31/03/19</b>		<b>31/03/20</b>
<b>£'000</b>		<b>£'000</b>
(9,741)	Central Government Bodies	(11,593)
(21,219)	Other Local Authorities	(7,542)
(4,667)	NHS Bodies	(9,990)
(151)	Public Corporations and Trading Funds	1,015
(58,705)	Other Entities and Individuals	(65,483)
<b>(94,483)</b>	<b>Total</b>	<b>(93,593)</b>

**11.0 Provisions**

Provisions are amounts set aside for specific future costs, which are likely to be incurred, but the amount or timing of which cannot be determined accurately. Provisions for bad debts are shown as a deduction from debtors.

Movements in provisions during the year were:

Short-Term Provision	Land Purchases and Part 1 Claims	Insurance Claims	Total
	£'000	£'000	£'000
<b>Balance at 1<sup>st</sup> April 2019</b>	<b>(534)</b>	<b>(1,659)</b>	<b>(2,193)</b>
Additional provisions made in 2019/20	0	(1,224)	<b>(1,224)</b>
Amounts used in 2019/20	9	1,139	<b>1,148</b>
Unused amounts reversed in 2019/20	0	520	<b>520</b>
<b>Balance at 31<sup>st</sup> March 2020</b>	<b>(525)</b>	<b>(1,224)</b>	<b>(1,749)</b>

Long-Term Provision	Insurance Claims	Joint Committees	Total
	£'000	£'000	£'000
<b>Balance at 1<sup>st</sup> April 2019</b>	<b>(1,670)</b>	<b>(152)</b>	<b>(1,822)</b>
Additional provisions made in 2019/20	(2,765)	(76)	<b>(2,841)</b>
Amounts used in 2019/20	1,429	0	<b>1,429</b>
Unused amounts reversed in 2019/20	585	0	<b>585</b>
<b>Balance at 31<sup>st</sup> March 2020</b>	<b>(2,421)</b>	<b>(228)</b>	<b>(2,649)</b>

## 12.0 Other Long-Term Liabilities

An analysis of Other Long-Term Liabilities is given in the following table:

31/03/19		31/03/20
£'000		£'000
(608,638)	Pension Liability (IAS19)	(657,634)
(589)	Other	(585)
<b>(609,227)</b>	<b>Total</b>	<b>(658,219)</b>

### 13.0 Usable Reserves

31/03/19			31/03/20
£'000			£'000
10,498	Council Fund Balance	13.1	8,709
63,707	Capital, Treasury and Insurance Reserves	13.2	69,616
41,867	Other Revenue Related Reserves	13.2	39,028
3,007	Delegated Schools Reserve		2,384
3,343	Usable Capital Receipts Reserve	13.3	1,750
16,966	Capital Grant Unapplied Account	13.4	24,934
391	MGCC Insurance Reserve		136
<b>139,779</b>	<b>Total Usable Reserves</b>		<b>146,557</b>

### 13.1 Council Fund Balance

Council Fund Balances are accumulated working balances and relate to general fund services. These exclude "ring-fenced" Council services such as Delegated Schools.

Movements in the Council Fund Balance during 2019/20 were:

	£'000
<b>Council Fund Reserves as at 31<sup>st</sup> March 2019</b>	<b>10,498</b>
Release of Council Fund Reserves to support Storm Dennis recovery work	(1,500)
Revenue Budget Out-turn	(289)
<b>Council Fund Reserves as at 31<sup>st</sup> March 2020</b>	<b>8,709</b>

### 13.2 Earmarked Reserves

This note sets out the amounts set aside from the Council Fund Balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Council Fund expenditure in 2019/20. All earmarked reserves are deemed to be revenue reserves.

#### Capital, Treasury and Insurance Reserves

Reserve	Purpose	Balance at	Transfers	Transfers	Balance at
		31/03/19	Out	In	31/03/20
		£'000	£'000	£'000	£'000
<b>Capital Developments</b>	Resources set-aside from revenue budget, earmarked to fund the Council's approved 3-year capital programme.	<b>52,655</b>	(2,421)	8,795	<b>59,029</b>
<b>Treasury Management Reserve</b>	Funding for known and potential future pressures upon the Capital Financing budget.	<b>2,465</b>	0	0	<b>2,465</b>
<b>Insurance Reserve</b>	To provide for estimated costs of incidents that have occurred during the policy year but have not yet resulted in a claim being received.	<b>8,587</b>	(465)	0	<b>8,122</b>
<b>Total</b>		<b>63,707</b>	<b>(2,886)</b>	<b>8,795</b>	<b>69,616</b>

**Other Revenue Related Reserves**

Reserve	Purpose	Balance at	Transfers	Transfers	Balance at
		31/03/19	Out	In	31/03/20
		£'000	£'000	£'000	£'000
<b>Revenue Budget Strategy 2019/20</b>	Medium Term Financial Planning & Service Transformation (transitional funding) to be released to fund the 2019/20 budget.	1,537	(1,537)	0	0
<b>Revenue Budget Strategy 2020/21</b>	Medium Term Financial Planning & Service Transformation (transitional funding) to be released to fund the 2020/21 budget.	0	0	800	800
<b>Joint Committee Reserve</b>	Reflects the Council's share of General and Earmarked Reserves of the Joint Committees in which it has an interest.	761	0	482	1,243
<b>Revenue Grant Reserves (IFRS)</b>	Carry forward of Revenue Grants not yet applied to spend - required accounting treatment to comply with International Financial Reporting Standards.	3,856	(3,856)	2,600	2,600
<b>Financial Management and Human Resources Risk Management</b>	Resources set aside as cover for future liabilities relating to various risks identified and being managed.	13,636	(12,984)	12,635	13,287
<b>Investment / Infrastructure</b>	To fund current and future costs of maintaining and enhancing infrastructure across the County Borough	6,534	(5,346)	5,047	6,235
<b>Prior Year Commitments</b>	Carry forward of existing funding to finance projects for which commitments have already been made in the prior year.	5,888	(2,688)	5,216	8,416
<b>Medium Term Financial Planning and Service Transformation</b>	Resources set aside as transitional (one-off) funding to support the Council's medium-term financial and service planning requirements.	3,303	(800)	1,059	3,562
<b>Other Specific Reserves</b>	Represents a number of reserves held for specific and identified purposes.	3,296	(1,718)	1,307	2,885
<b>Invest to Save</b>	Funding identified (pump priming) to support Invest to Save opportunities as and when they arise.	3,056	(3,056)	0	0
<b>Total</b>		<b>41,867</b>	<b>(31,985)</b>	<b>29,146</b>	<b>39,028</b>

### 13.3 Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve is the proportion of capital receipts that may be used to finance capital expenditure.

The movements on the reserve are as follows:

2018/19		2019/20
£'000		£'000
1,127	<b>Balance as at 1<sup>st</sup> April</b>	<b>3,343</b>
	<u>Receipts during the year:</u>	
2,626	Sale of assets	2,131
0	Mortgage repayments	0
2	Repayment of discount (Right to Buys)	0
	<u>Application during the year:</u>	
(412)	Financing of capital expenditure	(3,724)
<b>3,343</b>	<b>Balance as at 31<sup>st</sup> March</b>	<b>1,750</b>

### 13.4 Capital Grant Unapplied Account

The Capital Grant Unapplied Account consists of Capital Grants and Contributions received and credited to Comprehensive Income and Expenditure Statement but not yet applied to fund capital expenditure. It represents resources available to fund future capital expenditure. It is assumed that the conditions of grants held within this account will be met.

2018/19		2019/20
£'000		£'000
7,396	<b>Balance at 1<sup>st</sup> April</b>	<b>16,966</b>
42,649	Grants received	71,194
(33,079)	Grants utilised to fund capital expenditure	(63,226)
<b>16,966</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>24,934</b>

### 14.0 Unusable Reserves

These are reserves established as a result of various regulations to ensure costs chargeable to Council Tax are appropriate. They do not represent resources available for the general use of the Council.

31/03/19			31/03/20
£'000			£'000
171,042	Revaluation Reserve	14.1	209,318
3	Deferred Capital Receipts Reserve		1,272
503,909	Capital Adjustment Account	14.2	511,372
(5,573)	Financial Instruments Adjustment Account	14.3	(5,487)
(608,638)	Pensions Reserve	14.4	(657,634)
(4,476)	Short-Term Accumulating Compensated Absence Account		(5,666)
<b>56,267</b>	<b>Total Unusable Reserves</b>		<b>53,175</b>

### 14.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment 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<sup>st</sup> 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.

2018/19		2019/20	
£'000		£'000	£'000
<b>172,236</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>171,042</b>	
12,617	Upward revaluation of assets	54,263	
(6,659)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(9,658)	
<b>178,194</b>	<b>Surplus or Deficit on revaluation of Long-Term Assets not posted to the Surplus or Deficit on the Provision of Services</b>		<b>215,647</b>
(4,672)	Difference between Current Value Depreciation and Historical Cost Depreciation	(5,722)	
(2,480)	Accumulated Gains on Assets sold or scrapped	(607)	
<b>(7,152)</b>	<b>Amount written off to the Capital Adjustment Account</b>		<b>(6,329)</b>
<b>171,042</b>	<b>Balance at 31<sup>st</sup> March</b>		<b>209,318</b>

## **14.2 Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of Long-Term 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 amortisation 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 Council as finance for the costs of acquisition, construction and enhancement.

This account also contains revaluation gains accumulated on Property, Plant and Equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

2018/19 £'000		2019/20	
		£'000	£'000
485,926	<b>Balance at 1<sup>st</sup> April</b>	503,909	
	Reversal of items relating to Capital Expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(46,285)	Charges for depreciation and impairment of Long-Term Assets*	(11,343)	
(15,619)	Revaluation losses on Property, Plant and Equipment	(59,139)	
873	Movement in the market value of Investment Properties	0	
(1,388)	Amortisation of Intangible Assets	(1,593)	
(9,023)	Revenue Expenditure Funded from Capital Under Statute	(20,297)	
(5,341)	Amounts of Long-Term Assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,421)	
7,152	Adjusted items written out of the Revaluation Reserve	6,329	
0	Joint Committee Adjustments	(53)	
<b>416,295</b>	<b>Net written out amount of the cost of Long-Term Assets consumed in the year</b>		<b>414,392</b>
	Capital Financing Applied in the Year:		
412	Use of the Capital Receipts Reserve to finance new Capital Expenditure	3,724	
30,181	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	52,482	
2,951	Application of grants to capital financing from the Capital Grants Unapplied Account	10,744	
11,529	Statutory provision for the financing of capital investment charged against the Council Fund	12,191	
42,541	Capital Expenditure charged against the Council Fund	17,839	
<b>87,614</b>			<b>96,980</b>
<b>503,909</b>	<b>Balance at 31<sup>st</sup> March</b>		<b>511,372</b>

\* Charges for depreciation and impairment of long-term assets include credits representing reversal of accumulated depreciation and impairment, and debits representing in year changes.

### 14.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account represents the accumulated difference between the financing costs included in the Comprehensive Income and Expenditure Statement and the accumulated financing costs required in accordance with regulations to be charged to the Council Fund Balance. As at 31<sup>st</sup> March 2020 there was a credit balance of £5.5m (credit balance of £5.6m as at 31<sup>st</sup> March 2019).

### 14.4 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 Council 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 Council 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 Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits are due to be paid.

2018/19		2019/20
£'000		£'000
<b>(611,858)</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>(608,638)</b>
45,004	Actuarial gains or (losses) on Pensions Assets and Liabilities	(16,789)
(81,340)	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	(72,897)
39,556	Employer's pensions contributions and direct payments to pensioners payable in the year	40,690
<b>(608,638)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(657,634)</b>

**15.0 Cash Flow Statement – Adjustments to Net (Surplus) or Deficit on the Provision of Services for Non-Cash Movements**

2018/19		2019/20
£'000		£'000
(61,904)	Depreciation and Impairment	(70,482)
(1,388)	Amortisation	(1,593)
(13,613)	(Increase)/Decrease in Creditors	(3,256)
15,381	Increase/(Decrease) in Debtors	18,381
101	Increase/(Decrease) in Stock	(11)
(41,784)	Movement in Pension Liability	(32,207)
55	Contribution to Provisions	(383)
1,280	Short-Term Accumulated Absence Accrual	(1,190)
(5,341)	Carrying amount of Long-Term Assets and Assets Held For Sale, sold or derecognised	(3,421)
(8,236)	Other non-cash items charged to the Net (Surplus) or Deficit on the Provision of Services	(21,433)
<b>(115,449)</b>	<b>Adjustments to Net (Surplus) or Deficit on the Provision of Services for Non-Cash Movements</b>	<b>(115,595)</b>

**16.0 Cash Flow Statement - Adjustments for Items Included in the Net (Surplus) or Deficit on the Provision of Services that are Investing and Financing Activities**

2018/19		2019/20
£'000		£'000
2,626	Proceeds from the sale of Property, Plant & Equipment, Investment Property and Intangible Assets	2,131
40,339	Any other items for which the cash effects are investing or financing cash flows	58,951
<b>42,965</b>		<b>61,082</b>

**17.0 Cash Flow Statement – Interest within Operating Activities**

The following table details interest received and interest paid included within 'Net Cash Flows from Operating Activities' on the Cash Flow Statement.

2018/19		2019/20
£'000		£'000
(1,191)	Interest received	(652)
10,369	Interest paid	11,505
<b>9,178</b>	<b>Interest within Operating Activities</b>	<b>10,853</b>

**18.0 Cash Flow Statement - Investing Activities**

2018/19		2019/20
£'000		£'000
119,441	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	125,639
11,242	Purchase and Redemption of Short-Term and Long-Term Investments	9,072
(2,626)	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(2,131)
(40,339)	Other receipts from Investing Activities	(58,951)
<b>87,718</b>	<b>Net Cash Flows from Investing Activities</b>	<b>73,629</b>

**19.0 Cash Flow Statement - Financing Activities**

2018/19		2019/20
£'000		£'000
(229,870)	Cash receipts of Short and Long-Term Borrowing	(154,250)
1	Cash payments for the reduction of the outstanding liabilities relating to Finance Leases	1
168,960	Repayments of Short and Long-Term Borrowing	112,552
<b>(60,909)</b>	<b>Net Cash Flows from Financing Activities</b>	<b>(41,697)</b>

**20.0 Notes to the Expenditure and Funding Analysis****20.1 Adjustments between Funding and Accounting Basis 2018/19**

Adjustments from General Fund to Arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes £'000s	Net change for the Pensions Adjustments £'000s	Other Differences £'000s	Total Adjustments £'000s
Prosperity, Development & Frontline Services	9,665	557	5,220	15,442
Chief Executive	1,219	22,624	16,106	39,949
Education & Inclusion Services	28,364	1,192	987	30,543
Community & Childrens Services	7,774	1,875	(4,697)	4,952
Authority Wide Budgets	(30,072)	2	(11,989)	(42,059)
Joint Committees	0	0	(2,505)	(2,505)
<b>Net Cost of Services</b>	<b>16,950</b>	<b>26,250</b>	<b>3,122</b>	<b>46,322</b>
Other income and expenditure from the Expenditure and Funding Analysis	(37,570)	15,380	17,525	(4,665)
<b>Difference between General Fund (surplus) or deficit and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services</b>	<b>(20,620)</b>	<b>41,630</b>	<b>20,647</b>	<b>41,657</b>

**Adjustments between Funding and Accounting Basis 2019/20**

Adjustments from General Fund to Arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes £'000s	Net change for the Pensions Adjustments £'000s	Other Differences £'000s	Total Adjustments £'000s
Prosperity, Development & Frontline Services	29,132	14,966	107	44,205
Chief Executive	6,736	(8,492)	1,439	(317)
Education & Inclusion Services	35,041	4,595	(6,790)	32,846
Community & Children's Services	5,011	7,259	(1,257)	11,013
Authority Wide Budgets	(25,495)	(8)	(15,388)	(40,891)
Joint Committees	0	0	(234)	(234)
<b>Net Cost of Services</b>	<b>50,425</b>	<b>18,320</b>	<b>(22,123)</b>	<b>46,622</b>
Other income and expenditure from the Expenditure and Funding Analysis	(59,254)	13,660	21,314	(24,280)
<b>Difference between General Fund (surplus) or deficit and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services</b>	<b>(8,829)</b>	<b>31,980</b>	<b>(809)</b>	<b>22,342</b>

Details of the total adjustments above are within the Movement in Reserves Statement.

**20.2 Expenditure and Income Analysed by Nature**

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

	2018/19 (Restated)	2019/20
<b>Expenditure</b>	<b>£'000</b>	<b>£'000</b>
Employee Benefits Expenses	350,581	351,485
Other Services Expenses	343,922	350,543
Depreciation, Amortisation and Impairment	72,315	92,372
Interest Payments	10,369	11,505
Precepts and Levies	31,428	33,801
Loss on the Disposal of Assets	2,716	22
<b>Total Expenditure</b>	<b>811,331</b>	<b>839,728</b>
<b>Income</b>		
Fees, Charges and Other Service Income	(233,204)	(250,277)
Interest and Investment Income	(1,191)	(652)
Income from Council Tax and NNDR	(206,162)	(212,313)
Gain on the Disposal of Assets	0	0
Government Grants and Contributions	(328,895)	(352,355)
<b>Total Income</b>	<b>(769,452)</b>	<b>(815,597)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>41,879</b>	<b>24,131</b>

## 21.0 Members' Allowances

The Local Authorities (Allowances for Members of County and County Borough Councils and National Parks Authorities) (Wales) Regulations 2002, require authorities to make public their schemes for Members' allowances and to disclose annually amounts paid to each Member under such schemes.

During the year the Council paid the following amounts in respect of basic allowances, special responsibility allowances and dependent care allowances to 75 Members (excluding employer's national insurance contributions, employer's pension contribution and other associated costs).

	2018/19	2019/20
	£'000	£'000
Allowances	1,310	1,322
Expenses	11	29
<b>Total</b>	<b>1,321</b>	<b>1,351</b>

Details of all remuneration and allowances paid annually by the Council to each Councillor and Co-opted Member will be published on the Council's website following the end of each financial year.

## 22.0 Officers' Remuneration

Statutory guidance issued by Welsh Ministers recommends the use of pay multipliers as a means of measuring the relationship between pay rates across the workforce and that of senior managers, as included within the Hutton 'Review of Fair Pay in the Public Sector' (2010).

Rhondda Cynon Taf's remuneration ratio is 1:8 (1:8 in 2018/19) with the median earnings being £18,612 (£18,246 in 2018/19). This is the ratio between the Chief Executive's pay and the median earnings of the workforce within the Council, including employees of Central South Consortium and Voluntary Aided Schools, using current pay levels.

Under the Accounts and Audit (Wales) Regulations 2014 (as amended), local authorities must disclose in their accounts the number of employees whose remuneration in the year fell in each bracket of a scale in multiples of £5,000 commencing at £60,000 (excluding employer pension contributions). The disclosure includes redundancy payments.

During 2019/20 the average number of employees paid per month by the Council was 9,887 (9,943 2018/19), paying total remuneration of £231m (excluding employer's national insurance and pension contributions) (£227m 2018/19). Within this, the following remuneration payments were made within the categories specified:

Remuneration Band	2018/19	2019/20		
	No. of Employees	No. of Employees		
	Total	At 31/03/20	Left in Year	Total
£60,000 - £64,999	65	76	1	77
£65,000 - £69,999	26	50	2	52
£70,000 - £74,999	4	10	0	10
£75,000 - £79,999	12	2	2	4
£80,000 - £84,999	3	4	0	4
£85,000 - £89,999	5	4	0	4
£90,000 - £94,999	2	7	0	7
£95,000 - £99,999	3	2	0	2
£100,000 - £104,999	0	1	0	1
£105,000 - £109,999	0	0	0	0
£110,000 - £114,999	0	0	0	0
£115,000 - £119,999	0	0	0	0
£120,000 - £124,999	1	1	1	2
<b>Total</b>	<b>121</b>	<b>157</b>	<b>6</b>	<b>163</b>

Officers employed by Voluntary Aided Schools have been excluded.

Salary costs for Joint Committees are not included in the above note, but can be found in the relevant Joint Committee Statement of Accounts. However, a percentage of Joint Committee salaries has been consolidated into the Net Cost of Services within the Comprehensive Income and Expenditure Statement.

The above table excludes specific Senior Officers, disclosed in the following table.

The following table sets out the remuneration for specific Senior Officers;

- Senior Officers whose salary is £60,000 or more per annum but less than £150,000. These are identified by job title.
- Senior Officers whose salary is £150,000 or more on an annualised basis. These are identified by name.
- Employer pension contributions are included.

Post Holder Information  (Post Title)	2018/19			2019/20						
	Total Remuneration	Employer's Pension Contributions	Total Remuneration Including Employer's Pension Contributions	Salary	Taxable Benefits in Kind	Compensation for Loss of Employment		Total Remuneration	Employer's Pension Contributions	Total Remuneration Including Employer's Pension Contributions
						Redundancy	Early Access Costs			
£'000			£'000							
Chief Executive - Chris Bradshaw	147	38	185	151	0	0	0	151	39	190
Group Director, Community & Children's Services (Deputy Chief Executive wef 11/03/19)	118	30	148	121	0	0	0	121	31	152
Group Director Corporate & Frontline Services (Deputy Chief Executive) to 10/03/19	111	29	140	0	0	0	0	0	0	0
Group Director, Prosperity, Development & Frontline Services wef 11/03/19	6	2	8	120	1	0	0	121	31	152
Director - Highways & Streetcare to 10/03/19	84	21	105	0	0	0	0	0	0	0
Temporary Director of Education & Lifelong Learning to 31/08/18	37	0	37	0	0	0	0	0	0	0

*Continued Overleaf...*

Director of Education & Inclusion Services wef 01/09/18	52	13	<b>65</b>	90	0	0	0	<b>90</b>	24	<b>114</b>
Director of Human Resources	96	24	<b>120</b>	98	0	0	0	<b>98</b>	25	<b>123</b>
Director of Finance & Digital Services (& Section 151 Officer) wef 11/03/19	6	1	<b>7</b>	98	0	0	0	<b>98</b>	25	<b>123</b>
Director of Legal Services wef 01/04/19	0	0	<b>0</b>	88	1	0	0	<b>89</b>	23	<b>112</b>
Director of Legal Services - Returning Officer wef 01/04/19	0	0	<b>0</b>	4	0	0	0	<b>4</b>	0	<b>4</b>
Director of Legal & Democratic Services (left 31/03/19)	96	25	<b>121</b>	0	0	0	0	<b>0</b>	0	<b>0</b>
Director of Legal & Democratic Services (left 31/03/19) - Returning Officer	1	0	<b>1</b>	0	0	0	0	<b>0</b>	0	<b>0</b>
Director of Regeneration & Planning (left 12/04/19)	333	24	<b>357</b>	3	0	0	0	<b>3</b>	1	<b>4</b>
Director of Corporate Estates & Procurement (left 31/03/19)	189	25	<b>214</b>	0	0	0	0	<b>0</b>	0	<b>0</b>
Director of Corporate Estates wef 01/04/19	0	0	<b>0</b>	90	1	0	0	<b>91</b>	23	<b>114</b>
Director of Prosperity & Development wef 01/04/19	0	0	<b>0</b>	90	0	0	0	<b>90</b>	24	<b>114</b>
Director of Public Health, Protection & Community Services	88	23	<b>111</b>	90	0	0	0	<b>90</b>	24	<b>114</b>
Service Director - Democratic Services & Communications (Previously Service Director – Cabinet Office & Public Relations)	68	17	<b>85</b>	69	0	0	0	<b>69</b>	18	<b>87</b>

The table above represents the Senior Leadership Team for Rhondda Cynon Taf CBC. Disclosure of Senior Officer remuneration of Joint Committees are included in the relevant Joint Committee Statement of Accounts.

### 23.0 Severance Costs

This note provides details of the cost of severance to the Council in respect of employees who have left the employment of the Council during the financial year (costs do not reflect the value of the severance received by the individual as it includes pension strain). All costs incurred are in line with the Council's relevant and applicable schemes of termination and as required under relevant Pension Fund Regulations where applicable, with each decision being based upon and supported by a business case.

The number and costs (in bandings) of compulsory and other terminations are set out in the table below

Severance Cost Band	Number of Compulsory Terminations		Number of Other Terminations		Total Number of Terminations		Total Cost of Severance	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	£'000	
£								
£0 - £20,000	29	5	344	173	373	178	2,316	1,023
£20,001 - £40,000	8	2	63	28	71	30	1,982	798
£40,001 - £60,000	3	2	21	11	24	13	1,148	660
£60,001 - £80,000	4	1	16	4	20	5	1,379	353
£80,001 - £100,000	4	2	7	3	11	5	981	441
£100,001 - £150,000	2	6	11	10	13	16	1,578	1,948
£150,001 - £200,000	0	0	0	0	0	0	0	0
£200,001 - £250,000	0	0	1	0	1	0	239	0
<b>Total</b>	<b>50</b>	<b>18</b>	<b>463</b>	<b>229</b>	<b>513</b>	<b>247</b>	<b>9,623</b>	<b>5,223</b>

During 2019/20, the Council saved annual payroll costs of £3,535k (£8,060k 2018/19) through Voluntary Redundancy and Voluntary Early Retirement.

Severance Costs for Joint Committees are not included in the above note, but can be found in the relevant Joint Committee Statement of Accounts. However, a percentage of Joint Committee severance costs has been consolidated into the Net Cost of Services within the Comprehensive Income and Expenditure Statement.

### 24.0 External Audit Costs

The estimated costs to the Council for financial year 2019/20 in relation to the audit of the Statement of Accounts for certification of grant claims, statutory inspections and other services provided by the Council's external auditors are set out in the table below:

	2018/19	2019/20
	Actual	Estimated
<b>Fees Payable to the Auditor General for Wales</b>	<b>£'000</b>	<b>£'000</b>
External audit services carried out by the Statutory Auditor for the year	240	230
Local Government Measure Work	94	94
Certification of Grant Claims and Returns for the year	57	35
<b>Total</b>	<b>391</b>	<b>359</b>

## 25.0 Non-Domestic Rates

The level of Non-Domestic Rates (NDR) is based on a “multiplier” set nationally by the Welsh Government, multiplied by the rateable value of a particular property. This calculation will give the property a rate liability for the year. The multiplier for 2019/20 was 52.6p (51.4p for 2018/19). The total rateable value as at 31<sup>st</sup> March 2020 was £128.8m (£129.4m as at 31<sup>st</sup> March 2019).

The Council is responsible for collecting the business rates in its area and pays the proceeds into the NDR pool administered by the Welsh Government. The Welsh Government redistributes total collections back to local authorities on the basis of a fixed amount per head of adult population. Total NDR collected from ratepayers in respect of 2019/20 rates is £50.5m (£50.2m in 2018/19). The contribution back to the Council from the pool in the year amounted to £76.4m (£75.6m in 2018/19) and the amount payable to the pool amounts to £49.8m (£49.8m in 2018/19). As the Council acts as an agent collecting income on behalf of the Welsh Government, the income collected is not recognised as income in the Comprehensive Income and Expenditure Statement.

## 26.0 Council Tax

Council Tax income derives from charges raised according to the value of residential properties. Charges are calculated by taking the amount of income required for Rhondda Cynon Taf CBC, the Police and Crime Commissioner for South Wales and the Community Councils for the year, and dividing this amount by the Council Tax base.

The Council Tax base for 2019/20 was calculated to be £76,873.20 (compared with £75,668.01 for 2018/19). This represents the anticipated yield for every £1 of Council Tax levied.

The base is calculated by placing properties in ten bands (A\*-I). After allowing for discounts and exemptions, these are then converted to the equivalent number of Band D properties, using the appropriate multiplier as below:

Band	A*	A	B	C	D	E	F	G	H	I
No. of Properties	219	38,974	21,808	14,717	8,314	6,215	3,150	1,082	179	32
Multiplier	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	21/9

The resultant number of Band D properties is reduced by a percentage to reflect anticipated non-collection. The target collection rate for 2019/20 was 97.5%.

An analysis of the net proceeds from Council Tax is shown as follows:

Council Tax Analysis	2018/19	2019/20
	£'000	£'000
Council Tax Collectable	130,542	135,930
<b>Net Proceeds from Council Tax</b>	<b>130,542</b>	<b>135,930</b>
Less Payable:		
Police and Crime Commissioner for South Wales	(17,670)	(19,796)
Community Councils	(1,956)	(2,056)
<b>Total</b>	<b>110,916</b>	<b>114,078</b>

## 27.0 Grant Income

The following grants, contributions and donations were credited to the Comprehensive Income and Expenditure Statement in 2019/20:

### 27.1 Credited to Services

A number of grants and contributions have been recognised as income within Net Cost of Services. This income amounts to £215m in 2019/20 (in 2018/19 these grants and contributions amounted to £194m).

### 27.2 Capital Grants Receipts in Advance

All Capital Grants received have been recognised as income within the Comprehensive Income and Expenditure Statement.

## 28.0 Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council 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.

## 28.1 Welsh Government

The Welsh Government is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills). Transactions between the Council and Welsh Government are as follows:

	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>
Non-Ringfenced Government Grants	(288,556)	(293,404)
Capital Grants and Contributions	(33,137)	(62,570)
Credited to Services	(138,633)	(146,865)
<b>Total</b>	<b>(460,326)</b>	<b>(502,839)</b>

## 28.2 Chief Officers and Members

### Members of the Council

Under the Code of Conduct incorporated in the Council's Constitution, Members are required to record in the Register of Members Interests any financial and other personal interests, together with any gift, hospitality, material benefit or advantage. The Register is open to inspection by the public and is available on an individual Member basis on the Council website.

Members of the Council are nominated to serve on numerous outside bodies some of which either receive funding from the Council or issue levies and precepts to be paid by the Council. When sitting on these bodies Members are expected to act independently and not to represent the views of the County Borough Council. Membership details are available from the Service Director Cabinet Office and Public Relations, The Pavilions, Clydach Vale.

During 2019/20 there were no Members identified as having a controlling interest in any company commissioned to supply works or services to the Council of any material value. However, Members have identified interests with organisations with which the Council has had financial transactions during 2019/20. The value of these transactions amounted to payments of £1,786k (£1,117k in 2018/19), of which no payments were outstanding at year end (£3k in 2018/19), and receipts of £260k (£210k in 2018/19), of which £23k was outstanding at year end (£5k in 2018/19).

The Council has transactions with a Construction Company that carries out work on Council owned properties. A Member of the Council declared that a relative is an Electrical and Project Manager within this company. Payments to the company amount to £1,882k with no payments outstanding at year end and receipts of £1k, of which no receipts were outstanding. The Member did not take part in any discussion, decision or administration relating to the services.

### **Chief Officers (Senior Leadership Team)**

Under the Employees' Code of Conduct, Officers are required to declare potential conflicts of interest arising from employment arrangements together with gifts or hospitality and offers thereof and, under Section 117 of the 1972 Local Government Act, contractual arrangements where there is a conflict of interest. Most professional bodies also have codes of professional conduct to which members of those bodies are expected to adhere.

During 2019/20, the Council had transactions with a company that provides specialist support to people with disabilities. A member of the Senior Leadership Team of the Council declared that a relative is one of the trustees of the company. Payments to the company amount to £6,825k (£3,795k in 2018/19) with no payments outstanding at year end (nil in 2018/19) and receipts of £222k (£172k in 2018/19), of which no receipts were outstanding (nil in 2018/19). The Officer did not take part in any discussion, decision or administration relating to the services.

The Council also has transactions with a Construction Company that carries out work on Council owned properties. A member of the Senior Leadership Team of the Council declared that a relative is a director of the company. Payments to the company amount to £3,000k with no payments outstanding at year end and receipts of £1k, of which £1k was outstanding. The Officer did not take part in any discussion, decision or administration relating to the services.

There were no other transactions of material value.

### **28.3 Precepts and Levies**

Details of precepts collected on behalf of other organisations are provided in the Comprehensive Income and Expenditure Statement.

An analysis of precepts is given in the following table:

	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>
Police and Crime Commissioner for South Wales	17,670	19,796
Community Councils	1,956	2,056
<b>Total</b>	<b>19,626</b>	<b>21,852</b>

An analysis of levies is given in the following table:

	2018/19	2019/20
	£'000	£'000
South Wales Fire and Rescue Service	11,166	11,252
Coroner	427	485
Brecon Beacons National Park	45	48
Glamorgan Archives Joint Committee	164	164
<b>Total</b>	<b>11,802</b>	<b>11,949</b>

#### **28.4 Rhondda Cynon Taf Pension Fund**

The Director of Finance & Digital Services is also the responsible Finance Officer to the Rhondda Cynon Taf Pension Fund. The Council charged the Pension Fund an amount of £1.5m (£1.6m in 2018/19) in respect of administration and support during financial year 2019/20. The amount owed from the Council to the Pension Fund as at 31<sup>st</sup> March 2020 is nil (nil as at 31<sup>st</sup> March 2019).

#### **28.5 Associated and Subsidiary Companies**

The Council has an interest in three companies: namely; Amgen Cymru Ltd., Amgen Rhondda Ltd. and Capita Glamorgan Consultancy Ltd. Officers of the Council are directors of Amgen Cymru Ltd and Amgen Rhondda Ltd. During 2019/20 the following related party transactions took place with these companies.

##### **Amgen Cymru Ltd.**

The Council paid Amgen Cymru £7,145k (£8,702k in 2018/19) in respect of waste management and waste disposal charges, with £1,400k (£637k in 2018/19) due to the company at the year-end. Amgen Cymru paid the Council £843k (£853k in 2018/19) in respect of goods and services, with £65k (£151k in 2018/19) due to the Council at the year-end.

##### **Amgen Rhondda Ltd.**

The Council paid Amgen Rhondda £175k (£175k in 2018/19) in respect of site management fees, with nil (nil in 2018/19) outstanding at 31<sup>st</sup> March 2020.

##### **Capita Glamorgan Consultancy Ltd.**

Capita Glamorgan Consultancy Ltd is a Joint Venture between Capita Symonds and Bridgend, Merthyr Tydfil and Rhondda Cynon Taf County Borough Councils. The Council owns 27.93% of the shares of the company and holds voting rights to this value on the Board.

During 2019/20, the Council was charged £4,524k (£2,651k in 2018/19) in respect of goods, services and capital works. The balance owed to Capita Glamorgan Consultancy Ltd at 31<sup>st</sup> March 2020 was £920k (£673k in 2018/19).

Capita Glamorgan Consultancy Ltd paid the Council nil (£0.6k in 2018/19) in respect of goods and services, with nil (nil in 2018/19) due to the Council at the year-end.

## **28.6 Joint Committees**

The Council participates in the following Joint Committees.

### **Glamorgan Archives Joint Committee**

The Glamorgan Record Office is managed and administered by the Glamorgan Archives Joint Committee under powers conferred by the Local Government (Wales) Act 1994. The Joint Committee has 16 members in total. There are 4 Rhondda Cynon Taf CBC Members on the Joint Committee.

During 2019/20, the Council contributed to the Joint Committee an amount of £164k (£164k in 2018/19). This was calculated proportionately based upon population.

### **Llwydcoed Crematorium**

Llwydcoed Crematorium is subject to the control of a Joint Committee of Members from Rhondda Cynon Taf CBC and Merthyr Tydfil CBC.

During 2019/20, the Council charged Llwydcoed Crematorium £40k (£39k in 2018/19) in respect of central establishment charges. As at 31<sup>st</sup> March 2020 the Council held cash balances relating to the Crematorium of £1,002k (£2,116k in 2018/19).

### **Education School Improvement Service (ESIS)**

ESIS became non-operational from 1<sup>st</sup> September 2012 and was administered by a Joint Committee comprising Bridgend, Caerphilly, Merthyr Tydfil and Rhondda Cynon Taf County Borough Councils.

Exit agreement negotiations are ongoing.

### **Central South Consortium Joint Education Service (CSCJES)**

The Central South Consortium Joint Education Service provides a range of school improvement services within the local authority areas of Bridgend, Cardiff, Merthyr Tydfil, Rhondda Cynon Taf and the Vale of Glamorgan.

The Council consolidates 27.29% of the assets, liabilities and transactions of CSCJES into its financial statements.

During 2019/20, the Council received income of £198k from CSCJES (received income of £273k in 2018/19) in respect of advisory and training services, along with grants of £18,978k (£19,991k in 2018/19), and charged CSCJES £114k (£122k in 2018/19) in respect of central establishment charges. The Council also paid CSEC expenditure of £1,034k (£1,097k in 2018/19). As at 31<sup>st</sup> March

2020 the Council owed cash balances of £1,422k relating to CSCJES (the Council owed cash balances to CSCJES of £21,224k as at 31<sup>st</sup> March 2019). As part of the Joint Committee consolidation process, offsetting transactions and balances are removed from the accounts to ensure individual values are not overstated. CSCJES distributes grants to participating authorities on behalf of Welsh Government.

### **Coychurch Crematorium**

Coychurch Crematorium is owned and operated by a Joint Committee on behalf of Bridgend CBC, the Vale of Glamorgan Council and Rhondda Cynon Taf CBC.

At 31<sup>st</sup> March 2019 there were no balances outstanding between the Council and Coychurch Crematorium (no balances outstanding as at 31<sup>st</sup> March 2018).

### **Vale, Valleys and Cardiff Regional Adoption Collaborative (VVC)**

The Vale, Valleys and Cardiff Regional Adoption Collaborative (VVC) became operational on 1<sup>st</sup> June 2015 and is administered by the Vale of Glamorgan Council. It is comprised of the adoption services of the Vale of Glamorgan Council, Rhondda Cynon Taf CBC, Merthyr Tydfil CBC and Cardiff City and County Council. It is one of five regional Collaboratives which form part of the National Adoption Service in Wales (NAS).

During 2019/20, the Council contributed £585k to the Vale, Valleys and Cardiff Regional Adoption Collaborative (£540k in 2018/19).

### **Cardiff Capital Region City Deal (CCRCD)**

On 15<sup>th</sup> March 2016, the ten Council Leaders in South East Wales, the First Minister, the Welsh Government Minister for Finance and Government Business, the Secretary of State for Wales and the Chief Secretary to the Treasury signed the Cardiff Capital Region City Deal, an agreement between the UK Government, the Welsh Government and the ten leaders to develop and manage £1.2 billion investment in the Cardiff Capital Region's infrastructure through a 20-year Investment Fund.

The Council consolidates 15.77% of the assets, liabilities and transactions of CCRCD into its financial statements.

During 2019/20, there was a revenue contribution to CCRCD of £172k, there was no capital contribution (£1,941k in 2018/19).

## **28.7 Partnership Agreement**

### **Biogen Tomorrow's Valley Food Waste Plant**

The Biogen Food Waste Plant became fully operational on the 19<sup>th</sup> July 2015. The 3 local authorities who form the Hub (Rhondda Cynon Taf CBC, Merthyr

CBC and Newport City Council) send a combined annual contracted guaranteed minimum tonnage of 13,500 tonnes to be treated at the facility. In 2019/20 a total amount of £1,040k (£955k in 2018/19) associated costs have been incurred by the parties, of which RCT's associated costs in 2019/20 were £572k (£549k in 2018/19), with Welsh Government contributing £124k (£124k in 2018/19) of grant funding.

## **28.8 Other Related Parties**

### **Trivallis**

Trivallis is one of Wales' largest registered social landlords providing homes for thousands of families in Rhondda Cynon Taf. There is 1 Rhondda Cynon Taf CBC Member and 1 officer on the board of Trivallis.

During 2019/20, the Council paid Trivallis £1,438k (£1,072k in 2018/19) and received income of £1,540k (£1,191k in 2018/19). At year-end, Trivallis owed £439k to the Council (£101k in 2018/19).

In line with the Council's agreed Investment Strategy, following appropriate due diligence and subject to appropriate and acceptable security arrangements being put in place, the Council entered into a commercially agreed loan arrangement with Trivallis, for an amount of £5,250k. As at 31<sup>st</sup> March 2020 £4,500k was outstanding.

## **29.0 Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR) - a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2018/19	2019/20
	£'000	£'000
Opening Capital Financing Requirement	435,595	469,183
<b>Capital Investment:</b>		
Property, Plant & Equipment	108,447	99,157
Intangible Assets	1,738	1,830
Revenue Expenditure Funded from Capital Under Statute	10,964	20,297
	<b>121,149</b>	<b>121,284</b>
<b>Sources of Finance:</b>		
Capital Receipts	(412)	(3,724)
Government Grants and Other Contributions	(33,079)	(63,226)
	<b>(33,491)</b>	<b>(66,950)</b>
<b>Sums Set Aside from Revenue:</b>		
Direct Revenue Contributions	(42,541)	(17,839)
Minimum Revenue Payment	(11,529)	(12,191)
	<b>(54,070)</b>	<b>(30,030)</b>
<b>Closing Capital Financing Requirement</b>	<b>469,183</b>	<b>493,487</b>
<b>Explanation of Movements in Year</b>		
Increase/(Decrease) in underlying need to borrowing supported by government financial assistance)	(174)	(413)
Increase in underlying need to borrowing (unsupported by government financial assistance)	33,763	24,718
Finance Leases	(1)	(1)
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>33,588</b>	<b>24,304</b>

### 30.0 Leases

The following disclosures relate to the Council as a lessee.

#### 30.1 Finance Leases

The Council has a number of properties arranged under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31/03/19	31/03/20
	£'000	£'000
Other Land and Buildings	128	121

These assets are part of the Council's impairment review.

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property

acquired and finance costs that will be payable in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31/03/19	31/03/20
	£'000	£'000
Finance Lease Liabilities:		
Current	1	1
Long-Term	384	384
Finance costs payable in future years	1,232	1,210
<b>Minimum Lease Payments</b>	<b>1,617</b>	<b>1,595</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31/03/19	31/03/20	31/03/19	31/03/20
	£'000	£'000	£'000	£'000
Less than 1 year	23	23	1	1
1 to 5 years	90	91	3	3
Greater than 5 years	1,504	1,481	381	380
<b>Total</b>	<b>1,617</b>	<b>1,595</b>	<b>385</b>	<b>384</b>

The Council also acts as a lessor for 8 vehicles:

	31/03/19	31/03/20
	£'000	£'000
Finance Lease Receivables:		
Current	128	126
Long-Term	157	31
Finance costs receivable in future years	33	13
<b>Minimum Lease Receivables</b>	<b>318</b>	<b>170</b>

	Minimum Lease Receivables		Finance Lease Assets	
	31/03/19	31/03/20	31/03/19	31/03/20
	£'000	£'000	£'000	£'000
Less than 1 year	148	137	128	126
1 to 5 years	170	33	157	31
Greater than 5 years	0	0	0	0
<b>Total</b>	<b>318</b>	<b>170</b>	<b>285</b>	<b>157</b>

### 30.2 Operating Leases

The future minimum lease payments due under non-cancellable operating leases in future years are demonstrated in the table below. Examples of such assets utilised under operating lease arrangements are photocopiers and printers.

	31/03/19			31/03/20		
	Other Land & Buildings	Vehicles, Plant & Equip.	Totals	Other Land & Buildings	Vehicles, Plant & Equip.	Totals
	£'000	£'000	£'000	£'000	£'000	£'000
Not later than 1 year	403	768	1,171	352	443	795
Later than 1 year and not later than 5 years	1,295	1,297	2,592	1,275	837	2,112
Later than 5 years	7,224	590	7,814	6,861	408	7,269
<b>Total</b>	<b>8,922</b>	<b>2,655</b>	<b>11,577</b>	<b>8,488</b>	<b>1,688</b>	<b>10,176</b>

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

	31/03/19	31/03/20
	£'000	£'000
Minimum Lease Payments	1,949	1,514

### 30.3 Sub-Leases

The Council has sub-let buildings. Non-cancellable sub-lease payments are expected to be received until expiry of the lease agreement, as shown in the table below:

	2018/19	2019/20
	£'000	£'000
Less than 1 year	81	94
1 to 5 years	12	176
Greater than 5 years	0	53
<b>Total</b>	<b>93</b>	<b>323</b>

### 31.0 Impairment Losses

During 2019/20, the Council has recognised an impairment loss of £17.1m (a loss of £30.9m in 2018/19) in relation to its Long-Term Assets. This impairment charge is included within the Long-Term Asset note 6.1, which also includes reversal of impairment from previous years.

## **32.0 Retirement Benefits - Defined Benefit Schemes**

### **32.1 Participation in Pension Schemes**

As part of their terms and conditions Members and Officers are offered retirement benefits by the Council. Although these benefits will not actually be payable until retirement, the Council has a commitment to make these payments. The liability for these payments needs to be accounted for at the time the future entitlement is earned.

The Council participates in two pension schemes:

- Teachers - Please refer to note 33.0.
- Other Employees and Members - The Local Government Pension Scheme administered by Rhondda Cynon Taf CBC. This is a funded defined benefit career average scheme. The Council and participants pay contributions into the fund calculated at a level intended to balance the pensions liabilities with investment assets. The pension costs that are charged to the Council's accounts are defined by IAS 19 "Employee Benefits".

The CSCJES Joint Committee charges pension costs to their accounts in line with IAS 19. The Rhondda Cynon Taf CBC share of these entries is consolidated into the main accounts, and disclosed in the following notes.

### **32.2 Transactions Relating to Post-Employment Benefits**

The cost of retirement benefits is recognised in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the Council Fund 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:

	2018/19	2019/20		
		RCT	Joint Comm's	Total
	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Statement:</b>				
Cost of Services:				
Current Service Cost	43,832	56,760	284	57,044
Past Service Cost	22,126	2,169	27	2,196
Consolidation Adjustment	1	0	0	0
<i>Financing and Investment Income and Expenditure:</i>				
Net Interest Expense	15,381	13,660	(3)	13,657
<b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>81,340</b>	<b>72,589</b>	<b>308</b>	<b>72,897</b>
<i>Remeasurement of the Net Defined Benefit Liability Comprising:</i>				
Return on Plan Assets (Excluding the Amount Included in the Net Interest Expense)	(75,901)	55,190	229	55,419
Actuarial (Gains) and Losses Arising on Liabilities - Demographic Assumptions	(67,257)	(20,840)	(96)	(20,936)
Actuarial (Gains) and Losses Arising on Liabilities - Financial Assumptions	95,538	(33,640)	(154)	(33,794)
Actuarial (Gains) and Losses Arising on Liabilities - Experience	2,620	15,810	290	16,100
Net Increase in Liabilities from Disposals/Aquisitions on Liabilities - Experience	0	0	0	0
Consolidation Adjustment	(4)	0	0	0
<b>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>36,336</b>	<b>89,109</b>	<b>577</b>	<b>89,686</b>
<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 in accordance with the code	(81,340)	(72,589)	(308)	(72,897)
Actual amount charged against the Council Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	39,556	40,610	80	40,690

The total remeasurement of the Net Defined Benefit Liability recognised in Other Comprehensive Income and Expenditure to the 31<sup>st</sup> March 2020 is a loss of £16.8m (£45.0m gain in 2018/19).

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the year ending 31<sup>st</sup> March 2020 is a loss of £114.8m.

### 32.3 Reconciliation of Present Value of the Scheme Liabilities

	2018/19	2019/20		
		RCT	Joint Comm's	Total
	£'000	£'000	£'000	£'000
<b>Balance at 1<sup>st</sup> April</b>	<b>1,644,122</b>	<b>1,734,321</b>	<b>6,973</b>	<b>1,741,294</b>
Current Service Cost	43,832	56,760	284	57,044
Interest Cost on Defined Obligation	42,208	40,670	163	40,833
Contributions by scheme participants	8,553	9,030	65	9,095
<b><i>Remeasurement (Gains) and Losses</i></b>				
Actuarial (Gains) and Losses Arising on Liabilities - Demographic Assumptions	(67,257)	(20,840)	(96)	(20,936)
Actuarial (Gains) and Losses Arising on Liabilities - Financial Assumptions	95,538	(33,640)	(154)	(33,794)
Actuarial (Gains) and Losses Arising on Liabilities - Experience	2,620	15,810	290	16,100
Benefits paid	(50,203)	(50,490)	(387)	(50,877)
Past service costs	22,126	2,169	27	2,196
Consolidation Adjustment	(245)	0	0	0
<b>Balance at 31<sup>st</sup> March</b>	<b>1,741,294</b>	<b>1,753,790</b>	<b>7,165</b>	<b>1,760,955</b>

**32.4 Reconciliation of Fair Value of the Scheme Assets**

	2018/19	2019/20		
		RCT	Joint Comm's	Total
	£'000	£'000	£'000	£'000
<b>Balance at 1<sup>st</sup> April</b>	<b>1,032,264</b>	<b>1,125,600</b>	<b>7,056</b>	<b>1,132,656</b>
Interest Income	26,827	27,010	166	27,176
<b>Remeasurement (Gains) and Losses:</b>				
The Return on Plan Assets, Excluding the Amount Included in the Net Interest Expense	75,901	(55,190)	(229)	(55,419)
Employer contributions	39,556	40,610	80	40,690
Contributions by scheme participants	8,553	9,030	65	9,095
Benefits paid	(50,203)	(50,490)	(387)	(50,877)
Net Increase in Assets from Disposals/Aquisitions	0	0	0	0
Consolidation Adjustment	(242)	0	0	0
<b>Balance at 31<sup>st</sup> March</b>	<b>1,132,656</b>	<b>1,096,570</b>	<b>6,751</b>	<b>1,103,321</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was a loss of £21.18m (£102.71m gain in 2018/19).

**32.5 Scheme History**

	2015/16	2016/17	2017/18	2018/19	2019/20
	Inc Joint Comm's				
	£'000	£'000	£'000	£'000	£'000
Present Value of the Defined Obligation	(1,349,822)	(1,564,560)	(1,644,122)	(1,741,294)	(1,760,955)
Fair Value of Plan Assets	834,277	985,512	1,032,264	1,132,656	1,103,321
<b>Surplus/(Deficit)</b>	<b>(515,545)</b>	<b>(579,048)</b>	<b>(611,858)</b>	<b>(608,638)</b>	<b>(657,634)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £658m has a substantial impact on the Net Worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council is not impacted upon. The deficit on the local government scheme will be made good in line with actuarial assumptions.

### 32.6 Local Government Pension Scheme Assets

As at 31<sup>st</sup> March 2020, the Rhondda Cynon Taf Pension Fund Assets used in IAS19 calculations comprised of:

<b>Fair Value of Scheme Assets</b>		
	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>
UK Equities	345,524	269,841
Overseas Equities	1,726,196	1,867,679
UK Fixed Interest Gilts	407,756	417,123
UK Corporate Bonds	336,260	383,684
Overseas Government Bonds	25,109	44,776
Overseas Corporate Bonds	36,166	50,846
Property	221,127	287,697
Cash and Net Current Assets	113,635	28,578
<b>Total</b>	<b>3,211,773</b>	<b>3,350,224</b>

### 32.7 Basis for Estimating Assets and Liabilities

#### **Roll-forward of Assets**

The valuation results from the last full valuation of the Fund (or results at the previous accounting date as appropriate) are adjusted to the accounting year-end allowing for:

- Investment returns, and
- Cash-flows including investment returns on those cashflows.

The asset value at the start of the accounting period is accumulated with the Fund investment return over the accounting period. Net cashflows are assumed to be paid half way through the period and accrue half of the Fund investment return over the period.

#### **Roll-forward of Liabilities**

The valuation results from the last full valuation of the Fund (or results at the previous accounting date as appropriate) are adjusted to allow for the later calculation date (by adding interest to the liabilities) and make allowance for changes in liabilities due to:

- The accrual of new benefits and the discharge of liabilities from the payment of benefits.
- The financial and demographic assumptions adopted at the year-end.
- The impact of any known experience affecting the liabilities, such as the impact of actual pension increases on pensions in payment and deferred benefits.
- If applicable, the impact of events which result in a change in the liability such as past service costs, settlements and curtailments.

The full valuation was based on funded benefits and the principal assumptions used by the actuary have been:

	31/03/19	31/03/20
Long-Term Expected Rate of Return on Assets in the Scheme (in line with the discount rate)	4.5%	4.3%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.2	21.7
Women	24.1	24.0
Longevity at 65 for future pensioners:		
Men	23.9	22.7
Women	25.9	25.5
Rate of inflation (CPI)	2.2%	2.0%
Rate of increase in salaries	3.45%	3.25%
Rate of increase in pensions	2.2%	2.0%
Rate for discounting scheme liabilities	2.4%	2.3%
Take-up of option to convert annual pension into retirement lump sum:		
Post-2010 Service	80%	80%
Pre-2010 Service	80%	80%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

	RCT		Joint Committes		Total	
	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
	£'000	£'000	£'000	£'000	£'000	£'000
Longevity (Increase or Decrease in 1 Year)	55,820	(55,200)	230	(227)	56,050	(55,427)
Rate of Increase in Salaries (Increase or Decrease by 0.1%)	4,690	(4,640)	14	(14)	4,704	(4,654)
Rate of Increase in Pensions (Increase or Decrease by 0.1%)	33,190	(32,440)	138	(135)	33,328	(32,575)
Rate for Discounting Scheme Liabilities (Increase or Decrease by 0.1%)	(36,040)	36,800	(149)	152	(36,189)	36,952

### **32.8 Contributions for the Accounting Period ending 31<sup>st</sup> March 2021**

The Employer's regular contributions to the Fund for the accounting period 31<sup>st</sup> March 2021 are estimated to be £33.4m. In addition, "strain on fund" contributions may be required.

Further information can be found in the Pension Fund Annual Report, which is on the [RCT Pension Fund website](#) and also available on request from the Director of Finance & Digital Services, Oldway House, Porth, Rhondda, CF39 9ST.

### **33.0 Retirement Benefits - Defined Contribution Schemes**

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of 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.

In 2019/20, the Council paid £16.5m to Teachers' Pensions in respect of teachers' retirement benefits, representing 20.68% of pensionable pay. The figures for 2018/19 were £12.9m, representing 16.48% of pensionable pay. In addition, the Council is responsible for all pension payments relating to added years that it has awarded, together with related increases. In 2019/20 these amounted to £787k (£822k in 2018/19).

The Council 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.

### **34.0 Contingent Liabilities**

#### **34.1 Insurance**

The Council is liable for insurance claims made against it in respect of certain events. A provision is made in respect of claims received as at 31<sup>st</sup> March 2020. There is a further contingent liability in respect of events which will have occurred but which have not resulted in a claim being made as at the date of the accounts. The "statute of limitation" sets out the timescale by which a claim will have to be made in respect of such past events. An earmarked reserve has been set up to provide towards the costs of these incidents.

Due to the volume and differing circumstances of each potential claim it is impractical to provide an estimate of the possible financial effect. Similarly, it is impractical to provide an indication of uncertainties relating to the amount and timing of such liabilities.

Insurance claims are also referenced in note 4.2.

### **34.2 Municipal Mutual Insurance Ltd.**

The former authorities of Rhondda Borough Council, Cynon Valley Borough Council, Taff Ely Borough Council and Mid Glamorgan County Council are creditors of Municipal Mutual Insurance Ltd. (MMI). MMI ceased to write new insurance business from 30<sup>th</sup> September 1992 and a Scheme of Arrangement was put in place in January 1994. The scheme was set up to ensure an orderly run off of claims in the event of MMI not being solvent. As creditors of MMI, the Council is legally bound by the Scheme and in November 2012, the scheme was triggered.

Future claim settlements by MMI will be made at a level of 75% with the funding of the remaining 25% being met from the former authorities' funds. Correspondence from the scheme administrator states that it is not possible to guarantee that the initial and second levy, paid in February 2014 and May 2016, will be sufficient but they are the best estimates given the current position. The scheme requires the administrator to review the Levy at least once a year. Given the uncertainty regarding how sufficient the initial clawback will be, a contingent liability exists as the Council could be subject to further clawback dependent upon the resources of MMI, the insurer.

### **35.0 Trust Funds**

The Council acts as sole trustees for various charities. Separate accounts are maintained for these. Net assets as at 31<sup>st</sup> March 2020 are shown as follows and are not included in the Council's Balance Sheet. The 2019/20 figures are draft, subject to audit (the Audit Wales for Welsh Church Act, the Regional Internal Audit Service for the other funds).

	Description	31/03/19	31/03/20
		£'000	£'000
Education & Miscellaneous	Various funds established for educational and community benefits	259	262
Rhondda Cynon Taf Charity for the Visually Impaired	Fund established for the benefit of visually impaired citizens	45	59
Welsh Church Act Fund	Fund established under the Welsh Church Act for various charitable aims within the counties of Rhondda Cynon Taf, Merthyr Tydfil and Bridgend	12,720	12,137

## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### ANNUAL GOVERNANCE STATEMENT 2019/20

#### 1. INTRODUCTION

1.1 The Council's Corporate Plan 2016 - 2020 'The Way Ahead' sets the overall direction for the Authority describing the vision, purpose and priorities to be delivered.

1.2 The Council's agreed Vision, purpose and priorities are:

- Vision - For a County Borough that has high aspirations, is confident and promotes opportunity for all.
- Purpose - To provide strong community leadership and effective services for the people of Rhondda Cynon Taf to enable them to fulfil their potential and prosper.
- Priorities:
  - Economy - Building a strong economy;
  - People - Promoting independence and positive lives for everyone; and
  - Place - Creating neighbourhoods where people are proud to live and work.

1.3 Underpinning the above priorities is the cross-cutting theme of 'Living Within Our Means' that focusses on robust financial management arrangements to ensure the Council maintains its financial stability and makes the best use of scarce resources.

1.4 A new Corporate Plan 2020 - 2024 'Making a Difference' was agreed by Council on 4<sup>th</sup> March 2020 and this sets the overall direction for the Authority over the next 4 years describing the vision, purpose and priorities to be delivered.

1.5 The Council's agreed Vision, purpose and priorities over this period are:

- Vision – To be the best place in Wales to live, work and play, where people and businesses are independent, healthy and prosperous.
- Purpose - To provide strong community leadership and create the environment for people and businesses to be independent, healthy and prosperous.
- Priorities:
  - Ensuring People: are independent, healthy and successful;
  - Creating Places: where people are proud to live, work and play; and

- Enabling Prosperity: creating the opportunity for people and businesses to: be innovative; be entrepreneurial; and fulfil their potential and prosper.

1.6 This Annual Governance Statement sets out for the community, service users, tax payers and other stakeholders the Council's governance arrangements together with a review of their effectiveness in managing risks of failure in delivering Corporate Plan priorities.

## **2. SCOPE OF RESPONSIBILITY**

2.1 Rhondda Cynon Taf County Borough Council (RCT) 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.

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

2.3 The Council, in compiling the Annual Governance Statement, has adopted the *Delivering Good Governance in Local Government: Framework (2016)* developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE). In doing so, the Annual Governance Statement meets the Council's legal duty as set out in the Accounts and Audit (Wales) Regulations 2014, as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018. Regard has also been given to the 'Briefing from the CIPFA Better Governance Forum (Annual Governance Statement for 2019/20 – Matters to consider as a result of the coronavirus pandemic (COVID-19))' in respect of conducting the review of the Council's governance arrangements for the 2019/20 financial year.

2.4 The Council's Annual Governance Statement aims to provide an accurate representation of the governance arrangements in place for financial year ending 31<sup>st</sup> March 2020.

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

3.1 The governance framework comprises the systems, processes and cultural values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

- 3.2 For RCT governance is about ensuring that the Council does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 3.3 The system of internal control is a significant part of that framework and is designed to manage the risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 3.4 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 priorities, to evaluate the likelihood and impact of those risks materialising, and to manage them efficiently, effectively and economically.
- 3.5 The governance framework outlined below has been in place at Rhondda Cynon Taf County Borough Council for the year ended 31<sup>st</sup> March 2020 (and up to the date of approval of the 2019/20 Statement of Accounts).

#### 4. **THE GOVERNANCE FRAMEWORK**

- 4.1 The Council has a range of governance arrangements in place, in line with the *Delivering Good Governance in Local Government: Framework (2016)*, many of which are set out within its Constitution. Appendix A provides examples of the key systems, processes and documents that were in place within the Council during 2019/20.
- 4.2 The *Delivering Good Governance in Local Government: Framework (2016)* supports the principle for local authorities to develop and maintain an up-to-date local code of governance. The Council has developed a Local Code of Corporate Governance and was reported to the Council's Audit Committee at its meeting on 29<sup>th</sup> April 2019.

#### 5. **REVIEW OF EFFECTIVENESS**

- 5.1 The Council has responsibility for conducting, at least annually, an assessment of its governance framework including the system of internal control.
- 5.2 The exercise has entailed reviewing the activities in place around the Council's main governance arrangements, discussing governance arrangements with senior officers across services and taking account of the findings from a range of existing reports. The Review of Effectiveness has also given key regard to the impact of Storm Dennis and the start of the coronavirus pandemic, and is set out at sub-section 5.4.
- 5.3 The findings and proposals for improvement have been reviewed and challenged by the Council's Senior Leadership Team (SLT) and Audit

Committee, and have been set out in line with the *Delivering Good Governance in Local Government: Framework (2016)*.

#### 5.4 **STORM DENNIS AND COVID-19**

##### **Storm Dennis**

- 5.4.1 On the weekend of the 15<sup>th</sup> and 16<sup>th</sup> February 2020, Storm Dennis caused significant damage to many communities across Rhondda Cynon Taf and was by far the most destructive weather event the area has experienced for a generation.
- 5.4.2 On the 17<sup>th</sup> February 2020, a Cabinet Steering Group (Major Incident Recovery Board – February 2020 ‘STORM DENNIS’ FLOODING EVENT) was established, through an Urgent Decision of the Leader of the Council, to ensure an authority wide and timely approach was taken in the delivery of services and the prioritisation of resources following this major weather event declared by South Wales Police. In addition, between the 17<sup>th</sup> February and 4<sup>th</sup> March 2020, 5 urgent decisions were approved as part of the immediate recovery work and included the release of £1.5Million from the Council’s General Reserves to deliver a range of measures to support residents and businesses affected.
- 5.4.3 With specific regard to the release of £1.5Million from General Reserves (as approved in the urgent decisions of the 17<sup>th</sup> February 2020 (£1.0Million) and 21<sup>st</sup> February 2020 (£0.5Million), the Director of Finance and Digital Services (Section 151 Officer) set out that the Council maintains General Reserves for unforeseen and exceptional events and it being wholly appropriate that the Council’s General reserves are used in this way to support such an unprecedented event. As part of these decisions the Director of Finance and Digital Services also set out that the Council should maintain the level of these reserves at a minimum of £10Million and that their level will be replenished going forward as and when Welsh Government funding is confirmed, as part of future budget strategies and / or from any opportunities to release earmarked reserves. As at 31<sup>st</sup> March 2019, the level of General Reserves stood at £10.498Million, from which the allocation of £1.5Million has been made.
- 5.4.4 In addition, on the 25<sup>th</sup> February 2020, the Director of Finance and Digital Services formally requested that Welsh Government give special financial assistance to the Council under its Emergency Financial Assistance Scheme. Since this time, the Council has submitted its claim under the scheme and has received funding from Welsh Government amounting to £1.697Million.
- 5.4.5 In respect of the medium to long term impact of Storm Dennis, it is noted that the Council is progressing the assessment of damage to its infrastructure, which at present is estimated to be in excess of £60M. Discussions are on-going with Welsh Government and the UK Government in this regard.

## COVID-19

- 5.4.6 On the 18<sup>th</sup> March 2020, an Urgent Decision of the Leader of the Council set out the current emergency planning arrangements for COVID 19 at UK, Wales and locality levels and the potential implications for Council services when the outbreak escalates and the action the Council should take.
- 5.4.7 More specifically, the report set out that in the event of an emergency and urgent situation arising as a result of COVID 19 then, in respect of the exercise of Executive Functions as outlined in the Council's Constitution, and in the absence or unavailability of (1) the Leader or (2) the Deputy Leader, the Leader delegates the power and responsibility of exercising such executive functions to the Chief Executive and the Senior Leadership Team to make decisions and undertake the actions required to ensure key services continue to operate, ensure the Council, its residents and staff interests are protected and the operation of other services be suspended as may be necessary taking into consideration the potential implications of COVID 19.
- 5.4.8 The Council's Chief Executive reported an update on the COVID-19 position in Rhondda Cynon Taf to the 21<sup>st</sup> May 2020 Cabinet meeting that set out:
- Background information to the unprecedented lockdown measures announced by the UK Government on the 23<sup>rd</sup> March 2020 to stop the spread of the virus between households.
  - How RCTCBC has responded to COVID-19 to date:
    - The majority of key frontline functions continuing to operate with reduced staffing levels and included: the provision of social care services to the most vulnerable; homelessness services, domestic abuse services and substance misuse services; community meals service to the elderly; coordination of the shielding scheme and made contact with 6,726 people identified by the NHS as vulnerable due to COVID-19; Children's Services, Attendance and Well-Being and schools keeping in touch with vulnerable children and families; refuse collection, street cleansing and highways and land reclamation teams continuing to address flooding issues that caused so many problems in the weeks before lockdown; youth services, library services and adult education services delivering a wide range of provision on-line; processing business grants of over £38Million to over 3,300 businesses, processing weekly free school meal cash payments to nearly 9,300 families and processing more Housing Benefit and Council Tax support applications; and providing emergency childcare provision in school settings.
    - The continuation of key back-office functions that included ensuring contractors and Council employees and pensioner are paid; developing and making available a well-being helpline and counselling service to all staff; and the IT Service transforming how the Council

works in a very short period, with over 3,000 staff across the Council working from home.

- Next steps that covered contact tracing and recovery and service planning. All Services have now produced Service Recovery Plans and will be monitored via existing performance management arrangements.

5.4.9 The 21<sup>st</sup> May 2020 Report also covered the Decision Making and Democratic Engagement and 'Counting The Cost', setting out:

- Decision Making and Democratic Engagement
  - Decision making and governance has continued to operate in compliance with the Council's Constitution.
  - Key Executive decisions such as closing services have been made by the Leader of the Council and/or the relevant Cabinet member in discussion with the Chief Executive and relevant Senior Leadership Team Director(s). A variety of decisions have been taken either as part of the wider coordinated COVID-19 emergency response, or as mandated by the laws that have been enacted as part of the response. All of these decisions have been within the normal delegated powers of Chief Officers, and where possible taken after consultation with the relevant Cabinet Member.
  - Due to social distancing, no Committees have met as at 21<sup>st</sup> May. Weekly briefings of the Cabinet with the Senior Leadership Team have been held weekly via Microsoft Teams and more recently Zoom video conferencing. The Senior Leadership Team has also met daily, with the Leader in attendance. This has allowed the Senior Leadership Team to make appropriate operational decisions in consultation with the Leader, which has enabled immediate action to occur which has been important.
  - With Covid 19 likely to be prevalent for at least a further year along with social distancing requirements, we need to ensure that the committee processes of local government are reinstated. The Local Authorities (Coronavirus) (Meetings) (Wales) Regulations 2020 have changed the pre-existing laws to enable fully remote meetings to take place as long as those participating can hear and be heard. It also provides for the distribution and publication of all associated documents via electronic means only. As a result, the Council will incrementally resume its committee functions and, in consultation with the Chairs of the Committees, arrangements are being made to hold virtual meetings in the near future, starting with Cabinet and Planning.
- 'Counting The Cost'
  - Initial estimations that the financial impact on the Council of the pandemic is at least £4.5Million per month over and above existing resources as a result of additional costs and demand for specific services and lost income and that a further report on the financial

implications would be reported to the next Cabinet meeting (25<sup>th</sup> June 2020). The 25<sup>th</sup> June 2020 report references that a mid-year budget review alongside an updated and interim MTFP will be reported in September 2020.

5.4.10 Since this time, a further Cabinet meeting has taken place, on the 25<sup>th</sup> June 2020, and a full Council meeting on 1<sup>st</sup> July 2020 – both meetings set out their respective forward work programmes for the next 3 months, recognising that the position will be subject to on-going review and may be subject to change to take account of the current unprecedented period that the Council and society at large is living through. In addition, other Committees have begun to meet i.e. Planning and Development Committee on 11<sup>th</sup> June 2020 and the Overview and Scrutiny Committee on 26<sup>th</sup> June 2020.

5.4.11 It is considered that the existing governance arrangements will provide the framework to enable the Council to continue to operate and adapt to the pandemic; however, where it is considered that exceptional circumstances apply that are not currently provided for, these will be reported accordingly.

5.4.12 The remaining sub-sections that comprise the Review of Effectiveness focus on the governance arrangements that operated within the Council for the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020. Where specific arrangements have or are to be put in place as a result of COVID-19, these are referenced within the respective areas.

## 5.5 **PROGRESS MADE TO IMPLEMENT PROPOSALS FOR IMPROVEMENT REPORTED IN THE 2018/19 ANNUAL GOVERNANCE STATEMENT**

5.5.1 The 2018/19 Annual Governance Statement identified 6 proposals for improvement. An update on progress was reported to the Council's Audit Committee on 17<sup>th</sup> December 2019 and following consideration the Committee **RESOLVED**: *'That satisfactory progress is being made to implement the recommendations'*.

5.5.2 A detailed position statement of progress to implement each proposal for improvement is set out in Appendix B. In summary, out of the 6 proposals for improvement, 4 have been implemented and 2 are on-going due to their nature (i.e. reviewing performance indicator targets and ensuring the Financial Procedure Rules document continues to be fit for purpose). Based on this position statement, it is considered that, overall, good progress has been made during the year to support improvements to the Council's governance arrangements.

## 5.6 BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES AND RESPECTING THE RULE OF LAW

### Behaving with integrity

#### Elected Members<sup>1</sup>

5.6.1 The Council's Scrutiny Committee meeting minutes were examined to determine whether proceedings were conducted in line with the Council's Code of Conduct. This identified that all Minutes showed that declarations of interest were sought and declarations were made by elected Councillors, where appropriate.

#### The Standards Committee

5.6.2 A Standards Committee was in place during the year to promote, maintain and oversee high standards of conduct by elected Members, with the Terms of Reference for the Standards Committee included within the Council's Constitution.

5.6.3 During 2019/20 the Standards Committee had a work-plan in place and met on 2 occasions. An Annual Report for 2019/20 was due to be presented to full Council in May 2020; however, due to the coronavirus pandemic this has been re-scheduled to September 2020.

#### Council employees

5.6.4 All officers who started employment within the Council were provided with a local induction and an Individual Performance Review process was in place to support the personal development of officers. The overall arrangements were managed by the Council's Human Resources Service.

#### Arrangements in place to tackle potential misappropriation

5.6.5 In the event that an officer decides to operate outside of the intended terms and conditions of employment, arrangements were in place for officers to "blow the whistle" through the Council's Whistleblowing Policy & Procedure. In addition, there were arrangements in place to tackle potential fraud, bribery and corruption.

5.6.6 The Audit Committee has overall responsibility for overseeing the governance arrangements in place in respect of whistleblowing and tackling potential fraud, bribery and corruption. Updates received by Audit Committee during the year in respect of these arrangements were:

- Anti-Fraud, Bribery & Corruption

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<sup>1</sup> Elected Members – also referred to as elected Councillors

An Anti-Fraud, Bribery & Corruption Progress Report for 2019/20 was reported to Audit Committee on 17<sup>th</sup> December 2019 that set out progress against the programme of work for 2019/20 (including the National Fraud Initiative). The report concluded that progressing the Anti-Fraud, Bribery & Corruption work programme for 2019/20 will ensure the Council continues to operate within an effective anti-fraud culture across the organisation, with resilient preventive measures capable of identifying and addressing new threats. Audit Committee reviewed the update and acknowledge the outcomes of the anti-fraud work progress during 2019/20.

The Annual Report for 2019/20 was due to be reported to Audit Committee on 27<sup>th</sup> April 2020 in accordance with the agreed work plan for 2019/20. Due to the impact of COVID-19, this meeting was cancelled and arrangements have been made for the report to be considered by Audit Committee at its July 2020 meeting. Based on the anti-fraud, bribery and corruption information reported during 2019/20 (i.e. the progress report in December 2019), it is considered that sufficiently robust arrangements were in place.

- Whistle-Blowing

As part of the Annual Governance Statement 2018/19 Progress Update reported to Audit Committee on 17<sup>th</sup> December 2019, assurance was provided that on-going staff awareness raising is taking place for this area, for example, the whistle-blowing policy being highlighted as part of the staff and manager induction processes and a pay-slip insert issued in December 2019 raising awareness of the policy and how to 'blow the whistle'. A Whistle-Blowing Annual Report for 2019/20 was scheduled to be reported to the 27<sup>th</sup> April 2020 Audit Committee and, as referenced above, arrangements have been made for the report to be considered at the July 2020 Audit Committee. The conclusion of the Director of Human Resources as set out in the 2019/20 Annual Report and subject to approval by Audit Committee is '*Based upon the information contained within this report, I conclude that overall the Council's whistleblowing arrangements are appropriate*'. It is also noted that the Whistle-Blowing Policy and Procedure was last reported to Audit Committee for review in October 2016.

## PROPOSAL FOR IMPROVEMENT

- 5.6.7 Although the Whistle-Blowing Policy and Procedure is kept under on-going review at an operational level, it is recommended that the Council's Whistle-Blowing Policy should be subject to a full review, taking into account intelligence gathered since the last update, and reported to Audit Committee during 2020/21 for review, challenge and sign-off.

- 5.6.8 Work in this area has also been informed by the results of the Staff Survey undertaken in 2018, the results of which were reported to Audit Committee on 4<sup>th</sup> February 2019. This information has been re-reviewed in 2019/20 and concluded that there were no pockets of service areas where awareness is low and that the data indicated a general lack of awareness, rather than being service specific. A series of actions are being taken to address this, as reported in the Annual Governance Statement 2018/19 Progress Update reported to Audit Committee on 17<sup>th</sup> December 2019 (as referred to in paragraph 5.6.6 above).
- 5.6.9 Gifts and Hospitality Policy - the Council has a Gifts and Hospitality Policy and arrangements were in place, via registers, to record gifts and hospitality in line with the Policy.

#### Comments, Compliments and Complaints – Social Services

- 5.6.10 A report was presented to Cabinet at its meeting held on 17<sup>th</sup> October 2019 setting out an overview of the Council's statutory Social Services complaints procedure for the period April 2018 to March 2019. The report provided a summary of all complaints and compliments received, and concluded by identifying lessons to be learnt and changes to relevant procedures / protocols.
- 5.6.11 The Report noted that a total of 88 complaints were received across both Adult and Children's Services during the year and this represented a significant reduction of 77 complaints when compared to the previous year. The report also stated that for both Adult and Children's Services there were more compliments received (163) than complaints (88) and this was encouraging and allows the Service to get better at what they do and avoid similar issues in future.

#### Comments, Compliments and Complaints - Non-social services

- 5.6.12 An Annual Report covering 2018/19 was presented to the Overview and Scrutiny Committee on 3<sup>rd</sup> September 2019 that set out areas for improvement and for progress reports regarding the Council's corporate Customer Feedback Scheme to be presented to the Committee on a bi-annual basis. It is considered that the introduction of bi-annual reporting will provide further visibility on this area and enable monitoring of areas for improvement.

### **Demonstrating a strong commitment to ethical values**

#### Elected Members

- 5.6.13 Further to the Local Government Elections in May 2017, all elected Members received induction training on the Member's Code of Conduct that supports the principle of ethical values. Code of Conduct training is mandatory and is continually available to all Elected Members. Training is provided to all

newly elected Members on a one to one basis following bi-elections and Members are reminded through their Personal Development Reviews (PDR) that they are able to contact the Council's Monitoring Officer directly with any queries relating to the Code of Conduct (See also Appendix B – Recommendation 4 for further information).

#### The Council's supply chains

- 5.6.14 The Council plays a significant role in the utilisation of national framework contracts as well as local contractual arrangements, and is responsible for ensuring that its business is conducted in accordance with the law, applies high ethical values, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council's Contract Procedure Rules provides the framework to achieve this and a 'Procurement Policy – Social Responsibility' was approved through a Record of Urgent Joint Decision of the Deputy Leader and Cabinet Member for Corporate Services on the 24<sup>th</sup> March 2020 to further reinforce the arrangements in this area and align with the three key initiatives issued by Welsh Government to take account of as part of the procurement process: Community Benefits; Code of Practice Ethical Employment in Supply Chains; and Opening Doors: the Charter for SME Friendly Procurement.

#### **Respecting the rule of law**

- 5.6.15 The Chief Executive (as Head of Paid Service) led the Council's officers and chaired the SLT (that also comprised the statutory roles of Chief Finance Officer and Monitoring Officer together with other key positions).
- 5.6.16 At the 24<sup>th</sup> January 2019 Cabinet meeting, revisions were agreed to the Council's Senior and Associated Management Post Structure; this included a new Chief Finance Officer being appointed from 11<sup>th</sup> March 2019 (as approved by Council on 6<sup>th</sup> March 2019) and a new Monitoring Officer appointed from 1<sup>st</sup> April 2019, following the two previous post-holders leaving the Council.
- 5.6.17 With specific regard to the Chief Finance Officer position within the Council during 2019/20, the role complied with the principles outlined in the CIPFA document '*The Role of Chief Finance Officer*' because the Chief Finance Officer:
- *Was a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;*
  - *Was actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and*

- *Leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.*

*To deliver these responsibilities the Chief Financial Officer:*

- *Led and directed a finance function that was resourced to be fit for purpose; and*
- *Is professionally qualified and suitably experienced.*

## 5.7 **ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT**

### **Openness**

#### A commitment to openness

#### *General Data Protection Regulation*

5.7.1 The General Data Protection Regulation (GDPR) came into force on the 25<sup>th</sup> May 2018. During 2019/20 the Council demonstrated accountability and transparency when handling and processing personal and sensitive information that it holds in respect of individuals by:

- Having in place a Data Protection Policy and Data Protection web-page and designating the post of Data Protection Officer to an existing member of staff;
- Formally recording the lawful basis upon which data / information is processed within suites of documents called Data Protection Registers; and
- Having in place 'Privacy Notices' that are available on the Council's website setting out how it intends to use information and how it will deliver its services and statutory responsibilities.

5.7.2 It is considered that the publication of this information supports the Council in complying with the GDPR and demonstrates openness and transparency when dealing with its customers.

#### *Freedom of Information*

5.7.3 The Council operated a Freedom of Information (FOI) Act 2000 publication scheme in accordance with legislative requirements. During 2019/20 the Council received 1,030 FOI/Environmental Information Regulations (EIR) requests. Response statistics and any complaints investigated by the Information Commissioner's Office (ICO) concerning FOI/EIR requests are reported through the Information Management Board's quarterly meeting highlight reports and allows the Board to maintain an overview of the Council's compliance with the relevant legislation.

5.7.4 During 2019/20 the Council received 6 complaints which had been referred to it by the ICO:

- 3 of the complaints related to requests not being responded to within the statutory 20 working day period. With the agreement of the ICO all 3 requests were subsequently responded to within 10 working days.
- 2 of the complaints related to requests where the requester believed not all information was being disclosed as part of a response but following an investigation the ICO concluded in both cases that the Council had provided all information it held.
- 1 complaint contained elements of both FOI and Data Protection legislation and following dialogue with the ICO additional information was released to the requester as part of early resolution.

5.7.5 The Council's website provided information on the Freedom of Information Act 2000 and a Publication Scheme was in place to advise citizens how to request public information the Council holds.

#### Openness – Forward work programmes

5.7.6 The Council had in place a forward plan of Committee meetings together with the matters to be considered, where appropriate:

- The 15<sup>th</sup> May 2019 Council meeting agreed and published a calendar of meetings for the 2019/20 municipal year for Council, Cabinet, Licensing Committee, Audit Committee and the Planning & Development Committee, in line with its Constitution;
- Cabinet published its work programme on 18<sup>th</sup> June 2019 for the 2019/20 municipal year and refreshed this on three occasions: 11<sup>th</sup> September 2019, 17<sup>th</sup> December 2019, 24<sup>th</sup> March 2020; and
- Scrutiny Committees agreed work programmes and these were publicly available on a stand-alone Scrutiny Work Programme page on the Council's website, in line with a proposal for improvement previously made by the Wales Audit Office (now Audit Wales).

5.7.7 Committee Work Programmes are an important tool for Members to assist them in viewing items that are coming forward to Committees and for other Committees to utilise to prevent duplication of work and assist with pre-scrutiny. Work Programmes also assist members of the public to engage in the democratic process of the Council. It is noted that work programmes are placing more emphasis on key service or policy matters, based upon a revised criteria which includes alignment to the Council's priorities and those matters of interest to the public, and they allow for more in depth reviews and referrals from other Committees including Council and Audit Committee.

### Decision making and scrutiny of decisions made

5.7.8 Cabinet is a key decision making body within the Council. From a review of reports presented to Cabinet during 2019/20:

- All reports were in the required format;
- A total of 108 reports were presented, 97 of which were made publicly available and 11 were excluded from the press / public on the grounds that the items of business involved the likely disclosure of exempt information, for example, commercially sensitive information;
- For all decisions made by Cabinet during the year, 'Decision Notices' were published on the Council's website and did not become effective (i.e. implementable) until the expiry of the required 'call-in' period (unless deemed to be urgent decisions and therefore not subject to call in);
- During the 2019/20 Municipal Year, one Cabinet decision was called in:
  - 21<sup>st</sup> Century Schools Programme – Proposal to reorganise Primary Schools, Secondary Schools and sixth Form Provision in the Greater Pontypridd Area.
  - The Call-In was considered at a special Overview & Scrutiny Committee held on the 31<sup>st</sup> July 2019 having regard to the reasons set out in the two call-in forms. Following consideration of the issues set out in both call-in forms and in accordance with the Overview & Scrutiny Procedure Rules, Committee resolved that both matters not be referred back to Cabinet for reconsideration and therefore the Cabinet decision taken on 18<sup>th</sup> July 2019 took effect from the closing of the meeting.

5.7.9 Record of Urgent Decisions of the Leader, Cabinet Members and Delegated Officer Decisions were published on the Council's website. For the 2019/20 financial year, 51 decisions were published and in line with the Council's Constitution, these were reported to full Council for information purposes.

### **Engagement with residents / stakeholders**

5.7.10 The Council set out its commitment to engage with residents and stakeholders in its 'Corporate Plan 2016 – 2020 'The Way Ahead' to help achieve the outcome of 'more involved and resilient communities'. A further consultation exercise was undertaken in respect of the 'Corporate Plan 2020 – 2024 'Making a Difference' – this Plan was agreed by Council on 4<sup>th</sup> March 2020 and sets out the Council's priorities for the next 4 years.

5.7.11 Engagement arrangements are supported through a dedicated Consultation page on the Council's website and a wider commitment by the Council to engagement via the Public Services Board.

5.7.12 During the year the Council undertook a variety of consultation exercises, some in partnership with other public sector organisations. It is noted from a review of a sample of Council and Cabinet Reports that a 'Consultation' section is included setting out the results of consultation feedback (where appropriate) to inform decision making and a broad range of communication methods were on offer to encourage stakeholders to express their views.

## 5.8 DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS

5.8.1 For 2019/20, the Council compiled draft action plans for its three Corporate Plan priority areas of 'People', 'Place' and 'Economy', and these were subject to pre-scrutiny by the Finance and Performance Scrutiny Committee on 8<sup>th</sup> July 2019, as contained within the draft Corporate Performance Report 2019/20. The action plans set out the Council's priorities, outcomes to be delivered, key actions and performance measures and targets, and the pre-scrutiny process concluded that the '*Council's ambitions for 2019/20 are understandable and will enable progress and impact to be measured and scrutinised*'. The draft action plans were then:

- Reported to Cabinet on 18<sup>th</sup> July 2019, where they were endorsed and Cabinet recommended their approval by Council; and
- Reported to and approved by Council on 31<sup>st</sup> July 2019.

5.8.2 During the year, Corporate Plan priority action plan updates were reported publicly on a quarterly basis in line with the Council's Constitution i.e. firstly to Cabinet for review / approval and then to the Finance and Performance Scrutiny Committee for further review / scrutiny. The quarterly updates during the year were (noting that due to the COVID-19 pandemic, alternative arrangements were put in place for the Quarter 3 and 4 reporting processes):

- Quarter 1 – Cabinet 24<sup>th</sup> September 2019 / Finance and Performance Scrutiny Committee 4<sup>th</sup> November 2019;
- Quarter 2 – Cabinet 21<sup>st</sup> November 2019 / Finance and Performance Scrutiny Committee 16<sup>th</sup> December 2019
- Quarter 3 - The scheduled Cabinet and Finance and Performance Scrutiny meetings were cancelled due to COVID-19. The Quarter 3 Report was instead approved by a Record of Urgent Decision of the Cabinet Member for Corporate Services on 24<sup>th</sup> March 2020; and
- Quarter 4 (Year-End Report)– it is noted that the Council's Quarter 4 report will be reported to the July 2020 meeting of the Cabinet and then scrutinised by the Overview and Scrutiny Committee.

5.8.3 In terms of compliance with statutory reporting requirements as set out in the Local Government (Wales) Measure 2009 and the Well-being of Future Generations Act 2015, the Council intends to:

- Publish a backward looking assessment of its performance for the 2019/20 financial year in line with the statutory date of no later than 31<sup>st</sup> October.
- Publish forward looking action plans for 2020/21 based on the priorities of 'Prosperity', 'People' and 'Places' as included in the new Corporate Plan 2020 – 2024 "Making a Difference". It is intended that forward looking action plans will be published in quarter 2 of 2020/21.

#### Medium Term Financial Plan (MTFP)

5.8.4 As part of providing elected Members with information to support future consideration of reports in relation to the Council's Medium Term Financial Planning arrangements, a joint presentation was made to full Council on 19<sup>th</sup> June 2019 by the Council's Director of Finance and Digital Services and the Welsh Local Government Association's Director of Resources.

5.8.5 The Director of Finance and Digital Services also reported an updated MTFP covering the period 2019/20 to 2022/23 to Cabinet on 18<sup>th</sup> July 2019, where it was agreed wider engagement with full Council and the Finance and Performance Scrutiny Committee be undertaken. In line with this, the updated MTFP was reported to full Council on 31<sup>st</sup> July 2019 and a presentation made to the Finance and Performance Scrutiny Committee on 4<sup>th</sup> November 2019 titled 'Understanding the Council's Budget'.

5.8.6 The updated MTFP set out:

- 2019/20 Revenue Budget (£483.5M) - 85% of the revenue budget was allocated to Corporate Plan priorities and the remaining 15% allocated to Authority Wide Costs, Other Services To The Public, Regulatory Public Services and Core Support; and
- 2019/20 to 2021/22 Capital Programme (£173.202M) – 98% of capital resources allocated to Corporate Plan priorities. The remaining 2% was allocated to Regulatory Public Services, Authority Wide Costs and Core ICT Systems Support.

#### Investment

5.8.7 Additional investment was approved by Council during the year to further support the delivery of Corporate Plan priorities: on 23<sup>rd</sup> October 2019 amounting to £5.800M and 4<sup>th</sup> March 2020 amounting to £11.850M. It is noted that the opportunity to deliver additional investment, over and above the normal Capital Programme, is the continuation of a strategy since 2015 and has enabled £107M to be invested since this time through assessing and releasing earmark reserves, setting resources aside to fund prudential borrowing and allocating additional one-off Welsh Government funding.

5.8.8 Based on the arrangements and information reported during the year, there is clear evidence that the Council has publicly set out its ambitions, provided updates on progress and opportunity for review and scrutiny, and focussed its resources to support the delivery of its Corporate Plan priorities.

## 5.9 DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES

### Determining and planning interventions

5.9.1 The Council's decision making arrangements during 2019/20 were based on written reports in an agreed format, having regard to financial, legal and consultation matters, and alignment with the Well-Being of Future Generations Act (this includes, for example, Council and Cabinet reports).

5.9.2 Of the approaches or interventions used by the Council during the year, overall, these are making a positive contribution to the delivery of outcomes in line with Corporate Plan priorities. Examples of key interventions are set out below.

### Cabinet and the Senior Leadership Team

5.9.3 The Cabinet and SLT jointly planned the work programme of items to be reported during the year and required timescales, with this informing the pace of progress and outcomes being delivered. This has included:

- Economy Priority – supporting town centre regeneration as part of the Porth Town Centre Strategy (for example, the redevelopment of Porth Plaza as a new community hub for the town); the Mountain Ash Town Centre Framework (for example, the redevelopment of Guto Square); and in Pontypridd (for example, development of Llys Cadwyn and the link bridge to Ynysangharad Park);
- People Priority – meeting the needs of residents requiring support to live independently through progressing the Extra Care Housing Development programme and Supported Housing Schemes; and
- Place Priority – working with partners as part of the Cwm Taf Community Safety Delivery Plan, with anti-social behaviour being an area of key focus.

### Scrutiny Committees

5.9.4 Scrutiny Committees have undertaken a broad range of work during the year including pre-scrutiny of the Council's draft Corporate Plan 2020-24 and also proposals to modernise residential care and day care for older people; set up specific working groups to consider discrete areas such as recycling in communal areas and development of infrastructure to support low carbon vehicle ownership; acted as a consultee as part of the Council's 2020/21 Revenue Budget Strategy consultation process; and scrutinised the Council's performance as part of quarterly Performance Reporting arrangements throughout the year.

## Performance Reports

- 5.9.5 Performance Reports provided quarterly updates on financial performance; progress against Corporate Plan priorities (including performance indicators and investment); staffing including sickness absence; and strategic risks, and provided electronic links to more detailed information.
- 5.9.6 With specific regard to financial performance, Corporate Plan priority and strategic risk up dates, exceptions were highlighted, explained and the corrective action to be taken included within reports. There was evidence of scrutiny challenge around financial and performance results and requesting further information to be included within reports to aid the reader's understanding.

## **Optimising achievement of intended outcomes**

- 5.9.7 On 28<sup>th</sup> September 2017 Cabinet agreed a way forward to deliver Corporate Plan priorities in a climate of funding reductions by investing in Rhondda Cynon Taf's future and by improving and delivering essential services in a different way. This involved the creation of 5 work-streams to invest in to improve essential services: Digitalisation, Commercialisation, Early Intervention and Prevention, Independence and Efficient and Effective Organisation.
- 5.9.8 Work was undertaken during 2019/20 in the 5 work-streams, for example, making more services available on-line, delivering services that focus on early intervention and prevention and independence such as the Resilient Families Service and StayWell@Home Service, and also continuing to deliver efficiency savings to support an Efficient and Effective Organisation.
- 5.9.9 The on-going relevance of the 5 work-streams were tested as part of the Council's 2019/20 Revenue Budget Strategy Consultation arrangements and the feedback of respondents is set out below.

	Yes (%)	No (%)	Don't Know (%)
Digitalisation	64	24	12
Early Intervention and Prevention	87	7	6
Commercialisation	60	24	16
Efficiency	78	11	11
Independence	78	12	11

## 5.10 DEVELOPING THE ENTITY'S CAPACITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT

### Developing the entity's capacity

5.10.1 The Council undertook a 'corporate self-assessment' and completed 'individual service self-evaluations' to inform service planning for 2019/20 and to assess the Organisation's current position and areas for improvement. This was reported to Cabinet on 19<sup>th</sup> March 2019 and to the Finance and Performance Scrutiny Committee on 2<sup>nd</sup> April 2019.

5.10.2 The above arrangements, supported by the 2019/20 Revenue Budget Strategy and an on-going programme of investment, continued to evidence that the Council is developing its capacity in priority areas within a very challenging financial climate. This is being evidenced through:

- Strong and focussed leadership from the Cabinet and Senior Leadership Team, with good progress being made in delivering the majority of the commitments set out in the Corporate Plan;
- On-going investment in digitisation to support more agile working, reduce accommodation requirements and employee improve work / life balance;
- A focus on providing more services on-line for residents and businesses, in line with public expectations;
- The recruitment, development and management of staff and the appointment of graduates and apprentices to create excellent job and training opportunities across a range of key service areas;
- A continued focus on improving staff attendance through providing those service areas with high levels of sickness access to specialist HR support and advice; and
- Working with partners and Welsh Government to fund and deliver projects in Town Centres as well as playing a key part in the Cardiff Capital Region City Deal and Cwm Taf Public Services Board.

### Developing the capability of the entity's leadership and other individuals

5.10.3 Part 3(i) of the Council's Constitution, 'Responsibilities for Functions', sets out the responsibilities of the Leader of the Council, the Cabinet and designated employees of SLT (Section 3A) and is kept under on-going review.

### Developing the capabilities of elected Members

5.10.4 Following the local government elections in May 2017, a programme of training commenced for Elected Members to ensure they were equipped with the appropriate skills, knowledge and support to fulfil their roles. This work has continued during 2019/20 through the availability of Member Personal Development Reviews (PDRs) which identified individual training needs and

training has been complemented through the use of specific sessions, for example, an update on Medium Term Financial Planning arrangements in advance of a full Council meeting.

5.10.5 Through the use of the PDRs, bespoke training packages have also been delivered to Members and following enquiries from Members in respect of their roles, policies are being created to support members going forward.

5.10.6 To provide further support and access to information, all elected Members have been provided with an iPad or similar device of their choice to assist them in undertaking their roles. Devices are now also being provided to the Council's Co-opted Members and has enabled the continued rollout of the 'Modern.Gov' system that allows access to Council papers electronically.

5.10.7 The rollout of Modern.Gov across the Council has been positive to date. Whilst it is too early to establish the full effect of its implementation so far, there have been some requests from Members for additional information to be made available through the Modern.Gov system and also for the amount of hard copy information provided to be reduced.

5.10.8 To further enhance the roll out of the paper-light approach, the development of training and the use of technology by Members, the Democratic Services Committee at its 19<sup>th</sup> March 2019 meeting endorsed the development of a Members Portal. The Portal is recognised as a form of good practice through the Members Charter and will be an area on the website for Elected Members to access which will allow them an area to potentially report problems; submit questions / Notices of Motion to Council; submit scrutiny Call Ins; submit Research requests; provision of useful contact details for officers / external organisations; and E-learning.

5.10.9 The Council has a good track record of providing Members with support and development opportunities, and this can be evidenced by its success in attaining and retaining the Members Charter over the past decade<sup>2</sup>. The Charter includes all aspects of elected Member support including constitutional arrangements, a strategic and practical framework for Member development, services and facilities. The Charter is intended to raise the amount and standard of support to elected Members in Wales. To continue to demonstrate the Council's commitment to Member development, preparations are in progress for the Council's Charter to be reviewed in 2020.

### Member Survey

5.10.10 In accordance with s6(2) of the Local Government (Wales) Measure, 2011 Member views have been sought on their preference for start times of meetings by means of a survey which was conducted between 1<sup>st</sup> April to the 13<sup>th</sup> April 2019. The results of the survey were reported to the

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<sup>2</sup> Members Charter - The Council received its first award in 2007, an Advanced Charter in 2010 and the 'Good Practice and Innovation Award for Member Support and Development' in 2014, as a result of support made available to Members through the Occupational Health Unit.

Democratic Services Committee held on the 17<sup>th</sup> July 2019 and demonstrated that 98% of Members are happy with the level of support provided to them through the Council Business Unit subject to some suggested improvements. Those improvements have all since been progressed such as providing new Members on Scrutiny Committees with an induction with the Head of Democratic Services and the Scrutiny Support Officer and where possible the Chair or Vice Chair of the Committee to fully brief them on the work programme and terms of reference. Members' views will again be sought in respect of their preference for the start times of meetings as well as the appropriateness of the support available to them in a survey which will be circulated and discussed at a future Democratic Services Committee.

#### Developing the capabilities of employees

5.10.11 The Council has a Workforce Plan 2017-22, which was approved by Cabinet on 15<sup>th</sup> February 2018. The plan has set priorities that align to the Council's Corporate Plan in terms of developing a flexible and agile workforce that shares organisational knowledge; recruiting and retaining the best talent to create a diverse workforce; leadership and management development; enabling a high performing, engaged and committed workforce; and supporting health and wellbeing to maximise attendance.

5.10.12 Staff development has been supported through induction sessions, Leadership and Middle Management Development Programmes, Manager Briefings, 'Joint Cabinet and Senior Officer meetings' and a range of operational training such as health and safety, information management and dignity at work. This was supported by a Training Compendium that brought together all training available within the Council.

### **5.11 MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT**

#### **Managing risk**

5.11.1 The Council's Risk Management Strategy was updated, reported to and endorsed by the Council's Audit Committee on 17<sup>th</sup> December 2018, and sets out the overall purpose and framework for risk management within the organisation. The framework sets out two levels of risk: Strategic Risks – those that the Council faces when delivering its Corporate Plan Priorities and Operational Risks – those associated with the delivery of service objectives and included within Service Delivery Plans.

#### Strategic Risks

5.11.2 The Council's strategic risks are set out in a Strategic Risk Register and updates were reported publicly to Cabinet and the Finance and Performance Scrutiny Committee during the year as part of performance reporting

arrangements - the latest published strategic risk register update can be viewed by clicking [here](#) (noting that the 2019/20 year-end Strategic Risk Register will be reported to Cabinet in July 2020).

5.11.3 From reviewing the quarterly strategic risk register updates for 2019/20, it was noted that:

- New risks were incorporated into the register i.e. delivery of the 21<sup>st</sup> Century Schools Band B Programme and expectations placed upon the Council to become net zero by 2050 in respect of its carbon emissions;
- Risk Scores revised to take account of up-to-date information i.e. the specific project to relocate the Council's data Centre and its importance in supporting the Council's I.T. infrastructure and the risk of a No Deal Brexit seeming ever more likely and the economic and other risks that could materialise; and
- Revisions to risk descriptions to reflect updated positions, for example, making reference to cyber risk.

#### Operational Risks

5.11.4 These risks are monitored by Service Delivery Plan owners as part of the operational management of services.

5.11.5 In addition to the above, to assist Management in applying consistent risk management arrangements, a Risk Management Toolkit is in place.

#### Audit Committee

5.11.6 The membership and planned meeting frequency of the Council's Audit Committee (8 scheduled meetings) during 2019/20 was in line with the Council's Constitution and legal requirements. It is noted that two of the scheduled meetings due to take place as part of the 2019/20 Audit Committee Work-plan were cancelled as a result of the limitations placed on the Council due to COVID 19 and a virtual Audit Committee meeting has scheduled for July 2020 for the Committee to consider draft certified financial statements and other year-end governance related year-end reports, for example, the Council's Annual Governance Statement.

5.11.7 The CIPFA Publication '*Audit Committees – Practical Guidance for Local Authorities and Police 2018 Edition*' set out that the role of the Audit Committee in relation to risk management covers three major areas:

- Having assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks;
- Keeping up to date with the risk profile and the effectiveness of risk management actions; and
- Monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management.

- 5.11.8 At the 17<sup>th</sup> December 2019 Audit Committee an update was reported titled 'Arrangements in place to manage corporate risks' and included proposals for improvement, that were agreed by Audit Committee, to further reinforce the arrangements currently in place. The proposals for improvement agreed at the 17<sup>th</sup> December 2019 meeting together with a further proposal for improvement in respect of operational risk management are set out below.
- 5.11.9 During the year, work has been undertaken with the Chairperson of Audit Committee to compile a draft Audit Committee Annual Report for 2019/20 (incorporating a self-assessment against the CIPFA 2018 Practical Guidance note). Based on the work undertaken, the Chairperson of the Audit Committee has concluded, subject to approval by the Committee, that:
- *Our work-plan for this financial year has been balanced and has continued to build on the change in approach introduced in 2018/19 of broadening the items or topics reported to Audit Committee. In addition to this, a range of Officers have attended the Committee and this has continued to help us to deliver our Terms of Reference.*
  - *I believe that we have discharged the responsibilities placed upon us and the proposals for improvement that have arisen from the self-assessment will help further improve our arrangements and effectiveness.*

#### PROPOSALS FOR IMPROVEMENT

- 5.11.10 Risk Management – the proposals for improvement agreed by Audit Committee on 17<sup>th</sup> December 2019 were:
- Strengthen Audit Committee's visibility of the Council's risk profile through presenting 'Strategic Risk Register' Information Reports to the Committee;
  - Provide Audit Committee with 'Risk Updates' to enable the Committee to consider the arrangements in place for the management and ownership of risks across the Council, including, for example, new risks and changes in risk scores;
  - As part of developing an on-going programme of training and support for Audit Committee, consider (amongst other things):
    - The levels of awareness / understanding of risk management best practice for elected Members; and
    - Are there opportunities to further utilise the expertise of the Council's audit and scrutiny functions to support improvement in risk management / governance arrangements e.g. topics being referred between scrutiny and audit committees?
    - Share of good practise with other local authorities, for example, the local authorities that comprise the Regional Internal Audit Shared Service.

5.11.11 Whilst assurance is in place around the on-going monitoring and reporting of Strategic Risks, assurance work should be undertaken to confirm the adequacy of arrangements for operational risk management, in line with the Council's Risk Management Strategy.

5.11.12 The Audit Committee Annual Report 2019/20 – the draft Audit Committee Annual Report for 2019/20 recommends a number of proposals for improvement and, subject to approval by Audit Committee, these should form the basis of an action plan to support on-going improvement to the work of the Committee and be progressed alongside the Audit Wales project 'Rhondda Cynon Taf Audit Committee - Support and Development'. The proposals for improvement include:

- Complete the skills assessment for Members of Audit Committee;
- Agree a refreshed programme of learning and development (informed by the skills assessment exercise) and incorporate into the Audit Committee annual work-plan; and
- Using one area of the Audit Committee's Terms of Reference, pilot an approach to evaluating the impact of its work (with the aim of learning lessons and developing an approach to evaluate other areas of the Committee's work).

### **Managing performance**

5.11.13 There was continued focus on the Council's performance management arrangements during the year through Service Self-Assessment / Service Delivery Planning 'challenge sessions' with the Chief Executive and designated Cabinet Member. The on-going work is supporting an overall improvement in the content of the documents via more clearly defined outcomes and further alignment with the individual performance management arrangements to all staff.

### **Scrutiny**

5.11.14 Good progress has been made in response to the review of Council's Scrutiny arrangements, which was reported alongside the Council's response to Overview and Scrutiny Committee in October 2018. This includes strengthening the support provided to Members, through a single Council Business Unit (CBU). The Unit, agreed by Democratic Service Committee on 12 November 2018 has centralised the support to all of the Council's democratic functions and decision making arrangements. The provision of a Scrutiny Graduate Research Officer is able to support Members' Scrutiny responsibilities.

5.11.15 An update report outlining the improvements to the Council's Scrutiny function was presented to the Overview & Scrutiny Committee on the 1<sup>st</sup> May 2019. The improvements noted to date include (and will be an on-going process):

- The formalisation of meetings of Scrutiny Chairs and Vice Chairs;
- A revised set of clearly defined Terms of Reference for each Scrutiny Committee (placing the Corporate Priority 'Economy' under the Finance & Performance Scrutiny Committee and the Crime & Disorder Committee to the Overview & Scrutiny Committee, the overarching Scrutiny Committee and therefore providing a more strategic role and serving as a platform for receiving updates from the Police Crime Panel as previously requested by the Overview & Scrutiny Committee);
- A more concise forward work programme for each Scrutiny Committee which will provide greater focus on those matters which can produce tangible outcomes, align themselves to the Council's priorities and interest to the public and allows for a more in depth review of each topic (with any reports for 'information' only being provided via link only);
- Improved Notices of Motions (NOM) arrangements through a more efficient alignment between Council and Scrutiny and more clarity from the Proposer and Seconder on the meaning of the NOM;
- Development of the dedicated Scrutiny website since its launch in 2018 with updates on scrutiny committees and Chairs' Blogs;
- Continued engagement sessions between the Scrutiny Chairs and their respective Cabinet Members to formulate the forward work programmes;
- Improved public engagement and involvement in the Scrutiny process through the publication of a Public Participation Guide; and
- The implications of the Well-being and Future Generations Act on Scrutiny Committees have been considered and the Scrutiny Toolkit issued by the Future Generations Commissioner was tested in a Scrutiny Working Group, which considered the Council's Infrastructure for Low Carbon Vehicles (LCV).

### **Internal control**

- 5.11.16 Internal Control arrangements are covered within paragraphs 5.12.6 and 5.12.7.

### **Managing data**

- 5.11.17 An Information Management Plan is in place that sets out the framework, including legal requirements, for information management within the Council.
- 5.11.18 A review of the arrangements in place during 2019/20 identified they were in line with the agreed governance structure. More specifically (and in addition to the information set out at paragraph 5.7.1 – GDPR):
- An Information Management Board was in operation and has been running for several years. This was chaired by the Council's Senior

Information Risk Officer, key service areas were also represented by Head of Service level or above;

- The Council continued to secure its annual accreditation to the Public Service Network (PSN) in January 2020 i.e. The 'PSN' is the Council's connection to the wider public sector network (Council to Council, Council to Government e.g. Department for Work and Pensions) to enable the Council to communicate and share data securely across all public bodies;
- The Council attained Cyber Essentials certification in July 2019. Cyber Essentials is a Government backed scheme that evidences an organisations resilience against common cyber-attacks; and
- An ICT Security Group was in operation and has been running for several years. The group is made up of representatives from each ICT team and its purpose is to support PSN and Cyber Essentials accreditation in addition to providing assurances in respect of proposed changes to applications, or the introduction of new technology.

5.11.19 It was noted that alongside the above activity, the Information Commissioner's Office (ICO) investigated 8 self-referrals in respect of the Council during 2019/20. In all cases, the ICO determined that no further regulatory action was required and were satisfied with the Council's investigation of the breaches and the remedial measures identified.

#### Public Services Ombudsman for Wales (PSOW)

5.11.20 It has been noted that 11 referrals<sup>3</sup> were considered through the Council's Complaints and Concerns Procedure, the outcomes from which were that no further action was deemed necessary. An additional referral was investigated by the PSOW (a final report is due to be received) and 1 further referral was dealt by way of an 'early settlement'.

#### **Strong public financial management**

5.11.21 The Council has publicly demonstrated its commitment to strong and responsible financial planning and management, and has supported this through the continued delivery of sound financial performance during 2019/20. This is based on:

- A key cross-cutting principle within the Council's Corporate Plan is '*Living within our means*', in effect setting out the importance of sound financial planning and management within the organisation;

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<sup>3</sup> Referrals – referrals are where members of the public complain to the Ombudsman without exhausting the local authority's complaints procedure first. The Ombudsman therefore refers these back to the local authority to be considered in line with their complaints procedure

- The Council has a suite of protocols supporting strong financial planning and management that have been compiled with, for example, 'Budget and Policy Framework Procedure Rules' and the 'Financial Procedure Rules';
- The Council set a Revenue Budget in 2019/20 after taking account of a significant budget gap, with savings being delivered from areas that did not affect frontline services. The Council also continued to take a responsible approach to Council Tax increases, having regard to residents feedback as part of the revenue budget consultation process, and set a 3.6% Council Tax increase (excluding Community Council precepts and excluding the Police and Crime Commissioner for South Wales Precept, both of which are outside of the Council's control) which was the lowest increase across Wales;
- Financial performance results were publicly reported every three months during the year and scrutinised by elected Councillors (with the quarter 4 (year-end) report scheduled to be publicly reported in July 2020);
- The Council kept its finances under on-going review throughout 2019/20 and was able to release resources from earmark reserves (as referred to in 5.8.7) to support additional one-off investment in Corporate Plan priorities. It is noted that the availability of one-off funding was as a result of early identification of savings or from assessing the Council's specific reserves has been a consistent approach in enabling significant additional investment in recent years;
- The Council complied with new legislative requirements, for example, the external audit of the 2018/19 Statement of Accounts for the Council and Rhondda Cynon Taf Pension Fund was completed and approved by full Council on the 31<sup>st</sup> July 2019, in advance of the statutory timescale of 15<sup>th</sup> September for the 2018/19 financial year and in compliance with the earlier closing timetable that become a statutory requirement with effect from the 2020/21 financial year;
- The Wales Audit Office Management Letter for 2018/19 was presented to Audit Committee by the Wales Audit Office on 16<sup>th</sup> September 2019. The report stated that: the draft financial statements for the year ended 31<sup>st</sup> March 2019 were received on 31<sup>st</sup> May 2019 in line with the agreed deadline. It also reported that the draft financial statements were of good quality and concluded that the Council's key financial statements can be relied on to materially correct outputs;
- The Council is financially stable as a result of having a track record over a number of years of setting and delivering balanced revenue budgets, and having 'clean bills of health' on its year end accounts

when audited by the Wales Audit Office<sup>4</sup> (as demonstrated in the latest Wales Audit Office Management Letter relating to the 2018/19 Statement of Accounts reported to Audit Committee on 16<sup>th</sup> September 2019); and

- The Council had sound medium term financial planning arrangements that robustly forecasted future spending and funding levels, and published an update during the year.

## 5.12 **IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY, REPORTING, AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY**

### **Implementing good practice in transparency and reporting**

5.12.1 The Council has implemented an open and consistent approach to reporting its business, as set out in earlier sections of this Annual Governance Statement, with the aim of helping to ensure information is understandable to stakeholders and that they have the opportunity to challenge the Council's performance, plans and decisions, for example, the Council's Statement of Accounts and quarterly Performance Reports. It is noted that the Annual Reports for the 2019/20 financial year in respect of Audit Committee, Scrutiny Committees and Standards Committee are scheduled to be reported to full Council in September 2020.

#### Cabinet Attendance at Scrutiny

5.12.2 At the Overview and Scrutiny Committee on 22<sup>nd</sup> January 2018, the Committee agreed for a process whereby Cabinet Members and their respective Chief Officers attend the relevant Scrutiny Committee(s) to present information in respect of their portfolios. This process is intended to enhance the level of dialogue and information currently provided to Scrutiny Committees and a number of updates were noted as being provided during 2019/20, for example, to the Finance and Performance Scrutiny Committee on 16<sup>th</sup> December 2019.

5.12.3 In order to increase the prominence / awareness of the Annual Governance Statement, arrangements have been put in place whereby a designated 'Governance' section has been developed on the Council's website. A standalone copy of the most recent (i.e. 2018/19) Annual Governance statement is available and once approved the 2019/20 Annual Governance Statement will also be published on Governance Section of the Council's website. It is noted that the Governance Section of the Council website also includes information in relation to: The Council's Constitution; Risk Management; Whistleblowing; Anti-Fraud, Bribery and Corruption; Audit Committee; Corporate Feedback Scheme; The Council's External Regulators; and Working with others.

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<sup>4</sup> Wales Audit Office – from 2020/21 the organisation has been renamed as Audit Wales

## Assurance and effective accountability

### Internal Audit

5.12.4 The Council's Cabinet approved for the Internal Audit Service to be transferred to a Regional Internal Audit Shared Service (hosted by the Vale of Glamorgan Council), with effect from 1<sup>st</sup> April 2019. A review of information presented by the Regional Internal Audit Shared Service to Audit Committee during the year provides assurance that the Service continued to play a key part in enabling the Committee to fulfil its Terms of Reference.

5.12.5 An Internal Audit Charter was in place for the 2019/20 financial year that was approved by Audit Committee on 25<sup>th</sup> March 2019 and sets out the Service's position within the organisation, for example, its authority to access records, personnel and physical properties relevant to the performance engagements.

5.12.6 The Head of Internal Audit has produced a Head of Internal Audit Report for 2019/20. Subject to Audit Committee consideration at its meeting in July 2020, the Head of Internal Audit Report states:

- *from the work undertaken during the financial year 2019/20 and taking into account other sources of assurance, the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2019-20 is: "Effective with a small number of areas identified for improvement".*
- *based on the work completed by the Regional Internal Audit Shared Service for the financial year no significant cross-cutting control issues have been identified that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific.*

5.12.7 In addition, the Head of Internal Audit's Annual Report 2019/20 confirmed overall conformance to the Public Sector Internal Audit Standards and the Covid19 outbreak has had little impact on the delivery of the internal audit plan for 2019/20 as relevant testing in all but 3 planned reviews had been completed prior to the lockdown coming into force allowing draft reports to be issued.

## 5.13 OTHER KEY GOVERNANCE ARRANGEMENTS

### **Amgen Cymru Ltd**

5.13.1 Rhondda Cynon Taf CBC holds 100% of the voting rights of Amgen Cymru Ltd., who in turn hold 100% of the voting rights of Amgen Rhondda. The Council also holds 100% of the allotted preference shares in Amgen Rhondda Ltd. The principal activities of Amgen Cymru is to provide waste management services and waste disposal facilities. Amgen Rhondda is responsible for the stewardship of the Nant y Gwyddon landfill site.

5.13.2 The directors of the companies are responsible for ensuring there are sound governance arrangements including a robust system of internal control.

5.13.3 The Council removed the “arm’s length” status of the companies during 2009/10, therefore many of the aspects of the Council’s governance arrangements such as policies, processes and controls apply to the companies.

5.13.4 During 2019/20 there have been no significant governance issues that have been identified by the Amgen Company directors, internal auditors or external auditors.

### **Pension Fund**

5.13.5 Rhondda Cynon Taf County Borough Council is the Administering Authority for the Rhondda Cynon Taf Pension Fund. Whilst the governance arrangements detailed in this statement apply equally to the Council’s responsibilities to the Pension Fund there are further specific requirements for Pension Funds which are detailed in a number of key documents:

- Governance Statement of Compliance which indicates the Fund’s position against the Government’s best practice standards;
- Governance Policy Statement which provides an overview of the management structure, decision making and employer engagement;
- Communication Policy Statement which details the communication and information services to participating employers and scheme members;
- Pension Fund Administration Strategy which seeks to improve efficiency in the delivery of agreed standards of quality and to ensure compliance with statutory requirements;
- Investment Strategy Statement which details how Fund investments are managed, including the Fund’s policy on how social, environmental and corporate governance considerations are taken into account; and
- Funding Strategy Statement which provides a summary of how we will fund our pension liabilities.
- Pension Fund Risk Register, which identifies, prioritises and monitors risks associated with the Fund, against suitable mitigation controls.

5.13.6 All of these documents can be found at the following link: [www.rctpensions.org.uk](http://www.rctpensions.org.uk)

5.13.7 The Public Service Pensions Act 2013 introduced a number of changes to public service pension schemes, including some significant changes for the governance of such schemes. In accordance with the Act, the Council established a Local Pension Board to assist Rhondda Cynon Taf County Borough Council in its role of Administering Authority (‘Scheme Manager’) in:

- Securing compliance with the Principal Regulations and any other legislation relating to the governance and administration of the LGPS;
- Securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and

- Ensuring the effective and efficient governance and administration of the LGPS by the Scheme Manager.
- 5.13.8 The Pension Board is made up of two employer representatives and two member representatives.
- 5.13.9 In 2016/17 the Council established a formal Pension Fund Committee (subject to the provisions of Section 101 of the Local Government Act 1972) to oversee its responsibilities with regard to the administration of the RCT Pension Fund. The Pension Fund Committee consists of 5 elected members and is politically balanced.
- 5.13.10 The Committee is responsible for the strategic management of the RCT Pension Fund with all operational matters continuing to be delegated to the Council's Chief Finance Officer (as the Section 151 Officer or in his absence the Deputy Section 151 Officer) who are supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support.
- 5.13.11 The Pension Fund Committee met 3 times during the Municipal Year 2019/20.
- 5.13.12 In early 2017, a Joint Governance Committee (JGC) was established in accordance with an inter-authority agreement, responsible for oversight of the Wales Pension Partnership (WPP) investment pooling collaboration of the eight LGPS funds in Wales. The eight Welsh Pension Fund Committee Chairs or their nominated deputy (elected member) attend the JGC and are supported by an officer working group. In January 2018, the WPP appointed an 'Operator' to establish and run a collective investment vehicle for the sole use of the Local Government Pension Scheme (LGPS) funds in Wales.

A summary of the pooling objectives of the WPP are:

- Generate consistent net of fee excess returns;
- Diversify manager risk;
- Reduce average manager fees;
- Achieve tax efficiency by reclaiming withholding tax on dividends (for non-UK equity sub-funds);
- Meet the Government deadlines by establishing one sub fund submission to the FCA; and
- Equitably share the costs of transitioning into sub-funds.

## **OVERALL ASSESSMENT OF THE COUNCIL'S ARRANGEMENTS**

- 6.1 Based on the assessment undertaken, it is considered that the Council's governance arrangements operated effectively, ensured business was properly conducted and publicly demonstrated the proper use of resources in the delivery of Corporate Plan priorities. This overall conclusion is supported by:

- Sound arrangements to support elected Councillors and Officers in the effective discharge of their responsibilities and their on-going training and development, and also in maintaining high standards of conduct when undertaking business on behalf of the Council;
- Executive and Delegated Officer decision making being evidence based, timetabled in advance (where appropriate), publicly reported and in line with the Council's Constitution;
- On-going awareness raising within the Council to promote probity and a zero tolerance culture in respect of fraud, bribery and corruption, and also publicly reporting on the Council's performance in such areas;
- An open approach to engaging with stakeholders, partners and the Council's scrutiny function in the planning and delivering services;
- The continued reporting of understandable priorities and ambition, as set out in the Council's Corporate Plan, with regular progress reports published and reported to Cabinet and reviewed by the Council's scrutiny function. The Council wide position for the year shows improving performance results overall supported by on-going additional investment in priority areas and maintaining financial stability;
- A medium term approach to financial planning, within a very challenging public sector financial climate, that helped inform strategic decision making and prioritisation of resources;
- An unqualified audit opinion from the Council's external auditor on the Council's latest approved Statement of Accounts (2018/19) and assurance from the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2019/20; and
- The Council having a track record of implementing Annual Governance Statement recommendations in previous years.

6.2 Notwithstanding this overall position, the assessment has identified areas where improvements are deemed necessary to further reinforce the effectiveness of the Council's current arrangements. These are set out in Section 7.

## 7. PROPOSALS FOR IMPROVEMENT

7.1 Further to completing the assessment of the Council's governance arrangements, Table 2 summarises the proposals for improvement.

Table 2 – Proposals for Improvement

Core Principle / Area	Paragraph No.	Issue Identified	Recommendation	Timescale for Implementation	Responsible Officer(s)
<b>BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES AND RESPECTING THE RULE OF LAW</b>	5.6.7	<u>Whistle-Blowing</u>  Although the Council's Whistle-blowing policy is kept under on-going review at an operational level, the Policy was last reported to Audit Committee for consideration in October 2016.	The Council's Whistle-Blowing Policy should be subject to a full review, taking into account intelligence gathered since the last update, and reported to Audit Committee for review, challenge and sign-off.	December 2020	Director of Human Resources
<b>MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT</b>	5.11.10 / 5.11.12	<u>Audit Committee</u>  Risk Management – strengthen Committee's visibility of the Council's risk profile and provide Audit Committee Members with the appropriate support to further development their skills in this area.  Learning and Development – although individual elected	<ul style="list-style-type: none"> <li>• Strategic Risk Register updates to be incorporated into the Audit Committee work programme.</li> <li>• Complete a skills assessment for members of Audit Committee the results from which will inform a</li> </ul>	October 2020  From October 2020	Service Director – Finance and Improvement Services  Service Director – Democratic Services and

		Member training and development arrangements are in place, no skills assessment has been undertaken for Audit Committee members (informed by the CIPFA publication 'Audit Committees - Practical Guidance for Local Authorities & Police 2018 Edition')	refreshed programme of learning and development for the Committee (and should then be incorporated into an action plan for Audit Committee to support its on-going development and link to the Audit Wales project 'Rhondda Cynon Taf Audit Committee - Support and Development').		Communications and Service Director – Finance and Improvement Services
	5.11.11	<u>Operational Risk Management</u>  Although operational risk management is undertaken at a service level (via local Service Delivery Planning and monitoring arrangements) assurance is required to determine whether the arrangements are operating as intended.	Undertake a review of operational risk managements.	March 2021	Service Director – Finance and Improvement Services

7.2 The Council's SLT has accepted the proposals for improvement and is committed to their implementation during 2020/21. The SLT has also confirmed that an update on progress will be reported to the Council's Audit Committee during the year to enable Councillors to review and scrutinise the extent of progress being made.

Leader: A Morgan

Chief Executive: Al Bush

## APPENDIX A

Examples of the key elements of the Council's governance arrangements

<b>Good Governance Principles</b>	<b>Examples of key systems, processes and documents in place within the Council</b>
Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	<ul style="list-style-type: none"> <li>• <u>Elected Councillor and Officer Codes of Conduct</u> - setting out the standards of behaviour to be followed based on the principles of integrity, honesty, impartiality and objectivity.</li> <li>• <u>Rules of Procedure</u> - covering Council, Open Government, Access to Information, Budget and Policy Framework, Executive, Overview and Scrutiny, Officer Employment and Contract and Financial Procedure Rules. The rules set out arrangements to be followed by elected Councillors and Officers when conducting the Council's business with the aim of publicly demonstrating accountability and openness.</li> <li>• <u>Standards Committee</u> - the role of which includes, amongst other things, promoting and maintaining high standards of conduct by elected Councillors.</li> <li>• <u>Whistleblowing Policy</u> - promoting the highest possible standards of service and setting out how workers can bring information about a wrongdoing to the attention of the Council.</li> <li>• Anti-fraud, Bribery &amp; Corruption Strategy.</li> <li>• Gifts and hospitality Policy.</li> <li>• <u>Comments, Compliments and Complaints</u> - setting out how the Council handles and responds to feedback (complaints, compliments and comments).</li> <li>• Officer Guide.</li> </ul>
Ensuring Openness and comprehensive stakeholder engagement	<ul style="list-style-type: none"> <li>• A <u>Publication Scheme</u> that aims to advise citizens how to request public information the Authority holds.</li> <li>• Clear and open <u>Corporate &amp; Service Specific Privacy Notices</u>.</li> <li>• Forward plans for Committee meetings together with the matters to be considered, where appropriate.</li> </ul>
Developing the entity's capacity, including the capability of its leadership and the individuals within it	<ul style="list-style-type: none"> <li>• Corporate and Service Self-Evaluation process.</li> <li>• Corporate Plan.</li> <li>• Programme of elected Councillor and Officer training and development.</li> <li>• Workforce Plan 2017-22.</li> <li>• Schemes of Delegation.</li> </ul>

<b>Good Governance Principles</b>	<b>Examples of key systems, processes and documents in place within the Council</b>
Defining outcomes in terms of sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> <li>• Performance Management Framework.</li> <li>• Corporate Plan and Service Delivery Plans.</li> <li>• Quarterly Performance Report (including Risk Register up dates).</li> <li>• Risk Management Strategy.</li> <li>• Annual Revenue Budget Strategy and three year Capital Programme.</li> <li>• Medium Term Financial Plan.</li> <li>• Scrutiny Committees.</li> </ul>
Determining the interventions necessary to optimise the achievement of the intended outcomes	
Managing risks and performance through robust internal control and strong public financial management	<ul style="list-style-type: none"> <li>• Corporate and Service Self-Evaluation process.</li> <li>• Risk Management Strategy.</li> <li>• Service Delivery Planning.</li> <li>• Quarterly Performance Report (including Risk Register up dates).</li> <li>• Corporate Performance Report (i.e. year-end annual report).</li> <li>• Audit Committee and a Regional Internal Audit function.</li> <li>• Information Management Plan (including General Data Protection Regulation).</li> <li>• Budget and Policy Framework Procedure Rules and Contract and Financial Procedure Rules.</li> <li>• Medium Term Financial Plan.</li> </ul>
Implementing good practices in transparency, reporting, and audit to deliver effective accountability.	<ul style="list-style-type: none"> <li>• Reporting protocols and calendars (including forward looking work programmes, for example, for Cabinet and Scrutiny Committees).</li> <li>• Statement of Accounts.</li> <li>• Annual Governance Statement.</li> <li>• Production of Annual Reports on key areas of business e.g. Corporate Parenting, Annual Equality Report, Scrutiny Annual Report, Standards Committee Annual Report, Audit Committee Annual Report.</li> <li>• Internal Audit external assessment (every 5 years) and Internal Audit Charter.</li> <li>• Pension Fund Committee.</li> </ul>

## APPENDIX B

## PROPOSALS FOR IMPROVEMENT 2018/19 – POSITION STATEMENT

Core Principle / Area	Issue Identified	Recommendation	Responsible Officer & Timescale
Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	The staff survey identified the need for further work to be undertaken across the Council to raise awareness of whistle-blowing and anti-fraud arrangements and provide staff with reassurance that they can report issues without repercussions.	1. Using the staff survey results (around whistle-blowing and anti-fraud, bribery and corruption), deliver a targeted programme of awareness raising to service areas identified as requiring support and advice.	Head of Employee Relations November 2019
	<b>Status - Implemented</b> - Refer to paragraph 5.5.7 of the Annual Governance Statement.		
Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Comments, compliments and complaints (non-social services) – no overall update is reported for review and challenge by the relevant Scrutiny Committee as part of supporting service planning and improvement.  Work commenced in 2018/19 – to be carried forward into 2019/20.	2. Non-social services comments, compliments and complaints - annual reporting arrangements should be put in place to report details to the relevant scrutiny committee of non-social services comments, compliments and complaints received (with the first report covering the period April 2018 to March 2019).	Service Director – ICT and Digital Services October 2019
	<b>Status - Implemented</b> - An annual report covering 2018/19 was presented to the Overview and Scrutiny Committee on <u>3<sup>rd</sup> September 2019</u> with the proposal that bi-annual reports are also made available to that Committee going forward. This is in line with the requirements of the Complaints Standards Authority and reports will be presented in April and September. There was no Overview and Scrutiny meeting held in April 2020 hence no report requested, however this will be presented at a later date once normal business resumes		

Core Principle / Area	Issue Identified	Recommendation	Responsible Officer & Timescale
<p><b>Ensuring openness and comprehensive stakeholder engagement</b></p>	<p>Whilst the focus within scrutiny committee work programmes is improving, a wide range of topics are included that can impact on the capacity of Committees / Working Groups to review all areas in detail and thereafter assess the extent that Terms of Reference are being delivered.</p>	<p>3. As part of developing scrutiny work programmes for 2019/20:</p> <ul style="list-style-type: none"> <li>• More focus should be given to streamlining areas / themes for review to allow for a more outcome based style of reporting; and</li> <li>• More clearly link Committees' Terms of Reference to reports / areas to be scrutinised (with consideration being given for this to be undertaken as a pilot exercise initially).</li> </ul>	<p>Service Director – Democratic Services and Communications</p> <p>September 2019</p>
<p><b>Status – Implemented</b> - The revised work programmes are providing greater focus on key service or policy matters, based upon a revised criteria which includes alignment to the Council's priorities and those matters of interest to the public. They allow for more in depth reviews and referrals from other Committees including Council and Audit Committee. A greater emphasis has also been placed on undertaking pre scrutiny of key decisions which produces more focussed based outcomes. This approach is ensuring the wider engagement of all members in policy development and decisions.</p> <p>Matters for Members' to consider as 'information only,' which have previously overburdened the work programmes, are now highlighted only. This separation provides the opportunity for members to identify those items requiring more focused scrutiny and challenge and those items which are for information purposes only.</p> <p>The strong alignment between Council and Scrutiny has developed through an improved process for dealing with Notices of Motions (NOM) and engagement between Cabinet Members and Scrutiny.</p> <p>The revised Terms of Reference attributed to each scrutiny committee continue to provide transparency to Chairs, Vice Chairs and all Scrutiny members. For example, the Overview &amp; Scrutiny Committee now has responsibility for dealing with the Council's Crime &amp; Disorder matters which has further defined its overarching and strategic role. The initial pilot exercise has now been rolled out to all Scrutiny Committees and the Finance &amp; Performance Scrutiny Committee has the Corporate priority 'Economy' assigned to it. This has proven a good 'fit' and compliments the existing work programme.</p>			

Core Principle / Area	Issue Identified	Recommendation	Responsible Officer & Timescale
<b>Defining outcomes in terms of sustainable economic, social, and environmental benefits</b>	Although performance indicator targets are reviewed as part of the wider pre-scrutiny of Corporate Plan action plans, no in depth work is undertaken on specific targets to better inform Scrutiny Committees in fulfilling their role.	4. In addition to the pre-scrutiny of Corporate Plan action plans, coordinate the delivery of a more in depth review of specific targets by Scrutiny Committee(s) as part of effectively scrutinising the Council's performance.	Service Director – Finance and Improvement Services  September 2019
	<b>Status - On-going</b> - An analysis of 2019/20 targets was presented to the Finance and Performance Scrutiny Committee on <u>23<sup>rd</sup> July 2019</u> and updates have subsequently been included within quarterly Performance Reports during the year (presented to both Cabinet and the Finance and Performance Scrutiny Committee). More in depth reviews of specific targets to be considered as part of the arrangements for reporting future Corporate Plan progress updates.		
<b>Developing the entity's capacity, including the capability of its leadership and individuals within it</b>	Elected Members - refresh the programme of training available to continue to effectively support elected Members in the discharge of their responsibilities.	5. Build on the programme of training and support in place for elected Members to ensure other key themes are delivered / refreshed (for example, Code of Conduct refresher training, overview of the Council's budgets / finance training).	Service Director – Democratic Services and Communications  From July 2019
	<b>Status – Implemented</b> - The Council's Elected Member Training and Development Strategy continues to be a priority and a comprehensive training and induction programme is in place. In response to the Members' survey undertaken in 2019 training has been offered within the framework of the committees so as to accommodate those working Members and those with family commitments. E-Learning training modules were also favoured and are currently available on the Council's Source e.g. training on 'Understanding the Council's Budget' was delivered to every Scrutiny Committee in turn which served to aid Committees understanding of the Council's revenue and capital budgets.  A dedicated Members Portal is currently being developed, which will provide access to relevant information and training opportunities through e-learning.		

Quarterly meetings now take place between the Head of Democratic Services and Group Leaders, which includes identification of training needs, or additional information required for members to effectively engage in the decision making process.

Dedicated training has been provided to scrutiny Chairs and Vice Chairs through the Welsh Local Government Association (WLGA) in August 2019 which strengthened their skills and requirements in respect of chairing meetings. A joint scrutiny training session was held in July 2019 for the Cwm Taf Joint Overview & Scrutiny Committee (a joint arrangement between RCT and Merthyr Tydfil CBC). The joint training session, facilitated by Dr Dave McKenna, was designed to develop skills to effectively scrutinise the Cwm Taf Public Service Board (PSB).

All newly elected Members are provided with an appropriate induction (to include the Members Code of Conduct) with access to refresher training and all Member training is monitored through regular reporting to the Democratic Services Committee.

Members have received in-depth training in respect of the GDPR requirements which relates to their work with constituents, when undertaking case work on a resident's behalf. To protect Members, a general Privacy Notice and Authority to Act form was created and agreed at the Democratic Services Committee in March 2019.

Members Performance Development Reviews (PDR's) are undertaken regularly which are aimed at identifying any further developmental needs which are logged and actioned. Any further developmental opportunities will also be addressed in future Members' surveys.

Arrangements are underway to develop training and development plans for elected members following the 2022 Local Government elections.

Core Principle / Area	Issue Identified	Recommendation	Responsible Officer & Timescale
<b>Managing risks and performance through robust internal control and strong public financial management</b>	<p>Although the review of the Council's Financial Procedure Rules has commenced, the exercise has not yet been completed.</p> <p>Work commenced in 2018/19 – to be carried forward into 2019/20.</p>	<p>6. Complete the update process of the Financial Procedure Rules and report to the relevant Committee(s) for review and if deemed appropriate, approval (with an approved version incorporated into the Council's Constitution).</p>	<p>Head of Procurement Delivery</p> <p>October 2019</p>
	<p><b>Status - On-going</b> - A review of the Council's Financial Procedure Rules has been completed and identified that no fundamental changes were required. There are a number of minor updates and house-keeping updates required, and these will be progressed during 2020/21.</p>		

## **The independent auditor's report of the Auditor General for Wales to the Members of Rhondda Cynon Taf County Borough Council**

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

#### **Opinion**

I have audited the financial statements of Rhondda Cynon Taf County Borough Council for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

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

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 2019-20 based on International Financial Reporting Standards (IFRSs)

In my opinion the financial statements:

- give a true and fair view of the financial position of Rhondda Cynon Taf County Borough Council as at 31 March 2020 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom in 2019-20.

#### **Basis for opinion**

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

#### **Emphasis of Matter – effects of Covid-19 on the Council's assets and property pension fund valuations**

I draw attention to Notes 4 to the financial statements, which describe material valuation uncertainty clauses in the valuation reports on the Council's property and on Pooled Property Funds held by the Rhondda Cynon Taf Pension Fund arising from circumstances caused by the Covid-19 pandemic. My opinion is not modified in respect of these matters.

## Conclusions relating to going concern

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

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

## Other information

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

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

## Report on other requirements

### Opinion on other matters

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

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

### Matters on which I report by exception

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

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

- proper accounting records have not been kept;

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

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

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

### **Responsibilities**

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

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

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

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

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

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

Adrian Crompton  
For and on behalf of the Auditor General for Wales  
26 November 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Glossary of Terms

### Accrual

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

### Actuary

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

### Amortisation

Charges to revenue for the estimated reduction in the value of an intangible asset.

### Audit

An audit is an independent examination of activities.

### Budget

A budget (or estimate) is a plan of income and spending, based upon which Council Tax is set. Actual expenditure is subsequently monitored against this plan.

### Capital Expenditure

Capital expenditure is spending on long-term assets. These are assets that will be used for several years in the provision of services and are items such as buildings, equipment and vehicles.

### Capital Receipt

Capital receipts are proceeds from the sale of long-term assets such as land or buildings.

### CCRCO – Cardiff Capital Region City Deal

The Cardiff Capital Region within the City Deal is comprised of 10 local authorities; Blaenau Gwent; Bridgend; Caerphilly; Cardiff; Merthyr Tydfil; Monmouthshire; Newport; Rhondda Cynon Taf; Torfaen; and the Vale of Glamorgan.

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

CIPFA is responsible for issuing financial guidance to public bodies.

### Creditor

A creditor is an organisation/individual owed money by the Council at the end of the financial year for goods/services received.

### Current Assets

These are short-term assets that are available for the Council to use in the following accounting period.

### Current Liabilities

These are short-term liabilities that are due for payment by the Council in the following accounting period.

**Debtor**

A debtor is an organisation/individual who owes the Council money at the end of the financial year for goods/services received.

**Debt Management Office (DMO)**

The DMO is an Executive Agency of Her Majesty's Treasury. Its responsibilities include debt and cash management for the UK Government, lending to Local Authorities and managing certain public sector funds.

**Defined Benefit Scheme**

A defined benefit pension scheme is one that bases retirement benefits upon Career Average Re-valued Earnings.

**Defined Contribution Scheme**

A defined contribution scheme is a type of retirement plan in which the amount of the employer's annual contribution is specified. Benefits are based on the amounts credited to these accounts (through employer contributions and, if applicable, employee contributions) plus any investment earnings. Only employer contributions to the account are guaranteed, not the future benefits.

**Delegated Schools**

A delegated school is one managed independently by its Governing Body. The funds of these schools are held outside of the Council Fund balances.

**Depreciated Historic Cost (DHC)**

Depreciated Historic Cost is obtained by recording the purchase price of an asset and reducing the value over its useful economic life.

**Depreciated Replacement Cost (DRC)**

DRC is an estimation of the market value for existing use plus current gross replacement costs less allowances for deterioration.

**Depreciation**

Depreciation is the estimated loss in value of tangible long-term assets that are presented in the Balance Sheet.

**Earmarked Reserves**

These are reserves set aside for a specific purpose.

**Fair Value Hierarchy**

Level 1 – Assets and liabilities at level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Assets and liabilities at level 2 are those where quoted market prices are not available.

Level 3 – Assets and liabilities at level 3 are those with valuations derived from unobservable inputs, for example, assumptions about rent growth; discount rates, etc.

**Financial Year**

This is the accounting period. For local authorities it starts on 1<sup>st</sup> April and finishes on 31<sup>st</sup> March of the following year.

**Impairment**

Impairment occurs when the value of a long-term asset falls below the value it is currently held at in the Balance Sheet and Asset Register.

**International Accounting Standard (IAS)**

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

**International Financial Reporting Standards (IFRS)**

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

**Inventories**

Inventories are raw materials purchased for day-to-day use. The value of these items that have not been used at the end of the financial year are shown as current assets in the Balance Sheet.

**Leasing**

This is a method of financing expenditure by paying the owner to use property or equipment for a number of years.

**Lessee**

User or renter of the leased asset or property. In case of capital leases, the lessee is also the 'debtor' to the lessor.

**Lessor**

Owner or the title holder of the leased asset or property. The lessor is also the lender and secured party in case of capital leases and operating leases.

**Liability**

A liability is an obligation to transfer economic benefits as a result of past transactions or events.

**Long-Term Asset**

These are assets that are used in the provision of services (usually for more than one year).

**Minimum Revenue Provision (MRP)**

MRP is a charge against revenue resources representing a repayment of debt. It is a method of paying for Capital Expenditure which was funded by borrowing.

**Modern Equivalent Valuation (MEV)**

Modern Equivalent Valuation is a method of valuation that calculates the cost of constructing modern equivalent buildings and structures, depreciating them to account for the age and future economic life.

**Non-Domestic Rates (NDR)**

The NDR, or Business Rate, is the charge to occupiers of business premises. NDR is set by central government and is a percentage of rateable values. The percentage is the same throughout Wales. The total collected is split between individual authorities in proportion to their adult populations.

**Net Realisable Value**

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

**Non-Recurring Fair Values**

These relate to assets that are measured at fair value due to particular circumstances. The assets which meet the criteria for assets held for sale are valued at the lower of non-recurring value less cost to sell, and its carrying value.

**Operating Leases**

These are leases where risks of ownership of the asset remain with the owner.

**Post Balance Sheet Events**

Post Balance Sheet items are those that arise after the Balance Sheet date. These are items that did not exist at the time the Balance Sheet was prepared but should be disclosed if they are relevant to the understanding of the accounts.

**Precepts**

This is the amount paid to a non-rating body (for example a community council).

**Prior Year Adjustment**

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors.

**Projected Unit Method**

An actuarial method of calculating the liabilities of a pension scheme which allows for projected future increases in pensionable pay up to retirement or date of leaving service.

**Provision**

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

**Public Works Loan Board (PWLB)**

This is a Government agency that provides loans to local authorities for periods between 1 and 50 years.

**Recurring Fair Value**

These relate to assets that are measured at the end of each accounting period, within the rolling programme of valuations.

**Related Party**

A related party exists where there is control or influence by one party over another.

**Royal Institute of Chartered Surveyors (RICS) Red Book**

RICS is a professional body enforcing the highest standards in valuations. The "Red Book" contains mandatory rules and best practice guidance on these valuations.

**Strain on Funds**

When an employee retires early and is immediately paid a pension, without actuarial reduction, the lost contribution income and interest cost arising from the associated earlier increased cash flow is referred to as pension strain cost. The pension strain cost is determined by actuarial calculation.

**Sub Lease**

A sub-lease is a lease between a tenant who already holds a lease to a commercial space or property and someone (the sub-lessee) who wants to use part or all of the tenant's space. The tenant is deemed to be a sub-lessor.

**Trust Fund**

Trust funds hold money on behalf of an individual or organisation. Trustees administer the funds for the owners.

**Valuation Technical & Performance Standards 3 (VPS3)**

This standard refers to valuation reports and specifies additional mandatory requirements designed to enhance client understanding and use of these valuation reports.

**Valuation Practice Guidance Applications 10 (VPGA 10)**

This guidance provides additional commentary on matters that may give rise to material valuation uncertainty in accordance with VPS 3 above. For example, market disruption.

**Voluntary Aided School**

Voluntary aided schools are mainly religious or faith schools, although anyone can apply for a place. The governing body employs the staff and sets admissions criteria. School land and buildings are normally owned by a charitable foundation, often a religious organisation, and the governing body contributes to building and maintenance costs.

**Voluntary Controlled School**

Voluntary controlled schools are similar to voluntary aided schools, but are run by the local authority. The local authority employs the school's staff and sets the admissions criteria. School land and buildings are normally owned by a charity, often a religious organisation, which also appoints some of the members of the governing body.

**Welsh Government (WG)**

The Welsh Government is the devolved Government for Wales. The Welsh Government consists of the First Minister, Welsh Ministers, the Counsel General and Deputy Ministers. They are supported by Civil Servants who work across devolved areas of public life such as health, education and the environment.

## Appendix 2

Date/Dyddiad:  
25<sup>th</sup> November 2020

Please ask for/Gofynnwch am:  
Barrie Davies  
(01443) 424026

Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

Dear Adrian,

### **Representations regarding the 2019/20 Rhondda Cynon Taf County Borough Council Financial Statements**

This letter is provided in connection with your audit of the financial statements of Rhondda Cynon Taf County Borough Council (RCTCBC) for the year ended 31<sup>st</sup> March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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

In addition we have completed the questionnaires (Appendix A) provided to us regarding;

- ISA240 The auditor's responsibilities relating to fraud in an audit of financial statements
- ISA250 Consideration of laws and regulations in an audit of financial statements
- ISA550 Related parties

### **Management Representations**

#### **Responsibilities:**

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 2019/20; in particular the financial statements give a true and fair view in accordance therewith.

We have fulfilled our responsibilities for 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 RCTCBC 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; and
- 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.

### **Judicial Reviews**

*In view of the continuing challenging financial climate and the potential need for the Council to make further difficult decisions around future service provision, there is a heightened risk that service reconfiguration decisions could be subject to legal challenge.*

### **21st Century Schools Programme**

*There is an ongoing Judicial Review claim relating to the decision to reorganise schools in the Greater Pontypridd area as part of the Council's 21st Century Schools Programme. The Council's decision was quashed by the High Court in July 2020 but the Council has been given permission to appeal that decision at the Court of Appeal, which is ongoing.*

### **Deprivation of Liberty**

*The Council is currently in the process of seeking the necessary court of protection authorisations in cases where the liberty of individuals, lacking mental capacity to consent, has been/is being deprived to safeguard their welfare. These applications may be subject to legal challenge and also challenges may emanate from individuals (or their representatives) who consider that their liberty is being/has been deprived unnecessarily or without the appropriate authorisations being in place (including past periods where liberty has been deprived). Dealing with these potential claims and possible inquests may well incur significant costs and could also result in awards of damages being made against the Council.*

### **"Village Green" Applications**

*As a "Registration Body", the Council has received a number of "Village Green" applications where the potential use of areas of land is being challenged. These challenges may result in non-statutory public enquiries.*

### **Minimum Wage for Sleep-In Care Arrangements**

*There is ongoing litigation, external to the council, in respect of the rate of pay applicable to sleep-in payments. Following the decision of the court of appeal, the current situation is that National Minimum Wage only applies to those hours where the care worker is awake for the purpose of working. The Supreme Court has granted permission for Unison to appeal this decision.*

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.

*There is one uncorrected misstatement which relates to Joint Committees. As in previous years and as agreed with Audit Wales, the Council does not*

*consolidate the accounts of Glamorgan Archives, Vale, Valleys and Cardiff Regional Adoption Collaborative, Coychurch Crematorium and Llwydcoed Crematorium into its Statement of Accounts. The impact is not material, neither collectively nor individually.*

There are a number of misstatements that have been corrected by management. A summary of these items is set out below:

<b>Value of correction (£'000)</b>	<b>Nature of correction</b>	<b>Reason for correction</b>
8,300	Increase Capital Commitment	To ensure the commitments are complete as the threshold that was originally used materially misstated the accounts
8,910	Reclassified expenditure from Cost of Service to Other Comprehensive Expenditure.	To reflect CIPFA's guidance on the accounting treatment for change in estimate for the McCloud judgement.
3,877	Increase in value of Infrastructure assets	Incorrect derecognition of assets. This had further implications on the depreciation charged for the year relating to this asset.
1,014	Derecognition of Infrastructure Asset	Contributing towards a Welsh Government building was recognised as a Council asset incorrectly.
5	Additional related party	A related party had not been disclosed.
N/A	Restated prior year Cost of Service	Prior year figures needed to be restated to comply with CIPFA code reflecting the Council restructure.
N/A	Various narrative and presentational changes.	To improve the users understanding of the accounts.

### **Representations by Rhondda Cynon Taf County Borough 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 Members of RCTCBC on 25<sup>th</sup> November 2020.

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

Director of Finance & Digital Services  
(S.151 Officer)

Leading Member

Date

Date

### Appendix 1

#### Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and 'those charged with governance', which for the Council is the Full Council. Management, with the oversight of those charged with governance, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

#### What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how those charged with governance exercises oversight of management's processes. We are also required to make enquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud, for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

**Enquiries of management - in relation to fraud**

Question	2019-20 Response
<p>1. What is management’s assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?</p>	<p>Good governance flows from a shared ethos and culture, as well as from systems and structures. The Council expects all representatives (i.e. Members and Officers) to conduct their duties with the highest levels of honesty and integrity.</p> <p>Policies underpin the culture in place and the Regional Internal Audit Shared Service test compliance with relevant Policies linked to the core financial systems (in line with the approved Annual Audit Plan).</p> <p>To ensure a consistent approach to working practices and processes, all officers are subject to the Council’s terms and conditions of employment and there is a series of codes, protocols and policies in place, and support and training is provided in these areas to help ensure elected Members and Officers understand what is required. The Codes / Protocols / Policies / Procedures include: :</p> <p><b>Codes and Protocols</b></p> <ul style="list-style-type: none"> <li>• Members’ Code of Conduct</li> <li>• Protocol Standard of Conduct to be followed by Members</li> <li>• Officers’ Code of Conduct</li> <li>• Protocol for Member/Officer Relations</li> </ul> <p><b>Policies &amp; Procedures</b></p> <ul style="list-style-type: none"> <li>• Financial Procedure Rules</li> <li>• Contract Procedure Rules</li> <li>• Financial Management of Schools</li> <li>• Human Resources policies</li> <li>• Anti-Fraud, Bribery &amp; Corruption Strategy</li> <li>• Whistleblowing Policy</li> <li>• Gifts and Hospitality Policy</li> </ul> <p>Where Members and/or Officers do not undertake their duties in accordance with the expected standards then governance arrangements are in place within the Council to manage this process in an equitable, fair and transparent manner.</p>

	<p>Taking all of the above into account, our assessment of the risk of fraud arising and having a material impact on the financial statements is considered to be low.</p>
<p>2. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?</p>	<p>The Council has a number of governance arrangements in place that help in the prevention and detection of fraudulent and/or improper activities. These include:</p> <ul style="list-style-type: none"> <li>• Financial &amp; Contract Procedure Rules</li> <li>• Systems of Internal Control</li> <li>• Recruitment Policies</li> <li>• Whistleblowing Policy</li> <li>• Local procedures within departments, for example, authorisation arrangements and quality assurance processes</li> <li>• An independent Internal Audit Service</li> <li>• An independent Corporate Fraud Team</li> <li>• Combining with Others to Prevent and Fight Fraud <ul style="list-style-type: none"> <li>– Participation in the National Fraud Initiative for example</li> </ul> </li> </ul> <p>The Anti-Fraud, Bribery &amp; Corruption Strategy provides a clear path for raising concerns and facilitating ‘tip-offs’, and the fraud response arrangements outlined enables such information or allegations to be properly dealt with and reported.</p> <p>The Council's Whistleblowing Policy also gives advice on how to raise a concern, as well as providing information on the safeguards and support that are available to those who raise concerns. Given the governance arrangements in place, management can give assurance that the risk of material misstatements is low.</p>
<p>3. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>Rhondda Cynon Taf County Borough Council is resolute in its determination to maintain its reputation as a Council that will not tolerate fraud, bribery, corruption or abuse of position for personal gain, wherever it may be found in any area of Council activity.</p> <p><b><u>Arrangements in place to report fraud issues</u></b></p> <p><u>Whistleblowing</u></p> <p>A copy of the Council's Whistleblowing Policy &amp; Procedure was reported to the Council's Audit Committee at its meeting held on the 31st October 2016</p> <p>The purpose of the Policy is to provide a means by which complaints of malpractice or wrongdoing can be raised by those who feel that other avenues for raising such issues are inappropriate. The Policy confirms that so far as possible, those raising concerns under the Policy will be treated confidentially.</p> <p>Workers are encouraged to report any concerns they have via the Council's <u>Whistleblowing webpage</u> “Get Involved”.</p>

**Anti-Fraud, Bribery & Corruption Strategy**

The purpose of the Strategy is to communicate the Council's main principles for countering fraud, bribery and corruption. It sets out the:

- Council's zero tolerance approach against fraud, bribery & corruption;
- Reporting avenues for suspected irregularities;
- Resources that are in place to support a counter fraud, bribery & corruption culture; and
- Governance arrangements in respect of reporting to Audit Committee.

In the Council's Report It section of the website, instructions for those who wish to raise anti-fraud, bribery or corruption concerns are provided along with the means to complete an on-line form.

**Arrangements in place to report to Audit Committee:**

On the 17th December 2019, a half-yearly Corporate Fraud progress update was reported to Audit Committee outlining the progress made to date against the Anti-Fraud, Bribery & Corruption work programme for 2019/20.

On 20th July 2020, the Audit Committee were presented with a further progress report on anti-fraud work undertaken during 2019/20, together with a proposed workplan for 2020/21. This helps to ensure the Council continues to operate within an effective anti-fraud culture across the organisation, with resilient preventative measures capable of identifying and addressing new threats. On 20th July 2020, the Audit Committee were also presented with updates on whistleblowing activity during 2019/20 concluding that arrangements are appropriate. This Report also recommended that although the Policy is reviewed regularly at an operational level and the changes that have been made since 2016 have been of a housekeeping nature (e.g. changes to job titles of posts), a complete review of the document will be undertaken and reported to Audit Committee in 2020/21 for consideration.

In addition, at the 17th December 2019 Audit Committee (as part of the 2018/19 Annual Government Statement Recommendation Update) it was reported that the Whistleblowing Policy is highlighted at both staff and manager induction, payslip inserts distributed and posters have been circulated (and alongside this, a targeted fraud awareness training plan has been produced for employees and Members).

Related information is also included under question 5 'Enquiries of management - in relation to fraud'.

<p>4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?</p>	<p><b><u>Elected Councillors</u></b>  Following the Local Government elections held on 4<sup>th</sup> May 2017, all elected Councillors were provided with an induction and an on-going programme of support that included an overview of the Council's Code of Conduct.</p> <p>Every elected Councillor has signed up to his/her individual Role Description, a copy of which is retained by the Council's Democratic Services division.</p> <p>The Council's Scrutiny Committee meeting minutes were examined to determine whether proceedings were conducted in line with the Council's Code of Conduct. Declarations of interest were sought and declarations were made by elected Councillors, as a standard agenda item, where appropriate.</p> <p>In addition, a Standards Committee was in place during 2019/20 and received a <u>summary of complaints against Members</u> submitted to the Ombudsman. Also on 20<sup>th</sup> September 2019, the Standards Committee received information on <u>Code of Conduct training and a planned programme of refresher training.</u></p> <p><b><u>Council Employees</u></b>  The Council has a number of recruitment and selection Policies in place that help to ensure that new recruits have the integrity and ethical values of the organisation and also the competencies to undertake the duties required of them.</p> <p>Employees have contracts of employment and competency based job descriptions which set out grade, roles and responsibilities. The Human Resources Service oversees terms and conditions of employment, and the Council have a suite of policies and procedures that are available on the internal Intranet for officers to access.</p> <p>Each new recruit is provided with the 'Basic Rules – A Guide for Employees' booklet that gives each employee information in relation to (amongst other things) expected behaviour, use of social media, appearance and attendance. The expectations of each employee are set out from the outset.</p> <p>The Council describes what excellent behaviour looks like for each type of job, for example, 'always treat people with respect', and this information is used to test candidates suitability for jobs at interview and is used to inform discussions managers have with their staff as part of their development.</p>
<p>5. Are you aware of any instances of actual, suspected or alleged fraud within the council since 1 April 2019?</p>	<p>To support transparency and openness, the Council's arrangements during 2019/20 included:</p> <p><b><u>Whistle-blowing arrangements</u></b>  A new Regulation came into force during April 2017 which placed a requirement upon the Council to report annually on whistle-blowing disclosures. The Regulation required the Council to publish the annual report on its</p>

	<p>website or by other means appropriate for bringing the report to the attention of the public. For Rhondda Cynon Taf, this requirement was met via a report to Audit Committee on <u>20th July 2020</u>.</p> <p>During the year, 7 referrals were made via the Council's whistle-blowing arrangements, all were investigated and the outcomes from which were:</p> <ul style="list-style-type: none"> <li>• 6 referrals were not founded and therefore no further action was taken; and</li> <li>• 1 referral was founded and action was taken.</li> </ul> <p><u>Anti-fraud, Bribery &amp; Corruption arrangements</u></p> <p>During the year, 608 referrals were made via the Council's anti-fraud, bribery &amp; corruption arrangements. The majority, were in relation to suspected fraud against the Revenues and Benefit system and were accordingly forwarded to the Department for Work and Pensions Fraud and Error Service for further investigation.</p> <p>The Council included a payslip insert to all employees in August 2020 providing information on how Council employees could report any suspicions regarding Anti-fraud, Bribery and Corruption.</p> <p>An annual report was presented to the Council's Audit Committee on <u>20th July 2020</u> setting out an update of activities carried out in relation to the prevention, detection and investigation of potential fraud during 2019/20, together with the associated outcomes. The report included a forward plan of targeted activity for 2020/21, to ensure the Council continues to operate within an effective anti-fraud culture across the organisation, with resilient preventive measures capable of identifying and addressing new threats. The Report also included specific activity being planned by the Council as a result of Covid-19, for example, the Corporate Fraud Risk Assessment taking account of revised operating arrangements (home / remote working) and work to assist the detection of incorrect or fraudulent applications made against the Covid-19 Business Support Grant scheme.</p>
<p>6. Are you aware of any fraud within the council since 1 April 2019?</p>	<p>Please refer to the response to question 5, above.</p>
<p>7. Are you aware of any instances of actual, suspected or alleged fraud within the council since 1 April 2019?</p>	<p>Please refer to the response to question 5, above.</p>

**Enquiries of those charged with governance – in relation to fraud**

Question	2019-20 Response
<p>1. How does the Full Council, exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?</p>	<p>Full Council has ensured that the Audit Committee's Terms of Reference are comprehensive and compliant with the Local Government Measure 2011.</p> <p>Audit Committee has a detailed <u>work plan</u> for each Municipal Year that helps them ensure they meet their Terms of Reference.</p> <p>The Statement of Accounts and Annual Governance Statement are reported to full Council, alongside the external auditor's report, for consideration and if appropriate, approval.</p> <p>Audit Wales reports its <u>Annual Improvement Report</u> to full Council setting out, amongst other things, the results of its work undertaken within the Authority in the previous financial year. Further to review by Council, this report is scrutinised by the Council's <u>overview and scrutiny</u> arrangements to monitor progress and is also reported to Audit Committee (on 3<sup>rd</sup> February 2020).</p>
<p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2019?</p>	<p>Please refer to response within "Enquiries of Management" section, Question 5.</p>

## **Appendix 2**

### **Matters in relation to laws and regulations**

International Standard for Auditing (UK and Ireland) 250 covers auditors responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of those charged with governance (Full Council), is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements;
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

### **What are we required to do?**

As part of our risk assessment procedures we are required to make inquiries of management and the Full Council as to whether the Council is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Enquiries of management – in relation to laws and regulations	
Question	2019-20 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	<p>The accounts are prepared in accordance with the Accounts &amp; Audit Regulations.</p> <p>The Accounts and Audit (Wales) Regulations 2014 (as amended) require the Responsible Financial Officer (for Rhondda Cynon Taf, the Director of Finance and Digital Services) to certify unaudited accounts by 15th June following financial year-end. The regulations include a provision whereby if the Responsible Financial Officer does not certify the draft accounts by 15th June, there is a requirement to publish a statement setting out the reasons for non-compliance. RCT CBC published such a notice.</p> <p>Welsh Government clarified their expectation for the timescales of the preparation and publication of statutory financial accounts for 2019/20 by confirming there is no requirement to amend regulations and recommending that Welsh authorities adopt a timetable for the 2019/20 accounts in line with the revised English requirements. This required preparation and certification of draft accounts by 31 August 2020 and publication of final audited accounts by 30 November 2020 for all local government bodies in Wales. However, the Welsh Government encourages Councils to approve earlier wherever possible.</p> <p>Audit Wales have not raised any issues of non compliance.</p>
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2019, or earlier with an ongoing impact on the 2019-20 financial statements?	There are no instances of non-compliance with relevant laws and regulations. Full Council receives assurance on this from the appointed External Auditor.
3. Are there any potential litigations or claims that would affect the financial statements?	Any potential litigations and/or claims are accounted for in accordance with the Code of Practice and where appropriate, disclosed in the letter of representation.
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

5. Are you aware of any non-compliance with laws and regulations within the council since 1 April 2019?

No.

**Enquiries of those charged with governance – in relation to laws and regulations**

<b>Question</b>	<b>2019-20 Response</b>
1. How does the Full Council, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	Full Council appoints Audit Committee and sets its Terms of Reference.  Full Council ratifies the appointment of the Section 151 Officer and the Council's Monitoring Officer, whose roles are defined by statute and referenced within the Constitution.  Full Council receives assurance from the appointed External Auditor.
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	There are no instances of non-compliance with relevant laws and regulations. Full Council receives assurance on this from the appointed External Auditor.

## **Appendix 3**

### **Matters in relation to related parties**

International Standard for Auditing (UK and Ireland) 550 covers auditors responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

### **What are we required to do?**

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

**Enquiries of management – in relation to related parties**

Question	2019-20 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"> <li>• the identity of any related parties, including changes from the prior period;</li> <li>• the nature of the relationships with these related parties;</li> <li>• details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions.</li> </ul>	<p>Related party transactions are disclosed within the notes to the statement of accounts in accordance with the Code of Practice on Local Authority Accounting.</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>Governance arrangements are in place to ensure that a Register of Members Interests is in place and also that Declarations of Interest at each committee are asked for as a standard agenda item.</p> <p>Within the Annual Statement of Accounts of the Council, there is a requirement for the disclosure of “Related Party Transactions”. This relates to payments made to, or income received from, any organisation in which a Member or Chief Officer (who sits on the Senior Leadership Team) of the Council has an interest, financial or otherwise.</p> <p>Additional Controls in place include:</p> <ul style="list-style-type: none"> <li>• Gifts &amp; Hospitality Policy</li> <li>• Contract Procedure Rules</li> <li>• The Anti-Fraud, Bribery &amp; Corruption Strategy</li> </ul>

## Enquiries of the those charged with governance – in relation to related parties

Question	2019-20 Response
1. How does the Council, in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?	<p>Governance arrangements are in place to ensure that a Register of Members Interests is in place and also that Declarations of Interest at each committee are asked for as a standard agenda item.</p> <p>Within the Annual Statement of Accounts of the Council, there is a requirement for the disclosure of "Related Party Transactions". This relates to payments made to, or income received from, any organisation in which a Member or Chief Officer (who sits on the Senior Leadership Team) of the Council has an interest, financial or otherwise.</p> <p>Additional Controls in place include:</p> <ul style="list-style-type: none"><li>• Gifts &amp; Hospitality Policy</li><li>• Contract Procedure Rules</li><li>• The Anti-Fraud, Bribery &amp; Corruption Strategy.</li></ul>

**Rhondda Cynon Taf Pension Fund  
Statement of Account**

**2019/20**

## Pension Fund Accounts

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## **Rhondda Cynon Taf Pension Fund Accounts**

### **Introduction**

The Rhondda Cynon Taf Pension Fund was established with effect from 1<sup>st</sup> April 1996, upon the reorganisation of Local Government in Wales under the Local Government Pension Scheme (Local Government Reorganisation in Wales) Regulations, 1995. The Local Government Pension Scheme (LGPS) is open to all employees in Local Government apart from teachers, who have their own scheme. It is also open to employees of other organisations that have been accepted into the Fund.

The Rhondda Cynon Taf Pension Fund provides pension benefits for employees of Rhondda Cynon Taf, Bridgend and Merthyr Tydfil County Borough Councils, together with employees from around 40 other bodies. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

These accounts have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. A more detailed Pension Fund Annual Report is available on request from the Director of Finance and Digital Services.

The scheme is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

### **Fund Administration and Investments**

Rhondda Cynon Taf CBC, as administrating authority has responsibility for the interpretation of pension legislation, the creation and maintenance of records, the calculation and payment of benefits and the provision of information to employees, employers and other relevant bodies.

The Pension Fund Committee is responsible for the strategic management of the Rhondda Cynon Taf Pension Fund in accordance with its Terms of Reference.

The Director of Finance and Digital Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel, has delegated responsibility for all day to day operational matters.

The Pension Fund Investment and Administration Advisory Panel, is chaired by the Director of Finance and Digital Services and consists of two independent Investment Advisors and other Senior Finance Officers.

The Panel meets quarterly to consider both administration and investment issues, to determine policy in light of market movements and to question and challenge the Investment Managers on their activities and performance. At the Net Assets Statement date there were four Investment Managers and the operator of the Wales Pension Partnership (WPP) carrying out the day-to-day investment management of the Fund's assets:

- Baillie Gifford (Global Equities);
- BlackRock (Passive Equities);
- BMO Global Asset Management (Bonds);
- CBRE (Property); and
- Link (Operator of the WPP).

The Pensions Board was established in accordance with the Public Service Pensions Act 2013 to assist Rhondda Cynon Taf CBC as 'scheme manager' in achieving effective and efficient governance and administration of the Rhondda Cynon Taf Pension Fund.

### **Wales Pension Partnership (WPP)**

On the 15<sup>th</sup> March 2017 Council approved the establishment of a Joint Governance Committee to oversee the pooling of the investments of the eight Local Government Pension Scheme (LGPS) funds in Wales. The link to the report can be found here: [All Wales Pension Fund Investment pooling-joint Governance Committee and Inter Authority Agreement.](#)

Link Fund Solutions Ltd (Link) have established an Authorised Contractual Scheme (ACS) (a tax efficient UK collective investment vehicle) on behalf of the WPP. The ACS will have sub-funds in a range of asset classes that will meet the needs of the LGPS funds in Wales, to allow them to execute their differing asset allocation strategies. The LGPS funds will retain full control over strategic asset allocation decisions.

Positive progress has been made by the WPP in the establishment of three sub funds for the collective investing of assets. The prospectus for Global High Alpha Equities, comprising two sub funds with differing risk / return characteristics, was approved by the Financial Conduct Authority (FCA) in July 2018. The prospectus for the second sub fund for UK Equities was approved by the FCA in September 2019. The third sub-fund relates to Fixed Interest and was approved by the FCA in February 2020. Assets were transitioned into the third sub-fund during July 2020.

## **Statement of Responsibilities for the Pension Fund Accounts**

### **Rhondda Cynon Taf County Borough Council's Responsibilities**

The Council is required:

- To make arrangements for the proper administration of the Pension Fund's financial affairs and to ensure one of its Officers has the responsibility for the administration of those affairs. In the Council, that Officer is the Director of Finance and Digital Services.
- To manage the Pension Fund's affairs to ensure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Pension Fund Accounts.

I confirm that these accounts were approved by Council on:

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

#### **Presiding Officer**

Rhondda Cynon Taf County Borough Council  
The Pavilions, Cambrian Park  
Clydach Vale  
Tonypany  
CF40 2XX

### **The Director of Finance and Digital Services' Responsibilities**

The Director is responsible for the preparation of the Pension Fund Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, is required to present a true and fair view of the financial position of the Pension Fund at the accounting date and its income and expenditure for the year.

In preparing the Pension Fund Accounts, the Director has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the code.

The Director has also throughout the financial year:

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

**Certificate of the Director of Finance and Digital Services on the Accounts of Rhondda Cynon Taf Pension Fund for 2019/20**

I certify that the accounts present a true and fair view of the financial position of Rhondda Cynon Taf Pension Fund as at 31<sup>st</sup> March 2020 and its income and expenditure for the year.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**Barrie Davies**

**Director of Finance and Digital Services**  
Rhondda Cynon Taf County Borough Council  
Oldway House  
Porth  
CF39 9ST

**Fund Account**

2018/19			2019/20	
£'000		Note:	£'000	£'000
	<b>Contributions</b>			
(98,732)	Employer contributions	13.0	(106,927)	
(26,779)	Member contributions	13.0	(28,210)	
<b>(125,511)</b>				<b>(135,137)</b>
	<b>Transfers in from other Pension Funds</b>			
(3,433)	Group transfers in from other scheme or funds		(4,243)	
(1,872)	Individual transfers from other schemes or funds		(3,835)	
				<b>(8,078)</b>
(5,141)	<b>Other income</b>		(4,135)	
<b>(5,141)</b>				<b>(4,135)</b>
	<b>Benefits</b>			
105,653	Pensions	13.0	109,078	
20,068	Commutation of pensions and lump sum retirement benefits	13.0	20,072	
2,972	Lump sum death benefits	13.0	2,431	
<b>128,693</b>				<b>131,581</b>
	<b>Payments to and on account of leavers</b>			
305	Refunds to members leaving scheme or fund		245	
9	Payments for members joining state scheme or fund		4	
5,168	Group transfers to other schemes or funds	17.0	0	
9,111	Individual transfers to other schemes of funds		11,804	
<b>14,593</b>				<b>12,053</b>
<b>143,286</b>				<b>143,634</b>
<b>7,329</b>	<b>Net (addition)/withdrawals from dealing with members</b>			<b>(3,716)</b>
11,039	Management expenses	14.0	13,121	
				<b>13,121</b>
<b>18,368</b>	<b>Net (additions)/withdrawals including fund management expenses</b>			<b>9,405</b>
	<b>Investment income</b>			
(34,687)	Dividends from equities		(14,077)	
(24,111)	Income from bonds		(23,806)	
(2,168)	Income from pooled investment vehicles		(1,986)	
(5,942)	Income from pooled property investments		(11,733)	
(160)	Interest on cash deposits		(45)	
<b>(67,068)</b>				<b>(51,647)</b>
(204,694)	<b>(Profits) and losses on disposal of investments and changes in the value of investments</b>	12.0	140,724	
<b>(204,694)</b>				<b>140,724</b>
853	<b>Taxes on income</b>		131	
<b>853</b>				<b>131</b>
<b>(270,909)</b>	<b>Net returns on investments</b>			<b>89,208</b>
<b>(252,541)</b>	<b>Net (increase) / decrease in net assets available for benefits during the year</b>			<b>98,613</b>
<b>(3,206,094)</b>	<b>Opening net assets</b>			<b>(3,458,635)</b>
<b>(3,458,635)</b>	<b>Closing net assets</b>			<b>(3,360,022)</b>

**Net Assets Statement**

<b>2018/19</b>			<b>2019/20</b>	
<b>£'000</b>		<b>Note:</b>	<b>£'000</b>	<b>£'000</b>
	<b>Investment Assets</b>	7.0		
676,076	Equities		629,437	
843,928	Bonds		896,429	
273,082	Pooled investment vehicles – open ended investment companies		92,721	
1,363,745	Pooled investment vehicles – managed funds		1,415,362	
260,851	Pooled property investments		287,697	
<b>3,417,682</b>				<b>3,321,646</b>
<b>29,911</b>	<b>Cash deposits</b>			<b>25,885</b>
	<b>Other investment balances</b>			
7,229	Accrued interest		7,392	
6,323	Investment debtors		5,357	
1,887	Tax recoverable		2,018	
<b>15,439</b>				<b>14,767</b>
<b>3,463,032</b>				<b>3,362,298</b>
	<b>Investment Liabilities</b>			
<b>(3,991)</b>	Investment creditors			<b>(11,612)</b>
<b>(2,397)</b>	Derivative contracts			<b>(462)</b>
<b>3,456,644</b>	<b>Net Investment Assets</b>			<b>3,350,224</b>
	<b>Current assets</b>			
6,116	Contributions due from employers and employees		6,366	
458	Other current assets		6,808	
<b>6,574</b>				<b>13,174</b>
	<b>Current Liabilities</b>			
(4,583)	Current liabilities			(3,376)
<b>3,458,635</b>	<b>Net assets of the scheme available to fund benefits at period end</b>			<b>3,360,022</b>

## **Notes to the Accounts**

### **1.0 Significant Accounting Policies**

#### **1.1 Accruals of Expenditure and Income**

Where material, accruals are made for employee and employer contributions, investment income, benefits paid, administration costs, investment management fees and advisors fees. Transfer values are accounted for on a cash basis, with the exception of material group transfers, which are accounted for during the year of effective date of transfer or the year in which the actuary values the transfer, if later.

#### **1.2 Investment Valuation of Financial Instruments**

In terms of "Fair Value", all investments have quoted prices in active markets, with the exception of Pooled Investment Vehicles managed by the WPP and Pooled Property Funds.

Listed securities are valued in accordance with IAS 39 – Financial Instruments, using bid prices as at 31<sup>st</sup> March 2020 obtained from recognised Stock Exchanges.

Fixed interest securities are valued "clean", excluding accrued interest. Sterling valuations of securities denominated in foreign currencies are based on closing exchange rates as at 31<sup>st</sup> March 2020.

Pooled Investment Vehicles managed by the WPP are valued using net asset values provided by Link, the WPP operator. These are reported at the closing single price. The Global High Alpha funds in which Rhondda Cynon Taf Pension Fund invests are accumulation units, therefore, no direct dividend income is received.

Pooled Property Funds are valued by Fund Managers using reliable valuation techniques to determine Fair Value. Property valuations are represented by unit prices, based on underlying independent professional valuations. No assets require significant judgements or assumptions to determine Fair Value.

#### **1.3 Additional Voluntary Contributions (AVCs)**

Scheme members may elect to make additional voluntary pension contributions from their salaries. These AVCs are not included in the Pension Fund accounts in accordance with regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016.

The amount of AVCs paid by members during the year amounted to £1.174m (£1.230m in 2018/19) and the market value of invested AVCs at the Balance Sheet date was £8.010m (£8.169m in 2018/19). There are two AVC providers.

## **1.4 Acquisition and Disposal Costs**

Transaction costs incurred in acquiring or disposing of investments are included as part of the purchase cost or netted off against sales proceeds, as appropriate. Transaction costs include fees, commissions and duties. Transaction costs incurred during 2019/20 amounted to £1.90m (£1.74m in 2018/19).

In addition to the direct costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

## **1.5 Taxation**

As a registered public service scheme the Pension Fund is exempt from UK income tax and capital gains tax. Overseas investment income incurs withholding tax in the country of origin unless exemption is granted.

Irrecoverable tax is accounted for as an expense in the Fund Account, with any recoverable tax shown as an asset in the Net Assets Statement.

There is a small liability to income tax on refunds of contributions and compounded pensions (small pensions converted into lump sums). These amounts are paid to HMRC on a quarterly basis.

VAT is recoverable on all activities, so the accounts are shown exclusive of VAT.

## **1.6 Derivatives**

The Fund uses derivative financial instruments to manage exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. The use of derivatives is managed in line with the investment agreement between the Fund and Investment Manager. Derivatives are held on the Net Asset Statement as assets or liabilities dependent upon the position as at 31<sup>st</sup> March 2020.

## **1.7 Cash and Cash Equivalents**

Cash and Cash Equivalents are sums of money available for immediate use by the Pension Fund. Such items are deemed to be cash balances held in the Pension Fund's bank accounts and any overdrawn bank balances.

Short-term investments are deemed to be cash and cash equivalents. These funds are invested on a short term basis by Rhondda Cynon Taf CBC until it is required to meet its liabilities, or to transfer surplus cash to the Investment Managers for reinvestment.

## 1.8 Contingent Liabilities

A contingent liability is a possible item of expenditure that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control. Such contingent liabilities are not reflected in the Net Assets Statement as it may not be probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

## 2.0 Accounting Standards Issued but not Adopted

The standards that may be relevant for additional disclosures that will be required in the 2019/20 and 2020/21 financial statements in respect of accounting changes that are introduced in the 2020/21 Code are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

Appendix C of the 2020/21 Code only includes standards adopted in the Code and therefore for 2019/20 local authorities are not required to include IFRS 16 in their consideration of accounting standards that have been issued but not yet adopted, although this is subject to approval of the 2020/21 Code.

## 3.0 Critical Judgements in Applying Accounting Policies

The Fund's liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the actuary. The estimate is subject to significant variances based on changes to the underlying assumptions.

## 4.0 Assumptions Made about the Future and other major Sources of Estimation Uncertainty

The Pension Fund accounts contain estimated figures based on assumptions made taking into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual costs could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase,	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the

	changes in mortality rates and expected returns on pension fund assets. The actuary provides the Fund with advice regarding the assumptions to be used.	pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.
Pooled property fund valuations	The 31 <sup>st</sup> March 2020 property valuations provided by the property manager, has been predominantly based on either December 2019 or February 2020. This would not have included any Covid-19 impact. The majority of the underlying fund managers within the property mandate have recently attached a 'material valuation uncertainty' clause to their valuations.	The net asset value was prepared in accordance with the property manager's valuation policy, whilst any underlying property appraisals may have been qualified with a material valuation uncertainty clause. They are the valuer's opinion as at 31 <sup>st</sup> March 2020. Not all the portfolio would be affected by Covid-19 in the same way, therefore it is the fund manager's opinion that it is currently not possible to determine a percentage impact or a volatility metric.

The actuarial present value of promised retirement benefits includes the potential impact of the McCloud judgement. Refer to Note 6 for further details.

## **5.0 Events after the Reporting Date**

The audited Statement of Accounts was authorised for issue by the Director of Financial and Digital Services, as Chief Finance Officer, on 25<sup>th</sup> November 2020. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provide information about conditions existing at 31<sup>st</sup> March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no events that took place after 31<sup>st</sup> March 2020 requiring disclosure providing information that is relevant to an understanding of the Pension Fund's financial position.

## **6.0 Actuarial Position**

The Fund's Actuary, AON Hewitt carried out an actuarial valuation of the Fund as at 31<sup>st</sup> March 2019 in compliance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2013. Actuarial valuations take place on a triennial basis with a number of key assumptions being made.

The methodology to calculate the Pension Fund liability reflects assumptions and estimates depending 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 return on Pension Fund assets.

Where a valuation reveals a deficiency (or surplus), employer contribution rates are adjusted to seek restoration of a 100% funding ratio. The recovery period for each employer is set by the Administering Authority in consultation with the Actuary.

The funding policy of the Scheme is to ensure that:

- Employer contribution rates are kept as nearly constant as possible and at reasonable cost to the employers and taxpayers.
- Sufficient resources are available to meet all liabilities as they fall due.
- Employers' liabilities are managed effectively by seeking regular actuarial advice.
- Income from investments is maximised within reasonable risk parameters.

The results of the 2016 and 2019 valuations are shown in the table below:

	<b>31/03/2019</b>	<b>31/03/2016</b>
	<b>£'m</b>	<b>£'m</b>
Funding Target	3,515	3,064
Market Value of Assets	3,459	2,485
Funding Deficit	56	579
Funding Ratio	98%	81%

The aggregate employer future service contribution rate is 19.6% of pensionable pay. To restore the funding ratio to 100% using a recovery period of 19 years the aggregate employer contribution rate is calculated to be 21.0%.

Contribution rates payable by each scheme employer will vary depending on their particular circumstances. Some employers will also phase in contribution increases over a maximum period of 3 years. Further details are available in the actuarial report.

Contribution rates have been calculated using the Projected Unit Method for most employers. The Attained Age Method has been used for some employers who do not permit new employees to join the Fund. The key assumptions made are listed in the following table:

<b>Assumption</b>	<b>2019 Valuation</b>	<b>2016 Valuation</b>
	<b>% p.a.</b>	<b>% p.a.</b>
Average in service discount rate	4.18%	4.5%
Average left service discount rate	3.79%	4.5%
CPI inflation	2.10%	2.0%
Pensionable Pay increases	3.35%	3.25%
Post-retirement mortality assumption – base table (for retirements in normal health)	S2N heavy tables with best-estimate scaling factors derived from experience analysis combined with postcode analysis	S2P tables with best-estimate scaling factors derived from experience analysis

Post-retirement mortality assumption – future improvements	CMI 2018 projections with Sk=7.5, A=0.0 and long term improvement rate of 1.5% p.a. for men and women	CMI 2014 core projections with long term improvement rate of 1.5% pa for men and women
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In addition to the triennial funding valuation, the Fund’s actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes. The actuary has also used valued ill health and death benefits in line with IAS 19.

The CIPFA Code of Practice on Local Authority Accounting also requires the disclosure of the relationship between the actuarial present value of promised retirement benefits and the net assets.

	Value as at 31/03/2019	Value as at 31/03/2016
	£’m	£’m
Fair Value of net assets	3,458.6	2,485.4
Actuarial present value of promised retirement benefits	4,645.0	3,470.8
Surplus / (deficit) in the Fund as measured for IAS 26 purposes	(1,186.4)	(985.4)

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The above table, the Fund Account and Net Assets Statement does not include the potential impact of:

- Cost management process; and
- GMP equalisation and indexation, beyond indexation for members reaching State Pension Age before 5<sup>th</sup> April 2021.

Legislation requires HM Treasury and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. This is referred to as the “Cost Management Process”. HM Treasury and the SAB have paused their reviews following the “McCloud” judgement in the Court of Appeal which found that the transitional protection arrangements put in place when firefighters’ and judges’ pension schemes were reformed were age discriminatory. This is expected to have implications for other public sector schemes that were reformed around the same time (including the

LGPS) and could potentially lead to members deemed to be discriminated against being compensated. The Supreme Court denied the Government's application for permission to appeal this judgement on 27<sup>th</sup> June 2019.

The matter will now be referred back to the Employment Tribunal for a remedy hearing. Once a Tribunal makes a finding on remedy, compensation will be awarded and the schemes amended as appropriate.

The cost management process will recommence taking into account the remedy and any scheme amendments. No allowance has been made in the disclosures for the outcome of this process.

On 26<sup>th</sup> October 2018, the High Court ruled in the case of Lloyds Bank that equalisation for the effect of unequal Guaranteed Minimum Pensions (GMPs) is required. The ruling confirmed that trustees have a duty "to equalise benefits for men and women". HM Treasury have stated that "public sector schemes already have a method to equalise GMP benefits, which is why we will not have to change our method as a result of this judgement".

## 7.0 Analysis of Investments at Fair Value

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
<b>Equities</b>				
UK	279,594		169,833	
Overseas	396,482		459,604	
		<b>676,076</b>		<b>629,437</b>
<b>Bonds</b>				
UK	767,811		800,807	
Overseas	76,117		95,622	
		<b>843,928</b>		<b>896,429</b>
<b>Pooled funds</b>				
UK	19,189		17,192	
WPP Global Equities	1,363,745		1,270,900	
Overseas - other	253,893		219,991	
		<b>1,636,827</b>		<b>1,508,083</b>
<b>Pooled funds - property</b>				
UK - other	260,292		287,562	
Overseas - other	559		135	
		<b>260,851</b>		<b>287,697</b>
<b>Total long-term investments</b>		<b>3,417,682</b>		<b>3,321,646</b>

The Fund has not participated in any stock lending arrangements during 2019/20 but has agreed to do so in 2020/21 for investments in the WPP.

All investments held are quoted investments with the exception of property, which is valued at Fair Value and no assets reclassified. Carrying values of assets held in the Net Assets Statement are the same as the Fair Values shown above.

The Pension Fund holds derivative contracts which are valued as a liability in the Net Asset Statement as at 31<sup>st</sup> March 2020.

All investments above are deemed to be Financial Instruments designated “Fair Value through Profit and Loss”. All investment income, profits/losses on disposals of investments, and changes in the value of investments recognised in the Fund Account arise from Financial Instruments designated “Fair Value through Profit and Loss”, with the exception of interest on cash deposits. Cash deposits are deemed to be Financial Instruments designated “Loans and Receivables”.

Quoted equities and cash are classed as fair value hierarchy level 1. Bonds, pooled property, pooled investments within the WPP and derivative contracts are classified as fair value hierarchy level 2.

## 8.0 Fund Manager Asset Allocation

The market values of investments held by the Fund Managers employed by the Fund are detailed in the following table:

Fund Manager	Market Value		Proportion of Fund	
	31/03/2019 £'000	31/03/2020 £'000	31/03/2019 %	31/03/2020 %
Baillie Gifford (Global Equities)	799,135	728,101	23.2	21.7
BlackRock (Passive Equities)	153,809	144,528	4.4	4.3
BMOGAM (Bonds)	857,306	903,811	24.8	27.0
CBRE (Property)	263,792	290,497	7.6	8.7
Link (Global Growth)	1,091,893	1,011,978	31.6	30.2
Link (Global Opportunities)	271,852	258,922	7.9	7.7
Internally Managed	18,857	12,387	0.5	0.4
<b>Total</b>	<b>3,456,644</b>	<b>3,350,224</b>	<b>100</b>	<b>100</b>

No single investment accounted for more than 5% of the Fund's assets.

The market value of investments shown in this table includes short-term investments such as cash balances and money deposits, and so differs from the total of long-term investments only, as shown in note 7.0.

Investment risk is mitigated by employing a number of fund managers to diversify manager risk, with mandates covering a variety of assets including equities, bonds and property. Managers must maintain a diversified portfolio of investments and comply with the LGPS investment regulations, and any additional restrictions within their mandates. The underlying investments are further diversified by country and industry sector.

Each manager's performance is monitored quarterly against a target linked to an asset allocation benchmark, effectively constraining managers from deviating significantly from the intended approach, while still permitting some flexibility to enhance returns.

## 9.0 Geographical Spread of the Fund

The Fund Managers invest in shares in a number of countries. The table below shows the value of stocks and shares held by the Fund Managers as at 31<sup>st</sup> March 2020:

Area	£'000	%
UK Equities	269,841	8.1%
European Equities	175,921	5.2%
US and Canadian Equities	243,740	7.3%
Japanese Equities	56,221	1.7%
Pacific Equities	30,153	0.9%
Other International Equities	90,744	2.7%
Global Pooled Equities	1,270,900	37.9%
Bonds	896,429	26.7%
Property	287,697	8.6%
Cash & Equivalents	28,578	0.9%
<b>Total</b>	<b>3,350,224</b>	<b>100%</b>

## 10.0 Contingent Liabilities

There is a contingent liability of £968k (£836k in 2018/19) in respect of refundable contributions for leavers who have not yet claimed refunds.

## 11.0 Reconciliation of Investment Asset Valuation

A reconciliation of the opening and closing investment valuations is given below:

	Market Value 01/04/19	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/20
	£'000	£'000	£'000	£'000	£'000
Bonds	843,928	270,841	(235,015)	16,675	896,429
Equities	676,076	125,748	(74,301)	(98,086)	629,437
Pooled Investments	1,636,827	4,217	(7,073)	(125,888)	1,508,083
Pooled Property	260,851	33,614	(3,362)	(3,406)	287,697
	<b>3,417,682</b>	<b>434,420</b>	<b>(319,751)</b>	<b>(210,705)</b>	<b>3,321,646</b>
Cash Deposits	27,514			69,981	25,423
Investment Debtors	15,440				14,767
Investment Creditors	(3,992)				(11,612)
<b>Total</b>	<b>3,456,644</b>			<b>(140,724)</b>	<b>3,350,224</b>

Comparative note for 2018/2019:

	Market Value 01/04/18	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/19
	£'000	£'000	£'000	£'000	£'000
Bonds	581,747	596,804	(346,770)	12,147	843,928
Equities	1,973,190	285,107	(1,126,241)	(455,980)	676,076
Pooled Investments	393,868	1,295,035	(87,646)	35,570	1,636,827
Pooled Property	167,831	93,809	(9,530)	8,741	260,851
	<b>3,116,636</b>	<b>2,270,755</b>	<b>(1,570,187)</b>	<b>(399,522)</b>	<b>3,417,682</b>
Cash Deposits	80,192			604,216	27,514
Investment Debtors	15,295				15,440
Investment Creditors	(8,498)				(3,992)
<b>Total</b>	<b>3,203,625</b>			<b>204,694</b>	<b>3,456,644</b>

**12.0 Profits and Losses on Investments**

	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>
Profit on sales	657,501	102,515
Loss on sales	(51,788)	(41,542)
<b>Net profit / (loss) on sales</b>	<b>605,713</b>	<b>60,973</b>
Change in market value	(401,019)	(201,697)
<b>Net increase/ (decrease) in value</b>	<b>204,694</b>	<b>(140,724)</b>

**13.0 Contributions Receivable and Benefits Payable**

Contributions received and benefits paid are shown in the table below:

<b>Type of Body</b>	<b>Member Contributions</b>		<b>Employer Contributions</b>		<b>Pensions, Lump Sums and Death Benefits</b>	
	<b>2018/19</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Administering	8,480	9,025	35,181	38,100	35,904	34,967
Admitted	3,518	3,620	15,078	17,109	13,706	16,255
Scheduled	14,781	15,565	48,473	51,718	79,083	80,359
<b>Total</b>	<b>26,779</b>	<b>28,210</b>	<b>98,732</b>	<b>106,927</b>	<b>128,693</b>	<b>131,581</b>

Included in employer contributions are £11,428k of deficit funding contributions (£9,790k in 2018/19). There are no augmented contributions.

**14.0 Management Expenses**

The management expenses borne by the Fund in 2019/20 are set out below:

	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>
Administrative Costs	1,839	1,845
Investment Management Expenses	8,973	11,001
Oversight and Governance Costs	227	275
<b>Total</b>	<b>11,039</b>	<b>13,121</b>

Investment management expenses represent 0.33% (0.26% in 2018/19) of the value of the Pension Fund as at 31<sup>st</sup> March 2020.

2019/20 Audit Fees of £39k are included in Oversight and Governance Costs (£39k in 2018/19).

The investment management expenses borne by the Fund in 2019/20 are set out below:

	2018/19	2019/20
	£'000	£'000
Management Fees	6,843	8,590
Custody Fees	390	473
Transaction Costs	1,740	1,938
<b>Total</b>	<b>8,973</b>	<b>11,001</b>

Included in the management expenses above, is the cost of the Fund's involvement in the WPP collective investment pooling arrangement, as set out below:

	2018/19	2019/20
	£'000	£'000
<b>WPP Oversight and Governance Costs</b>		
Set up Costs	33	0
Running Costs	20	58
<b>WPP Investment Management Expenses</b>		
Fund Managers Fees	733	4,317
Transaction Costs	0	1,538
Custody Fees	114	215
<b>Total</b>	<b>900</b>	<b>6,128</b>

The oversight and governance costs are the annual running costs of the Pool, which includes the Host Authority costs and other external advisor costs. These costs are funded equally by all eight of the Local Authority Pension Funds in Wales. The investment management expenses are fees payable to Link Fund Solutions (the WPP operator) and include fund manager fees, transaction costs (which also includes the operator fee) and custody fees. These costs are based on each Fund's percentage share of the WPP pooled assets and are deducted from the Net Asset Value (NAV).

## 15.0 Transactions with Related Parties

In the course of fulfilling its role as Administering Authority to the Fund, Rhondda Cynon Taf CBC provided services to the Fund for which it charged £1.5m (£1.5m in 2018/19). These costs are mainly in respect of those staff employed in ensuring that the pension service is delivered.

At the year-end, contributions outstanding from the Employing Bodies in the Fund amounted to £6.4m (£6.1m in 2018/19), of which £4.9m related to employer contributions and £1.5m to employee contributions.

There are members of the Pension Fund Investment and Administration Advisory Panel, the Pensions Board and the Pension Fund Committee who are also members of the Rhondda Cynon Taf Pension Fund.

The administration of the Rhondda Cynon Taf Pension Fund is a function of full Council, with responsibility for day to day decisions being delegated to the Director of Finance and Digital Services. As such, the post holders are required to declare any interests with related parties. The disclosure can be found in the Statement of Accounts of Rhondda Cynon Taf County Borough Council.

The Committee Members and Senior Officers that advise the Committee are required to declare their interest at each meeting.

Officer remuneration and Members allowances can be found in the Statement of Accounts of Rhondda Cynon Taf County Borough Council.

## 16.0 Membership of the Fund

Fund membership at 31<sup>st</sup> March is as follows:

	<b>2019</b>	<b>2020</b>
Active Employers	49	53
Contributors	23,329	23,696
Pensioners	17,025	17,512
Dependants	2,679	2,726
Deferred Beneficiaries	27,104	28,108

## 17.0 Group Transfers

There were no group transfers in 2019/20. The Fund transferred £5.2m to Cardiff and Vale of Glamorgan Pension Fund in 2018/19 in respect of regulatory joint working.

## 18.0 Nature and Extent of Risks Arising From Financial Instruments

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. There are three main ways in which the Pension Fund is exposed to risk from financial instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

The overall objective is to minimise the risk of a reduction in the value of the Fund, and to maximise the opportunity for gains within reasonable risk parameters.

The Funding Strategy Statement identifies key risks to the Pension Fund together with the countermeasures undertaken to mitigate the risks.

### 18.1 Credit Risk

Credit risk is the possibility that a counterparty will fail to discharge its obligation to the Pension Fund, causing a financial loss. Counterparties considered are banks and financial institutions with whom investments are placed, employers within the Fund and Investment Managers. The risk of counterparties failing to discharge obligations is managed in a number of ways:

- Counterparties for cash investments made by the Administering Authority must meet the strict credit criteria set out in the Rhondda Cynon Taf CBC Treasury Management Strategy.
- Participating employers may be required to provide a bond to cover the risk to the Fund should they be unable to meet their pension contribution obligations.
- Investment Managers manage funds that are held in the name of the Pension Fund, not in the name of the Investment Managers. In the event of the Investment Manager being unable to fulfil their obligations the Fund's investments will not be considered part of their asset portfolio.

The Pension Fund has had no experience of counterparty default in the last five years. Cash deposits held by the Administering Authority for the Pension Fund as at 31<sup>st</sup> March 2020 amounted to £9.97m with the institutions shown in the table below:

<b>Institution</b>	<b>Balance at 31/03/20 £'000</b>	<b>Maturity Date</b>
Debt Management Office	9,970	01/04/20
<b>Total</b>	<b>9,970</b>	

## 18.2 Liquidity Risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations as they fall due. This risk is managed by:

- Maintaining a robust cash flow monitoring and forecasting model.
- Ensuring that the Pension Fund has access to cash in the short and medium-term to pay pensions by managing cash flow from money-market investments.
- Taking actuarial advice to set employer contribution rates at triennial valuations in order to meet the long-term funding requirements to pay pensions and other commitments.

The Administering Authority has immediate access to internally managed Pension Fund cash balances held with its own bank, Barclays. The Authority also invests Pension Fund cash in short-term deposits with the Debt Management Office or other UK public bodies for periods normally less than 3 months.

## 18.3 Market Risk

Market risk is the risk of a loss in the value of investment assets from movements in investment markets e.g. asset prices, interest rates and currency exchange rates. This risk is managed by ensuring that the Fund invests in a broad range of assets diversified by Investment Manager, asset class and geographical region.

Following analysis of historic data, Pensions & Investment Research Consultants (PIRC), the Fund's pension performance analytics company, has provided a view of potential market movements for the 2020/21 financial year. The possible impact of movements in each asset type is shown in the following table:

Asset type	31/03/20 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Core Equity Mandate	872,629	13.2	987,428	757,830
Global Equity Mandate	1,270,900	13.2	1,438,659	1,103,141
Bond Mandate	903,811	5.9	957,233	850,389
Property Mandate	290,497	2.4	297,462	283,532
Internal Mandate	12,387	0.5	12,448	12,326

PIRC also advised that the potential market movement for the Fund as a whole, could be 9.3%. The possible impact is shown below:

	31/03/20 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Fund Asset Total	3,350,224	9.3	3,660,952	3,039,496

The Fund's interest rate risk is monitored regularly with the advice of the Administering Authority's treasury advisors. Interest rate changes can affect Fund income and asset values.

Assuming that all other variables, particularly exchange rates, remain unchanged, a movement in interest rates of 1% for the 2020/21 financial year would have the following effect:

Asset type	31/03/20 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Bond securities	896,429	905,393	887,465
Cash deposits & balances	28,578	28,864	28,292
<b>Total</b>	<b>925,007</b>	<b>934,257</b>	<b>915,757</b>

Currency risk is the risk to income and investment asset values from changes in exchange rates. The Fund is exposed to this risk from non-sterling denominated investments in a range of assets.

A movement in currency exchange rates of 7.4% would have the following effect:

Asset type	31/03/20 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas Equities	596,799	640,962	552,636
Overseas Bonds	95,622	102,698	88,546
Overseas Pooled Property	135	145	125
<b>Total</b>	<b>692,556</b>	<b>743,805</b>	<b>641,307</b>

## **The independent auditor's report of the Auditor General for Wales to the members of Rhondda Cynon Taf County Borough Council as administering authority for Rhondda Cynon Taf Pension Fund**

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

#### **Opinion**

I have audited the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004. Rhondda Cynon Taf Pension Fund financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020.

#### **Basis for opinion**

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

#### **Emphasis of matter – effects of the Covid-19 pandemic on the valuation of property fund and alternative assets**

I draw attention to Note 4 of the financial statements, which describes the impact of a material uncertainty disclosed in the fund managers' year-end valuation reports for the UK property fund and alternatives fund they manage on behalf of the Rhondda Cynon Taf Pension Fund. The Fund has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

## Conclusions relating to going concern

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

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

## Other information

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

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

## Report on other requirements

### Opinion on other matters

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

- the information contained in the introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the pension fund accounts.

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

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

## **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Rhondda Cynon Taf Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

### **Responsibilities**

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

As explained more fully in the Statement of Responsibilities for the financial statements set out on pages 4 to 5, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Adrian Crompton  
Auditor General for Wales  
26 November 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Glossary of Terms

### **Accrual**

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

### **Active/Passive Management**

Active management is the traditional form of investment management involving a series of individual investment decisions that seek to maximise returns by exploiting price inefficiencies i.e. 'beat the market'.

Passive management is a low cost alternative where managers normally hold stocks in line with a published index, such as the FTSE All-Share, not seeking to outperform but to keep pace with the index being tracked.

### **Actuary**

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

### **Actuarial Gains and Losses**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation, or the actuarial assumptions have changed.

### **Admitted Body**

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

### **Asset Allocation**

Apportionment of investment funds among categories of assets, such as Bonds, Equities, Cash and Property. Asset allocation affects both risk and return.

### **Attained Age Method**

An Actuarial method of calculating a contribution rate to the Pension Fund. It calculates the present value of the benefits estimated to accrue to members over their expected remaining membership, expressed as a percentage of their expected future pensionable pay.

### **Audit**

An audit is an independent examination of activities.

### **Cash and Cash Equivalents**

Sums of money available for immediate use and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

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

CIPFA is responsible for issuing financial guidance to public bodies.

**Contingent Liabilities or Assets**

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately and for which provision has not been made in the Pension Fund's accounts.

**Creditor**

A creditor is an organisation/individual owed money by the Pension Fund at the end of the financial year for goods/services received.

**Custodian**

Bank or other financial institution that keeps custody of stock certificates and other assets of a client, collects dividends and tax refunds due and settles any purchases and sales.

**Current Assets**

These are short-term assets that are available for the Pension Fund to use in the following accounting period.

**Current Liabilities**

These are short-term liabilities that are due for payment by the Pension Fund in the following accounting period.

**Debtor**

A debtor is an organisation/individual who owes the Pension Fund money at the end of the financial year for goods/services received.

**Debt Management Office (DMO)**

The DMO is an Executive Agency of Her Majesty's Treasury. Its responsibilities include debt and cash management for the UK Government, lending to Local Authorities and managing certain public sector funds.

**Defined Benefit Scheme (Pensions)**

This is a pension or other retirement benefit scheme other than a defined benefit contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

**Defined Contribution Scheme (Pensions)**

A Defined Contribution Scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Derivatives**

A derivative instrument is a contract whose value is based on the performance of an underlying financial asset, index, or other investment.

**Employer Contribution Rates**

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

**Equities**

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and may normally vote at shareholders' meetings.

**Fair Value Hierarchy**

Level 1 – Assets and liabilities at level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 – Assets and liabilities at level 2 are those where quoted market prices are not available.

Level 3 – Inputs not based on observable market data. The values of investment in private equity are based on valuations provided by the general partners to the private equity funds. If the company's year-end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end.

**Financial Assets**

Financial assets are cash, equity instruments within another entity e.g. shares, or a contractual right to receive cash or another asset from another entity e.g. debtors, or exchange financial assets or financial liabilities under favourable conditions e.g. derivatives.

**Financial Year**

This is the accounting period. For local authorities it starts on 1<sup>st</sup> April and finishes on 31<sup>st</sup> March of the following year.

**Fixed Interest Securities/Bonds**

Investments, especially in government stocks, with a guaranteed rate of interest. Conventional bonds have fixed rates, whilst Index Linked vary with inflation. They represent loans repayable at a stated future date and which can be traded on a stock exchange in the meantime.

**Fund of Funds**

A pooled fund that invests in other pooled funds. They are able to move money between the best funds in the industry and thereby aim to lower stakeholder risk with greater diversification than is offered by a single fund.

**GMP**

Guaranteed Minimum Pension.

**Impairment**

Impairment occurs when the value of a long-term asset falls below the value it is currently held at in the Fund Account.

**International Accounting Standard (IAS)**

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

**International Financial Reporting Standards (IFRS)**

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

**Liability**

A liability is an obligation to transfer economic benefits as a result of past transactions or events.

**Pooled Funds**

Pooled investment vehicles issue units to a range of investors. Unit's prices move in response to changes in the value of the underlying portfolio and investors do not own directly the assets in the fund. The main types are: unit trusts, open-ended investment companies (OEICs), insurance linked vehicles and investment trusts.

**Portfolio**

A collective term for all the investments held in a fund, market or sector. A segregated portfolio is a portfolio of investments of a specific type held directly in the name of the investor e.g. Global Bonds, or a specific market e.g. UK Equities, Far East Equities.

**Prior Year Adjustment**

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors.

**Provision**

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

**Related Party**

A related party exists where there is control or influence by one party over another.

**Return**

The total gain from holding an investment, including both income and any increase or decrease in market value. Returns over periods longer than a year are usually expressed as an average annual return.

**Scheduled Bodies**

An organisation that has the right to become a member of the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

**Unrealised Gains/Losses**

The increase or decrease in the market value of investments held by the Pension Fund since the date of their purchase. Note: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

**Strain on Funds**

When an employee retires early and is immediately paid a pension, without actuarial reduction, the lost contribution income and interest cost arising from the associated earlier increased cash flow is referred to as pension strain cost. The pension strain cost is determined by actuarial calculation.

## Appendix 4

Date/Dyddiad:  
25<sup>th</sup> November 2020

Please ask for/Gofynnwch am:  
Barrie Davies  
(01443) 424026

Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

Dear Adrian,

### **Representations regarding the 2019/20 Rhondda Cynon Taf Pension Fund Financial Statements**

This letter is provided in connection with your audit of the financial statements of the Rhondda Cynon Taf Pension Fund (the Pension Fund) for the year ended 31<sup>st</sup> March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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

In addition we have completed the questionnaires (Appendix A) provided to us regarding;

- ISA240 The auditor's responsibilities relating to fraud in an audit of financial statements
- ISA250 Consideration of laws and regulations in an audit of financial statements
- ISA550 Related parties

### **Management Representations**

#### **Responsibilities:**

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20; in particular the financial statements give a true and fair view in accordance therewith.

We have fulfilled our responsibilities for 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 the Pension Fund 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.

**Representations by those charged with governance being Rhondda Cynon Taf County Borough Council as administrating authority for the Rhondda Cynon Taf Pension Fund:**

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 the Members of Rhondda Cynon Taf County Borough Council on 25<sup>th</sup> November 2020.

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

Director of Finance & Digital Services  
(S.151 Officer)

Leading Member

Date

Date

### Appendix 1

#### Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and 'those charged with governance', which for the Pension Fund is the Full Council. Management, with the oversight of those charged with governance, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

#### What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how those charged with governance exercises oversight of management's processes. We are also required to make enquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud, for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

**Enquiries of management - in relation to fraud**

Question	2019-20 Response
<p>1. What is management’s assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?</p>	<p>As “Scheme Manager” for the Rhondda Cynon Taf Pension Fund, the controls applied in Rhondda Cynon Taf CBC also apply to the administration of the Pension Fund.</p> <p>Good governance flows from a shared ethos and culture, as well as from systems and structures. The Council expects all representatives (i.e. Members and Officers) to conduct their duties with the highest levels of honesty and integrity.</p> <p>Policies underpin the culture in place and the Regional Internal Audit Shared Service test compliance with relevant Policies linked to the core financial systems (in line with the approved Annual Audit Plan).</p> <p>To ensure a consistent approach to working practices and processes, all officers are subject to the Council’s terms and conditions of employment and there is a series of codes, protocols and policies in place, and support and training is provided in these areas to help ensure elected Members and Officers understand what is required. The Codes / Protocols / Policies / Procedures include</p> <p><b>Codes and Protocols</b></p> <ul style="list-style-type: none"> <li>• Members’ Code of Conduct</li> <li>• Protocol Standard of Conduct to be followed by Members</li> <li>• Officers’ Code of Conduct</li> <li>• Protocol for Member/Officer Relations</li> </ul> <p><b>Policies &amp; Procedures</b></p> <ul style="list-style-type: none"> <li>• Financial Procedure Rules</li> <li>• Contract Procedure Rules</li> <li>• Financial Management of Schools</li> <li>• Human Resources policies</li> <li>• Anti-Fraud, Bribery &amp; Corruption Strategy</li> <li>• Whistleblowing Policy</li> <li>• Gifts and Hospitality Policy</li> </ul> <p>Where Members and/or Officers do not undertake their duties in accordance with the expected standards then governance arrangements are in place within the Council to manage this process in an equitable, fair and transparent manner.</p>

	<p>Taking all of the above into account, our assessment of the risk of fraud arising and having a material impact on the financial statements is considered to be low.</p>
<p>2. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?</p>	<p>The Council has a number of governance arrangements in place that help in the prevention and detection of fraudulent and/or improper activities. These include:</p> <ul style="list-style-type: none"> <li>• Financial &amp; Contract Procedure Rules</li> <li>• Systems of Internal Control</li> <li>• Recruitment Policies</li> <li>• Whistleblowing Policy</li> <li>• Local procedures within departments, for example, authorisation arrangements and quality assurance processes</li> <li>• An independent Internal Audit Service</li> <li>• An independent Corporate Fraud Team</li> <li>• Combining with Others to Prevent and Fight Fraud <ul style="list-style-type: none"> <li>– Participation in the National Fraud Initiative for example</li> </ul> </li> </ul> <p>The Anti-Fraud, Bribery &amp; Corruption Strategy provides a clear path for raising concerns and facilitating ‘tip-offs’, and the fraud response arrangements outlined enables such information or allegations to be properly dealt with and reported.</p> <p>The Council's Whistleblowing Policy also gives advice on how to raise a concern, as well as providing information on the safeguards and support that are available to those who raise concerns.</p> <p>Given the governance arrangements in place, management can give assurance that the risk of material misstatements is low.</p>
<p>3. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>Rhondda Cynon Taf County Borough Council is resolute in its determination to maintain its reputation as a Council that will not tolerate fraud, bribery, corruption or abuse of position for personal gain, wherever it may be found in any area of Council activity.</p> <p><b><u>Arrangements in place to report fraud issues</u></b></p> <p><u>Whistleblowing</u></p> <p>A copy of the Council’s Whistleblowing Policy &amp; Procedure was reported to the Council’s Audit Committee at its meeting held on the 31st October 2016</p> <p>The purpose of the Policy is to provide a means by which complaints of malpractice or wrongdoing can be raised by those who feel that other avenues for raising such issues are inappropriate. The Policy confirms that so far as possible, those raising concerns under the Policy will be treated confidentially.</p> <p>Workers are encouraged to report any concerns they have via the Council’s <u>Whistleblowing webpage</u> “Get Involved”.</p>

Anti-Fraud, Bribery & Corruption Strategy

The purpose of the Strategy is to communicate the Council's main principles for countering fraud, bribery and corruption. It sets out the:

- Council's zero tolerance approach against fraud, bribery & corruption;
- Reporting avenues for suspected irregularities;
- Resources that are in place to support a counter fraud, bribery & corruption culture; and
- Governance arrangements in respect of reporting to Audit Committee.

In the Council's Report It section of the website, instructions for those who wish to raise anti-fraud, bribery or corruption concerns are provided along with the means to complete an on-line form.

**Arrangements in place to report to Audit Committee:**

On the 17th December 2019, a half-yearly Corporate Fraud progress update was reported to Audit Committee outlining the progress made to date against the Anti-Fraud, Bribery & Corruption work programme for 2019/20.

On 20th July 2020, the Audit Committee were presented with a further progress report on anti-fraud work undertaken during 2019/20, together with a proposed workplan for 2020/21. This helps to ensure the Council continues to operate within an effective anti-fraud culture across the organisation, with resilient preventative measures capable of identifying and addressing new threats. On 20th July 2020, the Audit Committee were also presented with updates on whistleblowing activity during 2019/20 concluding that arrangements are appropriate. This Report also recommended that although the Policy is reviewed regularly at an operational level and the changes that have been made since 2016 have been of a housekeeping nature (e.g. changes to job titles of posts), a complete review of the document will be undertaken and reported to Audit Committee in 2020/21 for consideration

In addition, at the 17th December 2019 Audit Committee (as part of the 2018/19 Annual Government Statement Recommendation Update) it was reported that the Whistleblowing Policy is highlighted at both staff and manager induction, payslip inserts distributed and posters have been circulated (and alongside this, a targeted fraud awareness training plan has been produced for employees and Members).

Related information is also included under question 5 'Enquiries of management - in relation to fraud'.

The Pension Fund has its own governance structure which includes the Council's Audit Committee and also details that the Pensions Board may report directly to the Pensions Regulator in the event of non compliance with the Code of Practice or in the event of breaches. A diagram showing the links between each forum/body within the governance structure can be found at this link. [Governance Structure](#)

<p>4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?</p>	<p><b><u>Elected Councillors</u></b>  Following the Local Government elections held on 4<sup>th</sup> May 2017, all elected Councillors were provided with an induction and an on-going programme of support that included an overview of the Council's Code of Conduct.</p> <p>Every elected Councillor has signed up to his/her individual Role Description, a copy of which is retained by the Council's Democratic Services division.</p> <p>The Council's Scrutiny Committee meeting minutes were examined to determine whether proceedings were conducted in line with the Council's Code of Conduct. Declarations of interest were sought and declarations were made by elected Councillors, as a standard agenda item, where appropriate.</p> <p>In addition, a Standards Committee was in place during 2019/20 and received a <u>summary of complaints against Members</u> submitted to the Ombudsman. Also on 20<sup>th</sup> September 2019, the Standards Committee received information on <u>Code of Conduct training and a planned programme of refresher training.</u></p> <p><b><u>Pensions Board</u></b>  The Pensions Board has its own Terms of Reference which details the expectation that Board members comply with the Seven Principles of Public Life and also provides information on the legal duty of members to disclose conflicts of interest.  <u>Pensions Board Terms of Reference</u></p> <p><b><u>Council Employees</u></b>  The Council has a number of recruitment and selection Policies in place that help to ensure that new recruits have the integrity and ethical values of the organisation and also the competencies to undertake the duties required of them.</p> <p>Employees have contracts of employment and competency based job descriptions which set out grade, roles and responsibilities. The Human Resources Service oversees terms and conditions of employment, and the Council have a suite of policies and procedures that are available on the internal Intranet for officers to access.</p> <p>Each new recruit is provided with the 'Basic Rules – A Guide for Employees' booklet that gives each employee information in relation to (amongst other things) expected behaviour, use of social media, appearance and attendance. The expectations of each employee are set out from the outset.</p> <p>The Council describes what excellent behaviour looks like for each type of job, for example, 'always treat people with respect', and this information is used to test candidates suitability for jobs at interview and is used to inform discussions managers have with their staff as part of their development.</p>
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<p>5. Are you aware of any instances of actual, suspected or alleged fraud within the council since 1 April 2019?</p>	<p>To support transparency and openness, the Council's arrangements during 2019/20 included:</p> <p><u>Whistle-blowing arrangements</u>  A new Regulation came into force during April 2017 which placed a requirement upon the Council to report annually on whistle-blowing disclosures. The Regulation required the Council to publish the annual report on its website or by other means appropriate for bringing the report to the attention of the public. For Rhondda Cynon Taf, this requirement was met via a report to Audit Committee on <u>20th July 2020</u>.</p> <p>During the year, 7 referrals were made via the Council's whistle-blowing arrangements, all were investigated and the outcomes from which were:</p> <ul style="list-style-type: none"> <li>• 6 referrals were not founded and therefore no further action was taken; and</li> <li>• 1 referral was founded and action was taken.</li> </ul> <p><u>Anti-fraud, Bribery &amp; Corruption arrangements</u></p> <p>During the year, 608 referrals were made via the Council's anti-fraud, bribery &amp; corruption arrangements. The majority, were in relation to suspected fraud against the Revenues and Benefit system and were accordingly forwarded to the Department for Work and Pensions Fraud and Error Service for further investigation.</p> <p>The Council included a payslip insert to all employees in August 2020 providing information on how Council employees could report any suspicions regarding Anti-fraud, Bribery and Corruption.</p> <p>An annual report was presented to the Council's Audit Committee on <u>20th July 2020</u> setting out an update of activities carried out in relation to the prevention, detection and investigation of potential fraud during 2019/20, together with the associated outcomes. The report included a forward plan of targeted activity for 2020/21, to ensure the Council continues to operate within an effective anti-fraud culture across the organisation, with resilient preventive measures capable of identifying and addressing new threats. The Report also included specific activity being planned by the Council as a result of Covid-19, for example, the Corporate Fraud Risk Assessment taking account of revised operating arrangements (home / remote working) and work to assist the detection of incorrect or fraudulent applications made against the Covid-19 Business Support Grant scheme.</p>
<p>6. Are you aware of any fraud within the council since 1 April 2019?</p>	<p>Please refer to the response to question 5, above.</p>
<p>7. Are you aware of any instances of actual, suspected or alleged fraud within the council since 1 April 2019?</p>	<p>Please refer to the response to question 5, above.</p>

**Enquiries of those charged with governance – in relation to fraud**

Question	2019-20 Response
<p>1. How does the Full Council, exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?</p>	<p>Full Council has ensured that the Audit Committee's Terms of Reference are comprehensive and compliant with the Local Government Measure 2011.</p> <p>Audit Committee has a detailed <u>work plan</u> for each Municipal Year that helps them ensure they meet their Terms of Reference.</p> <p>The Rhondda Cynon Taf Pension Fund Accounts are reported to full Council, alongside the external auditor's report, for consideration and if appropriate, approval.</p> <p>Audit Wales reports its <u>Annual Improvement Report</u> to full Council setting out, amongst other things, the results of its work undertaken within the Authority in the previous financial year. Further to review by Council, this report is scrutinised by the Council's <u>overview and scrutiny</u> arrangements to monitor progress and is also reported to Audit Committee (on 3<sup>rd</sup> February 2020).</p>
<p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2019?</p>	<p>Please refer to response within "Enquiries of Management" section, Question 5.</p>

## **Appendix 2**

### **Matters in relation to laws and regulations**

International Standard for Auditing (UK and Ireland) 250 covers auditors responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of those charged with governance (Full Council), is responsible for ensuring that the Pension Fund's operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements;
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

### **What are we required to do?**

As part of our risk assessment procedures we are required to make inquiries of management and the Full Council as to whether the Pension Fund is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

<b>Enquiries of management – in relation to laws and regulations</b>	
<b>Question</b>	<b>2019-20 Response</b>
1. How have you gained assurance that all relevant laws and regulations have been complied with?	The accounts are prepared in accordance with the Accounts & Audit Regulations and Pensions Statement of Recommended Practice.  In addition, the Pension Fund has undertaken an assessment of its compliance with the Pensions Regulator Code of Practice.
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2019, or earlier with an ongoing impact on the 2019-20 financial statements?	There are no instances of non-compliance with relevant laws and regulations. Full Council receives assurance on this from the appointed External Auditor.
3. Are there any potential litigations or claims that would affect the financial statements?	Any potential litigations and/or claims are accounted for in accordance with the Code of Practice and where appropriate, disclosed in the letter of representation.
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.
5. Are you aware of any non-compliance with laws and regulations within the council since 1 April 2019?	No.

**Enquiries of those charged with governance – in relation to laws and regulations**

<b>Question</b>	<b>2019-20 Response</b>
1. How does the Full Council, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	Full Council appoints Audit Committee and sets its Terms of Reference.  Full Council ratifies the appointment of the Section 151 Officer and the Council's Monitoring Officer, whose roles are defined by statute and referenced within the Constitution.  Full Council receives assurance from the appointed External Auditor.  Also refer to the reporting arrangements on the governance structure as detailed below: <u>Governance Structure</u>
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	There are no instances of non-compliance with relevant laws and regulations. Full Council receives assurance on this from the appointed External Auditor.

## **Appendix 3**

### **Matters in relation to related parties**

International Standard for Auditing (UK and Ireland) 550 covers auditors responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

### **What are we required to do?**

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

**Enquiries of management – in relation to related parties**

Question	2019-20 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"> <li>• the identity of any related parties, including changes from the prior period;</li> <li>• the nature of the relationships with these related parties;</li> <li>• details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions.</li> </ul>	<p>Related party transactions are disclosed within the notes to the statement of accounts in accordance with the Code of Practice on Local Authority Accounting.</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>Governance arrangements are in place to ensure that a Register of Members Interests is in place and also that Declarations of Interest at each committee are asked for as a standard agenda item.</p> <p>Within the Annual Statement of Accounts of the Council, there is a requirement for the disclosure of “Related Party Transactions”. This relates to payments made to, or income received from, any organisation in which a Member or Chief Officer (who sits on the Senior Leadership Team) of the Council has an interest, financial or otherwise.</p> <p>Additional Controls in place include:</p> <ul style="list-style-type: none"> <li>• Gifts &amp; Hospitality Policy</li> <li>• Contract Procedure Rules</li> <li>• The Anti-Fraud, Bribery &amp; Corruption Strategy</li> </ul>

**Enquiries of the those charged with governance – in relation to related parties**

<b>Question</b>	<b>2019-20 Response</b>
1. How does the Council, in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?	<p>Governance arrangements are in place to ensure that a Register of Members Interests is in place and also that Declarations of Interest at each committee, panel and board are asked for as a standard agenda item.</p> <p>Within the Annual Statement of Accounts of the Council, there is a requirement for the disclosure of "Related Party Transactions". This relates to payments made to, or income received from, any organisation in which a Member or Chief Officer (who sits on the Senior Leadership Team) of the Council has an interest, financial or otherwise.</p> <p>Additional Controls in place include:</p> <ul style="list-style-type: none"><li>• Gifts &amp; Hospitality Policy</li><li>• Contract Procedure Rules</li><li>• The Anti-Fraud, Bribery &amp; Corruption Strategy.</li></ul>