

# Agenda



## Audit Committee

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Date: Thursday, 23 June 2016

Time: 5.00 pm

Venue: Committee Room 4 - Civic Centre

To: Mr J Baker (Chair), Councillors R Bright, D Davies, E Garland, J Guy, R Mogford, M Spencer, H Thomas and R White

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### Item

- 1 Agenda yn Gymraeg / Agenda in Welsh (Pages 3 - 4)
- 2 Apologies for Absence
- 3 Declarations of Interest
- 4 Minutes of the meeting held on 26 May 2016 (Pages 5 - 12)
- 5 Corporate Risk Register Update (Pages 13 - 28)
- 6 Draft Financial Accounts 2015/16 (Pages 29 - 164)
- 7 Internal Audit Unsatisfactory Audit Opinions (Pages 165 - 176)
- 8 Work Programme (Pages 177 - 182)
- 9 Date of Next Meeting - 22 September 2016

**NB: Would members and officers please take any paper copies of the agenda with them after the meeting and please not leave them unattended.**

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Date of Issue: 16 June 2016

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# Agenda

## Pwyllgor Archwilio

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Dyddiad: Dydd Iau, 23 Mehefin 2016

Amser: 5 y.p.

Lleoliad: Ystafell Bwyllgora 4

At: Mr J Baker (Cadeirydd), Y Cyngorwyr: Bright, Davies, Garland, Guy, Mogford, Spencer, H Thomas a White.

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### Eitem

#### Rhan 1

1. Agenda yn Gymraeg
2. Ymddiheuriadau am absenoldeb
3. Datganiadau o fuddiant
4. Cofnodion y cyfarfod a gynhaliwyd ar 26 Mai 2016
5. Diweddariad am y Gofrestr Risg Gorfforaethol
6. Datganiadau Ariannol Drafft 2015/16
7. Archwilio Mewnol Barn Archwilio Anfoddhaol
8. Rhaglen waith
9. Dyddiad y cyfarfod nesaf – 22 Medi 2016

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# Minutes

## Audit Committee

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Date: 26 May 2016

Time: 5.00 pm

Present: Mr J Baker (Chair), Councillors H Thomas, J Guy, R White, D Davies and M Spencer

In Attendance: A Wathan (Chief Internal Auditor), D Palmer (Audit Manager), R Squance (Audit Manager), M Rushworth (Head of Finance), O James (Assistant Head of Finance - Technical and Development), S Kelly (Strategic Procurement Manager) and M Lawrence (Overview and Scrutiny Officer)

Apologies: Councillors R Bright

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### 1 Appointment of Chairperson

Nominations for Chair of the Committee were invited.

#### **Agreed:**

To appoint John Baker as Chair of the Committee.

### 2 Expression of Thanks and Condolence

The Chair advised that Members of the Committee were probably all aware of the sad passing of Councillor Ed Townsend and that the Audit Committee would like to place on record their thanks for the work he did on audit and pass on their condolences.

### 3 Minutes of the Last Meeting

The Minutes of the meeting held on 24 March 2016 were submitted.

Re Minute 4 – Certification of Grants and Returns: a claim form had been qualified which had been submitted late in agreement with Wales Audit Office (WAO), as they didn't have staff available. The Committee had stated that this was unfair and had requested that it be amended.

**Members requested that it be included in the minutes and that Wales Audit Office be asked to amend accordingly.**

**Members were advised by a WAO representative that this would be fed back and considered.**

#### **Agreed**

To confirm the minutes of the meeting held on 24 March 2016, subject to the above.

#### 4 Internal Audit Annual Report 2015/16

Members considered a report upon:

- a) the overall opinion on the internal controls of the City Council for 2015/16;
- b) Internal Audit's progress against the agreed audit plan;
- c) Internal Audit's performance against local performance indicators.

The report gave an overall opinion on the adequacy and effectiveness of the City Council's internal controls during 2015/16 which was "**Reasonable** – Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance."

The second part of the report detailed the performance of the Internal Audit Section and how well its key targets in the year were met. 77% of the approved audit plan was completed in the year against a target of 75%. A big thanks to staff in the team who worked well to achieve this.

During the year, 34 reviews were undertaken, 9 received "Good" audit opinions, 17 received "Reasonable" and 8 received "Unsatisfactory" opinions. 6 Community Centre accounts were audited, 3 were unqualified and 3 qualified.

In addition to planned work, the team also undertook 10 special investigations in 2015/16. These arose for a number of different reasons including information passed straight to the Section regarding allegations against members of Council staff, potential fraud, theft or noncompliance with Council policy/procedures.

Internal audit runs seminars on what Financial Regulations and Contract Standing Orders mean, why they are in place what they are about and to whom they relate. 9 sessions were delivered to 109 delegates during 2015/16.

Despite not having a full complement of staff for the whole year, 77% of the approved audit plan was completed against a target of 75%; (66% completed in 2014/15). A total of 88 audit reviews were planned during the year with 62 being completed to at least draft stage by the end of the year. (The total number of jobs in the plan was adjusted from 88 to 81 to reflect the fact that managers were not able to accommodate the audit during the year.)

Jobs were included in the plan to follow up the implementation of previous agreed management actions relating to audit work in 2014/15.

Although 240 days were planned for special investigations during the year, 140 productive days were actually spent auditing specials, 100 days less than allocated within the plan which meant more planned audit work could be undertaken.

Getting draft reports out this year took 12 days against a target of 10. Final reports were sent out within 3 days of receiving agreed management comments.

In 2015/16 the Audit Section continued to send out evaluation questionnaires to managers after an audit review had been undertaken in their area, which gave them an opportunity to feedback on the performance, professionalism and the audit process in general. Following the finalisation of reviews, only 35% of questionnaires were returned (47% in 2014/15) with the 100% of managers stating they were satisfied with the audit process and that it added value to service provision, which is reassuring.

The Audit Team had an establishment of 10 staff (including the Chief Internal Auditor) which reduced to 9 during the year. The section is split into two teams which cover the whole of the Council's systems, establishments and staff, each managed by an Audit Manager. During

the year the team was supported by a secondment from Grant Thornton to help achieve the plan.

The Policy Finance Committee (1998) requested that on-going consideration be given to the sufficiency of internal audit resources. With a full complement of staff the audit resource is sufficient to provide assurance on the Council's internal control environment, but given the experiences of staff changes in the last couple of years, the Chief Internal Auditor will have to monitor the situation closely and use a range of options to ensure appropriate audit coverage is provided. The Chief Internal Auditor is confident that adequate and appropriate coverage will be provided throughout the Council although prioritisation is required, provided the resource is maintained to at least the current level and vacancies need to be filled as soon as possible to minimise the impact.

Members raised a number of issues:

- Whether any unsatisfactory opinions are longstanding? –Members were advised that further details on Ysgol Gymraeg Casnewydd and CCTV/ Security would be reported upon in the 6 monthly report; where the opinion resulted in a second consecutive unsatisfactory opinion, the Chief Internal Auditor would include a recommendation that Audit Committee calls them in.
- Whether the reasons unsatisfactory opinions remain are linked to shortness of resources and in particular whether staffing is an issue for Audit and a possible risk? – Members were advised that recent recruitment campaigns had generally resulted in unsuitable applicants, other Local Authorities and WAO had struggled to recruit. Apprenticeships were being examined and an informal arrangement with firms whose graduate trainees could have some internal adult experience. WAO were looking at graduate trainees due to similar issues.
- The problem with getting apprenticeships is that Audit staff have to train them and also the risk to controls. Is there a need to see what is the minimum number of staff needed, not the establishment?– 34 opinions issued last year, 9 posts at present, 8.6 FTE, if reduced any further the team will not be able to provide adequate assurances.
- When you get a special investigation you need to drop everything so need to build in a contingency? Plan for 100% of the audit plan to be completed but a job can take longer and have to decide as a Management Team to allow more work.
- Can staff in other areas been asked to audit other service areas? – Secondments have been offered in the past and vacancies are advertised internally and externally; but need to consider training time and potential conflicts of interest.
- Concern was expressed at the marked increase in unsatisfactory opinions in 15-16 compared to other years. Does it reflect on reduction in staffing impacting on services delivery? – Whilst it could be a reflection, only a percentage of services are audited over each year. Also organisational changes and staffing changes can impact, for example when compilers of PI's move on or leave?
- Community Centres 3 of which were qualified from previous years have an increased greater expectation for them to be self-sufficient when they are not. Volunteers are expected to manage accounts with limited accounts knowledge and we need to avoid centres folding due to resource issues. Can we train them? –They were audited traditionally for a long time but are seen as a very low risk for the Internal Audit team but the Chief Internal Auditor appreciates the point. We've provided an account template to community centres in order to get reliable accounts and a guide had been developed; if the template is completed properly, it then becomes the accounts. Training was provided to Treasurers a few years ago. Members of Community Centres get comfort from the audit of accounts.
- Trading Standards Scambusters Team was unqualified? – Operated from Newport but Welsh Government funded, unqualified is good, qualified is bad.
- Bearing in mind the discussions around the required number of staff in the Audit Team, concerns highlighted and the increased number of unsatisfactory opinions requiring more work in the future to revisit them, Members requested that work is done to calculate the

minimum number of staff sufficient to get reassurance and provided in a future report to the Committee.

#### **Agreed**

1. To note and endorse the Annual Audit Report 2015/16 and overall Audit Opinion.
2. To undertake work to assess and provide the minimum number of staff sufficient to get reassurance to the Audit Committee.

## **5 Internal Audit Annual Plan 2016/17**

Members considered a report containing the work to be undertaken by the Internal Audit Section at an operational level for 2016/17. The report identified a draft operational internal audit plan for 2016/17 and 5 year Strategic Plan and outlined where internal audit resources will be focussed over the next year, covering systems and establishments in all service areas of the Council. 1187 productive audit days had been planned for 2016/17.

The Chief Internal Auditor introduced the report and explained how the plan is compiled from a long list of all areas which could be audited, by discussion with Heads of Service, Risks identified, identified resources which is then developed into a shorter prioritised list based on the audit resources available, with the aim to give the Audit Committee appropriate and adequate assurance. Training on Financial Regulations will continue to be provided and Special Investigations will be undertaken as and when they arrive. He referred to the structure and resources in the Team discussed in the previous report above and detailed list of work planned.

Members raised the following questions:

- The point that “..in particular in Social Services and Education it was evident that a lot more coverage was required”, was queried? – Members were given an example that Education would like more schools to be audited etc.
- Are service areas prepared to pay for more coverage? – It hasn’t been discussed.
- Financial Regulations require a purchase order to be given to order. Are you being proactive in the audit plan with regard to this? – Members were advised that using a new electronic system, the Procurement Manager can pick this up and there is a big push on: “No P.O. no Pay” to get the message to all our suppliers and internally with service areas and requisitioners. Training is on-going and a list of Invoices without Purchase Orders is followed up and will shortly be reported to Senior Management Team. The Strategic Procurement Manger advised that they are working hard to address this issue.
- If staff bypass the Financial Regulations there should be a disciplinary, as the books need to balance and if they can’t, from an Audit Committee point of view our systems cannot be relied upon. How big a problem is it, going forward do we need reassurance of whether its material amount? – Training is included in the Audit Plan on-going.
- **It would be good to know how long ago the previous audit was for each Service listed in this year’s Strategic Plan? – Officers can look at refining the table to include that.**
- **Proposed minimum level of resource to be identified for next time.**

#### **Agreed**

To note the report, subject to the above.



**6 Standing Order 24 / Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet / Cabinet Member urgent decisions or waiving of Contract SOs (Q4: January - March 2016)**

Members considered a report on the use of Standing Order 24 and the Waiving of Contract Standing Orders in a recent decision taken by a Cabinet Member. Members were asked to consider whether the reasons for the urgency/waiving of contract standing orders was properly reflected in the documentation supporting the decision.

The Cabinet Member for Education and Young People took an urgent decision relating to the Welsh Medium School; Ysgol Gyfun Is Coed, Newport, which meant the decision was not subject to "call in".

The comments of the Chief Internal Auditor stated that the justification for the urgent decision revolved around statutory requirements for legally establishing a school at a specific location. Further clarification was provided specifying specific timescales for a statutory consultation period for the school to open in September 2016, both of which would have been missed if the normal process had been followed. The reason for urgency is therefore justified.

A Member stated that while it was understood why it had been done, they felt that the Education Department didn't plan for the possibility of the plans not being passed by the Planning Committee.

**Agreed**

The report contained sufficient justification for the urgent decision.

**7 Treasury Management Report**

Members considered a report on treasury activities undertaken during the financial year 2015/16. During the year to 31 March 2016, the Council continued to invest surplus funds with its own bankers (Santander) and institutions with long-term credit ratings in at least the "A-" Category.

As at 31 March 2016, the Council had short-term investments of £3.10m and over the financial year the Council has been both a short term investor and borrower across most months, as expected. All longer term borrowing was as expected and within the Council's agreed limits.

The report presented the following information:

- details of capital financing, borrowing, debt rescheduling and investment transactions
- reports on the risk implications of treasury decisions and transactions
- details of the outturn position on treasury management transactions in 2015/2016
- confirms compliance with treasury limits and Prudential code.

In recent years the Council's Strategy has been to fund capital expenditure from reducing investments rather than undertaking more expensive new long term borrowing.

The Assistant Head of Finance advised that during the year the Council met all of its pre-set Prudential Indicators and apart from Queensbury loans there hadn't been any long term borrowing and the Council followed the Strategy for the year.

Comments made included:

- Will Queensbury right that £70Million loan by end of March.
- Currently Members looking at the 6 month update. A couple of months ago Members had training on Treasury Management and will be asked to approve the Treasury

Strategy in a future meeting. With that in mind will there be some clarification for Members to understand the role. Will there be enough time to comment or impact on the Plan, need to build enough time into the timescales for reports. – In response it was confirmed that bespoke training will be provided with particular reference of roles and responsibilities. It is for Council to approve, for Audit Committee to a challenge, comment, recommend and scrutiny to give to Council that degree of review. This will be clarified really well in that meeting. The report today is a summary level report whereas the 6 monthly report does go into detail and is a good opportunity and basis for setting the 2017-18 Treasury Management Strategy.

- Previously Members asked “What if the Audit Committee doesn’t endorse the report” and were told no timescale to consider it in another meeting. Members are in a difficult position if they can’t endorse in the timescale. It was proposed that the extra training, timing of the six month report and the Treasury Management Strategy report be brought forward a little, to avoid getting into that position. – It was clarified that if at the end of the process Audit Committee were unsure, Council would be made aware of this in the report.
- £40M External Borrowing Newport City Stock Issue (Bonds paying interest at 8.8% with a maturity date of 2019) was queried – It was explained that we pay a bond holder to stop paying interest and this should be a lot cheaper.
- It was queried whether with little interest available, it’s better to use our reserves than borrow? – It was confirmed that’s what the report is saying and in some cases its difference between getting 0.1% interest.
- In the past there had been problems with Treasury Management refinancing was too easy? –It was clarified that the Council gets a long term view of borrowing from advisors and has started to look at individual loans as they arise and the rates help at the moment. It was further clarified that with a strategy of holding little cash and avoiding borrowing, when it comes to refinancing there isn’t the cash to finance it and with interest rates low for short term, by default debt is rolling forward.
- If interest rates go up, then do an interest appraisal.

### **Agreed**

1. To note the Annual Report on Treasury Management for the Financial Year 2015/16.
2. To note that the 2015/16 Prudential Indicators for Treasury Management were in line with those initially set.
3. To request appropriate dates for training from the Chair of the Committee.

## **8 Revised Financial Regulations and Contract Procedure Rules**

The Head of Finance introduced a report presenting revised Contract Standing Orders and Financial Regulations in light of recent changes to legislation and updated internal governance and processes and an update of job titles and other minor amendments to update the document. He advised that the Financial Regulations had been reviewed by the Assistant Head of Finance and that the Contract Standing orders had been reviewed by the Strategic Procurement Manager. Both revised documents will be presented to Council for consideration and this was an opportunity for members of the Audit Committee to comment beforehand.

Members comments included:

- It was a good idea that the revised documents be presented to Audit Committee and the structures within them had needed amending.
- Some parts were bureaucratic with too much control which could be streamlined and looking at resources around the Council there was an opportunity to take away bureaucracy and frustration without much risk e.g. Financial Regulations 3.17 Virements: *“Following appropriate consultation with Head of Finance, any Head of Service, shall have the authority to vire any budget within their control to an aggregate total of £100,000*

*or 5% per annum (whichever is the lower).*” – In response the Assistant Head of Finance advised that there was an expectation that if a budget is set in February appropriately there shouldn't be much virement.

- It was questioned whether there were any European Directive problems? – In response the Strategic Procurement Manager advised that they had known the Directive was coming into force, had qualified staff and had reviewed the Contract Standing Orders to ensure compliance across the Authority. She advised that contracts above £100,000 must go through the Gateway Board for consideration, they have monitored and tightened up portals and also tightened processes. The Head of Finance advised that they were pretty confident they hadn't got an issue with European Directives in procurement.

### **Agreed**

To note the revised Contract Standing Orders and Financial Regulations and provide the Committee's comments to Council for consideration with the revised documents.

## **9 Work Programme**

The Head of Finance advised that at the next meeting in June the Committee would receive the draft accounts (3 weeks earlier than usual).

Members asked whether they were on target for the final sign off of the accounts in September? – In response, a Wales Audit Office representative advised that resources were ready awaiting receipt of the accounts and potentially they could be signed off early.

### **Agreed**

To note the report.

## **10 Date of Next Meeting - 23 June 2016**

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# Report

## Audit Committee

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### Part 1

Date: 23 June 2016

**Subject** Corporate Risk Register Update

**Purpose** To present an updated Corporate Risk Register

**Author** Rhys Cornwall, Head of People and Business Change  
Hannah Brayford, Project Manager, Business Improvement and Performance  
Mike Dickie, Business Service Development Manager

**Ward** All

**Summary** This report contains the latest update of the Corporate Risk Register. There are seven risks identified in the register, one high risk and six medium risks. Since the last update six risks remain unchanged and one has increased.

**Proposal** Note the contents of the Corporate Risk Register.

**Action by** Chief Executive, Strategic Directors and Heads of Service

**Timetable** Immediate

This report was prepared after consultation with:

- Cabinet
- Deputy Leader
- Audit Committee
- Corporate Management Team
- Head of Law and Standards
- Head of People and Transformation
- Head of Finance

## **Background**

### **1. Corporate Assessment**

As part of its governance arrangements the Council has a risk management strategy and a corporate risk register is monitored quarterly. Through the Corporate Assessment Review 2014 the WAO noted that *“The Council has improved its approach to and presentation of its corporate risk register. The risk register now includes a before and after mitigation risk score at an assessed date and a breakdown of the probability and impact of that risk. The register includes current actions to address each risk and assigns responsibility to senior officers, cabinet member and scrutiny committee”*.

### **2. Risk Management Strategy**

The Risk Management Strategy was agreed by Cabinet in September 2014. It was updated to reflect a revised approach to risk management and improved processes for identifying and escalating risk. Potential benefits of an improved risk management approach are improved decision making, avoidance of shocks and the ability to mitigate threats and take advantage of opportunities.

The strategy includes six key areas where risks are identified and managed:

- Decision Making Process
- Revenue and Capital Monitoring
- Change and Efficiency Programme
- Service and Improvement Planning
- Horizon Scanning Activities
- Information Risk Management

### **3. Role of Audit Committee**

Since the introduction of the Local Government Measure 2011 the local authority’s Audit Committee have a role in reviewing and assessing the risk management, internal control and corporate governance arrangements of the authority. Processes and Strategies about risk management should be reviewed by the Committee however the content of the risk register including setting and changing risks included in the register is *not* the role of the Audit Committee.

### **4. Risks updated in this report**

All risks included in the Corporate Risk Register have been updated for this report.

## 5. Closed Risks

The table below details the following closed risks from the Corporate Risk Register

Date	Risk	Closure Details
September 2014 - April 2015	<i>Risk Title: Delivering a Balanced Budget Risk Description: That the savings required to deliver a balanced budget in the following year cannot be achieved</i>	In November 2014 this risk was scored as probability 1 and impact 1. This was because a balanced budget was drafted and being progressed through the council's decision making hierarchy. A balanced budget was approved by Cabinet and Council in February 2015 and this risk is now considered to be closed.
September 2014 - June 2015	<i>Risk Title: Total Reward Risk Description: That the complex and contentious tensions inherent to the Single Status pay and grading review delay the project implementation.</i>	The Total Reward project has now been implemented and any remaining issues and risks can now be managed at a service area level
September 2014 - June 2015	<i>Risk Title: Information Governance Risk Description: That the council does not have adequate arrangements in place to protect the data in holds and that this results in significant fines and reputational damage</i>	This risk can now be managed at a service area level.

### Financial Summary

- There are no direct costs associated with this report

### Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
That the strategy and process are not robust enough to capture all high risks	M	L	Reviewing, testing and embedding processes to ensure that they are fit for purpose	Heads of Service and Performance Team

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

Robust risk management practices increase the chances that all of the council's priorities and plans will be implemented successfully

### Comments of Chief Financial Officer

There are no direct financial implications arising from this report. The corporate risk register forms an important part of the governance and budget setting arrangements for the council and the risk register is used to guide the internal audit plan

## **Comments of Monitoring Officer**

The Council's corporate governance arrangements are an integral part of the risk management strategy, in ensuring that all decisions are made lawfully and constitutionally and that all risks are identified, assessed and mitigated. The absence of successful call-in and legal challenges demonstrates that these arrangements are robust. However, as part of the review of the Constitution, improvements in the Report templates will be considered to further embed risk management principles within the decision-making processes. The Local Government (Wales) Measure 2011 required the Council to establish a stand-alone Audit Committee with statutory responsibility for reviewing and assessing the risk management, internal control and corporate governance arrangements of the authority. However, the identification of corporate risks, for inclusion within the risk register, is an executive decision for Cabinet.

## **Staffing Implications: Comments of Head of People and Business Change**

There are no direct staffing implications arising from this report.

Risk management is a key element of the Council's improvement programme and the Administration's commitment to ensuring strong corporate governance and robust performance management.

## **Comments of Cabinet Member**

Report author to confirm that the Cabinet Member has approved the report for consideration by cabinet.

## **Local issues**

none

## **Scrutiny Committees**

The Risk register is also considered by Audit Committee. Meetings with the committee have resulted in some changes in format and layout of the register.

## **Equalities Impact Assessment**

Not applicable.

## **Children and Families (Wales) Measure**

Not applicable.

## **Consultation**

As above, the Risk Register is also considered by Audit Committee

## **Background Papers**

Corporate Assessment, Cabinet 21<sup>st</sup> October 2013

Corporate Risk Register, Cabinet 13<sup>th</sup> January 2014, Audit Committee 30<sup>th</sup> January 2014.

Draft Corporate Risk Management Strategy, Cabinet, 12<sup>th</sup> May 2014

Draft Corporate Risk Management Strategy Audit Committee 29<sup>th</sup> May 2014

Corporate Risk Management Strategy and Register, Cabinet, 8<sup>th</sup> September 2014

Corporate Risk Management Strategy and Register, Audit Committee, 18<sup>th</sup> September 2014

Corporate Risk Register, Cabinet, 8<sup>th</sup> December 2014

Corporate Risk Register, Audit Committee, 22<sup>nd</sup> January 2015

Corporate Risk Register, Cabinet, 13<sup>th</sup> April 2015

Corporate Risk Register, Audit Committee, 28<sup>th</sup> May 2015

Corporate Risk Register, Cabinet 8<sup>th</sup> June 2015

Corporate Risk Register, Audit Committee, 16<sup>th</sup> July 2015

Corporate Risk Register, Cabinet, 8<sup>th</sup> September 2015

Corporate Risk Register, Audit Committee, 24<sup>th</sup> September 2015

Corporate Risk Register, Cabinet, 18<sup>th</sup> December 2015

Corporate Risk Register, Audit Committee, 28<sup>th</sup> January 2016

Corporate Risk Register, Cabinet, 14<sup>th</sup> March 2016

Corporate Risk Register, Audit Committee, 24<sup>th</sup> March 2016

Dated: 25<sup>th</sup> May 2016



## Risk Management Roles and Responsibilities

The roles and responsibilities of individuals and groups are set out below:

<b>Role</b>	<b>Responsibility</b>
Cabinet and Cabinet Members	To work with Strategic Directors and Heads of Service to define, assess and manage corporate risks. To work with Heads of Service to manage risks within their service delivery portfolios To consider corporate risks as part of the decision making process
Members	To be aware of the corporate risks and to consider risk management in scrutiny meetings and regulatory committees
Audit Committee	To take an overview of the processes involved in managing risk in the council To receive regular reports on the corporate risk register and risk management processes
Strategic Leadership Team	To work with Cabinet Members and Heads of Service to define, assess and manage corporate risks To monitor risks in the risk register To recommend additions and revisions to the risk register To initiate mitigating action for escalating risks To ensure risks are assessed accurately
Heads of Service	To work with Cabinet Members and Strategic Directors to define, assess and manage corporate risks To work with the Cabinet Member to manage risks To implement mitigating action for escalating risks To recommend mitigating action for corporate risks to the appropriate decision making body To ensure risks are assessed accurately
Senior Information Risk Owner (SIRO)	To leading and foster a culture that values, protects and uses information for the success of the organisation and benefit of its customers To own the organisation's overall information risk policy and risk assessment processes and ensuring they are implemented consistently by Information Asset Owners (IAO's) To advise the Chief Executive or relevant accounting officer on the information risk aspects of the Council's annual governance statement To own the organisation's information incident management framework
Report Authors / Project Managers / Officers	To be aware of corporate risks and the service area risks the impact on their areas of work To consider the risk register when preparing project documentation and recommending action through decision making processes To recommend mitigating action for escalating risks To implement mitigating action for risks arising through the course of normal service delivery To ensure risks are assessed accurately

*Corporate Risk Management Strategy September 2014*

## Assessing Risk

An assessment of the likelihood and impact of risk is important to measure, compare and monitor risks to ensure efficient use of resources and effective decision making. This assessment is carried out using the risk matrix as described below.

### Risk Assessment Matrix

A Corporate Risk Register will contain the high level risks for the whole authority. In order to differentiate between these high level risks a 5x5 risk assessment matrix will be applied. The matrix is shown below and further detail is included in appendix one.

Risks are scored using the scoring system for probability and impact and assigned a rating based on the tolerances set out in the matrix below

### Risk Scoring

Probability description	Score
Very Low probability	1
Low probability	2
Medium probability	3
High probability	4
Very high probability	5
Impact description	Score
Negligible	1
Low	2
Medium	3
High	4
Very High	5

### Risk Matrix

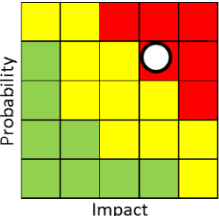

Probability	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Impact				

## Impact Matrix

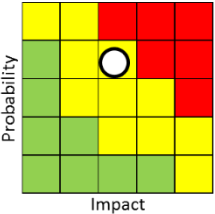

RATING	SEVERITY OF IMPACT	GENERAL DESCRIPTION	IMPACT FACTORS						
			Strategic	Operational	Financial Management	Resources	Governance	Health & Safety	Reputation
1	Negligible	Low impact. Localised effect		Minor disturbance of non-key area of operations	Unplanned budgetary disturbance <£100k	Loss of asset/money with value >£2k		Reportable (non-serious) accident affecting one employee/member of public/service user	Isolated complaint(s)
2	Low	Low impact for organisation as a whole. Medium localised impact		Minor disruption of a key area of operations or more significant disruption to a non-key area of operations	Unplanned budgetary disturbance £100-£500k	Loss of asset/money with value £2-10k	Mild WAO criticism in report. Mild criticism from a legal/regulatory authority. Isolated fraud	Reportable (non-serious) accident affecting small number of employees/members of public/service users	Formal complaints from a section of stakeholders or an institution
3	Medium	Medium impact for organisation as a whole	Noticeable constraint on achievement of a key strategic objective	Major disruption of a service area for a short period or more minor disruption of a service area for a prolonged period	Unplanned budgetary disturbance £500k-£2M	Loss of asset/money with value £10-50k	Adverse WAO report. Significant criticism from a legal/regulatory authority requiring a change of policy/procedures. Small-scale fraud relating to a number of people or more significant fraud relating to one person	Reportable (non-serious) accident(s) affecting a significant number of employees/members of public/service users or a serious injury to a single employee/member of public/service user	Formal complaints from a wide range of stakeholders (eg several institutions), adverse local press, complaint/s upheld by Ombudsman
4	High	High impact for organisation as a whole	Severe constraint on achievement of a key strategic objective	Major disruption of a service area for a prolonged period or major disruption of several service areas for a shorter period	Unplanned budgetary disturbance £2-5M	Loss of asset/money with value £50-100k	Qualified account. Severe criticism from WAO/legal/regulatory authority requiring major overhaul of policy/procedures, Significant fraud relating to several employees	Serious injury of several employees/members of public/service users	Significant loss of confidence amongst a key stakeholder group. Adverse national press
5	Very High	Catastrophic	Failure of a key strategic objective	Major disruption of several key areas of operations for a prolonged period	Unplanned budgetary disturbance >£5M	Loss of asset/money with value >£100k	Severe service failure resulting in WAG intervention/special measures Widespread significant fraud	Death of employee(s)	Severe loss of confidence amongst several key stakeholder groups. Damning national press

## Probability

<b>Score</b>	<b>General Description</b>	<b>Definition</b>
1	Very Low probability	2% chance of occurrence
2	Low probability	5% chance of occurrence
3	Medium probability	10% chance of occurrence
4	High probability	20% chance of occurrence
5	Very high probability	50% chance of occurrence

<b>RISK 1: Legislative Requirements</b>						
That new legislative requirements potentially place significant duties on the Authority that it cannot fulfil (resulting in adverse judgements from regulators, significant fines and potential court proceedings and/or existing services are compromised)						
Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
	May 2016	16	4	4	Unchanged 	September 2016
	February 2016	16	High probability	High Governance impact	<i>There is continued pressure on the council to implement the new duties detailed by new legislation. Whilst significant work is underway, there remain major risk factors.</i>	
	December 2015	16				
	August 2015	16				
<b>Current Action Status / Control Strategy</b>	Social Services Act	<p>Specific details and guidance for the Act now produced. Work across region to develop solutions to the challenges and locally we have a project team working on implementation of all regulations</p> <p>Work is being undertaken on eligibility criteria regionally</p> <p>Staff are being regularly informed of progress – training of managers and front line staff underway</p> <p>Big emphasis on prevention and early intervention – reshaping front door services in Adult Social Care – close working with Health Board – redistributed teams to be coterminous with Health Board Neighbourhood Care Networks</p> <p>Possible funding and support available for Welsh authorities for Social Services Act and Future Generations Act</p>				
	Welsh Language Act	<p>Strategic equalities group now overseeing implementation</p> <p>Project plan agreed and in place and being monitored. This has shown significant progress over the 12 month period. There is also a translator employed and based with Caerphilly CBC to enable both authorities to work in partnership and £280k budget allocated to 2016/17 budget, plus an additional budget to support project management being sought.</p> <p>Extended provision of Welsh language courses provided by Caerphilly CBC</p> <p>Options for developing a shared service with a number of LA to improve resilience</p> <p>Early engagement with Welsh Language groups in the area, providing support and expertise for the development of the Welsh Language Standards action plan (in development)</p> <p>Welsh Language included in Service Plans</p> <p>Increasing awareness of the Welsh Language Standards across the authority. Leaflets, posters, desk prompts and video available</p>				
	Future Generations Act	<p>Cabinet report in September to become an early adopter of Future Generations Act</p> <p>Public Services Board development group has developed a Terms of Reference and this was agreed at the first meeting of the PSB in May 2016.</p> <p>Project Plan in place for the Wellbeing Assessment and this is being taken forward in conjunction with the assessment required for the Social Services and Wellbeing Act.</p> <p>Work being undertaken on a Gwent basis to inform the Wellbeing Assessment - £45k secured from Welsh Government to support this work.</p>				

		Sessions with Service Areas, CMT and SMF have taken place to raise awareness. Currently developing an impact assessment template that incorporates the sustainability principles
<b>Responsible Officer:</b> Chief Executive		
<b>Responsible Cabinet Member(s):</b> Leader of the Council, Deputy Leader, Cabinet Member for Adult Social Services and Housing, Cabinet Member for Education and Young People,		
<b>Scrutiny Committee(s):</b> (1) Community Planning and Development and (2) Learning, Caring and Leisure		

<b>RISK 2:Increasing Ageing Population</b>						
That an increasing percentage of the population are over 65 are this puts an increasing strain on demand led services, particularly those that are statutory in nature and significant budgetary overspends						
Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
	May 2016	12	4	3	Unchanged 	September 2016
	February 2016	12	High probability	Medium Financial Management Impact	<i>Demographic Pressures indicate a 14% rise in the number of adults over 70yrs of age by 2020. There are also increasing numbers of older people with complex health conditions and national research indicates that local authority adult services budgets need a % year on year real terms increase in budgets to manage this challenge. The economic climate makes this rate of budget increase extremely unlikely, thereby indicating increasing unmet need..</i>	
	December 2015	12				
	August 2015	12				
	May 2015	12				
	March 2015	12				
	August 2014	8				
<b>Current Action Status / Control Strategy</b> <ul style="list-style-type: none"> <li>• Focussing on preventative measures and developing resources for prevention and early intervention with colleague agencies to reduce pressure on more acute statutory services – community and carers connectors</li> <li>• Recommissioning voluntary sector services to align to principles of the Social Services and Wellbeing Act 2014.</li> <li>• Transforming existing services to provide an optimal care pathway for older people focussing on independence and re-ablement</li> <li>• Pioneering and, 'In-Reach multi-agency team to visit wards in Royal Gwent on a daily basis to streamline decision making on discharge from hospital</li> <li>• Implementing transformation through project management approach with strong management and performance monitoring</li> <li>• Development of a long term dialogue with communities aiming to strengthen community resilience and capability</li> <li>• Development of a whole council approach to building community resilience</li> </ul>						
<b>Responsible Officer:</b> Strategic Director People						
<b>Responsible Cabinet Member:</b> Cabinet Member for Adult Social Services and Housing						
<b>Scrutiny Committee:</b> Community Planning and Development						

<b>RISK 3: Capacity and capability to meet the councils objectives</b>						
That there are not skills and or capacity within the workforce to deliver both operational services and also the pace of change needed to modernise services and balance the budget.						
Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
	May 2016	12	4	3	Unchanged Work continues in this area	September 2016
	February 2016	12	High Probability	Medium Operational Impact		
	December 2015	12				
	August 2015	12				
<b>Current Action Status / Control Strategy</b>	<ul style="list-style-type: none"> <li>The 2015/16 Workforce Plan was designed and published. Work is on-going for the 2016/17 Workforce Plan and looking to publish July 2016</li> <li>Investment in Project Management and business change resources</li> <li>Coaching, shadowing and mentoring opportunities delivered as part of the change programme</li> <li>More effective use of central support resource</li> <li>Training Master classes developed and number of managers attending measured green for 2015 with over 80% attending training to upskill</li> <li>Use of external resource / experts</li> <li>Performance management process is currently being reviewed with a key objective for 2016/17 to be the roll out of a revised scheme</li> <li>OD strategy devised to enable the organisation to achieve faster cultural change and improved performance – due to be signed off July 2016 for implementation on new OD practices</li> <li>People service plan to heavily focus on workforce planning and OD for next 12 months</li> </ul>					
<b>Responsible Officer:</b> Chief Executive						
<b>Responsible Cabinet Member:</b> Cabinet Member for Finance and Resources						
<b>Scrutiny Committee:</b> Community Planning and Development						



<b>RISK 4: Budget Challenge</b>						
That the continuing need for significant annual savings is increasingly difficult to achieve and that could compromise organisational capacity and service delivery including statutory services						
Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
	May 2016	12	3	4	Unchanged	September 2016
	February 2016	12	Medium probability	High Financial Management impact	<i>Whilst assumptions on WG revenue grant support has improved and therefore reduced medium term budget gap over medium term, the planning parameters still assume an annual cash reduction in grant and therefore savings required which are increasingly difficult to achieve, without cuts to service provision. Impact on organisational capacity and delivery of services therefore still significant</i>	
	December 2015	12				
	August 2015	16				
<b>Current Action Status / Control Strategy</b>	<ul style="list-style-type: none"> <li>• Business planning process identifies impact of all savings including impact on statutory services</li> <li>• Agreed financial strategy</li> <li>• Robust and early work on the financial strategy and budget</li> <li>• Medium term outlook within the financial strategy</li> <li>• Aligning with the 2020 strategy and plans for service areas</li> <li>• Business cases 2016/17 and 2017/18 developed and reviewed</li> <li>• MTFP still required balancing over the medium term</li> </ul>					
<b>Responsible Officer:</b> Chief Executive						
<b>Responsible Cabinet Member:</b> Leader of the Council, Cabinet Member for Finance and Resources						
<b>Scrutiny Committee:</b> Community Planning and Development						

<b>RISK 5: Safeguarding</b>						
That the arrangements and the implementation of policies and procedures by the council (and its partners) are not adequate to protect vulnerable adults and children who may be at risk of significant harm						
Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
<p>Probability</p> <p>Impact</p>	February 2016	8	2	4	Unchanged	September 2016
	August 2015	8	Low Probability	High Governance Impact	<i>The level of risk is manageable because this is an area of absolute priority for the local authority. We have created new safeguarding manager roles across the council and we have strong links with national and regional safeguarding boards</i>	
	March 2015	8				
	August 2014	8				
<b>Current Action Status / Control Strategy</b>	<ul style="list-style-type: none"> <li>• Safeguarding Action Plan agreed and implementation underway</li> <li>• Continuous review of policies and procedures</li> <li>• Partnership working</li> <li>• Raising awareness of policies and procedures with staff</li> <li>• Service Manager for Safeguarding is in place</li> <li>• New Safeguarding role in Education</li> </ul>					
<b>Responsible Officer:</b> Strategic Director - People						
<b>Responsible Cabinet Member:</b> Cabinet Member for Adult Social Services and Housing, Cabinet Member for Education and Young People						
<b>Scrutiny Committee:</b> Learning, Caring and Leisure						

**RISK 6: Investment in Friars Walk Development**

That the development does not realise its target value and the developer is unable to sell or re-finance the scheme to repay the loan

Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
	May 2016	9	3	3	Increased	September 2016
	February 2016	2	Medium Probability	Medium Strategic Impact	<p><i>The Developer is currently progressing the sale of the Scheme and is in discussions with a potential buyer and a potential re-investor. Scheme is c85% let by income and developers working to increase that over the next 12 months. At this level of letting, the scheme has secured a sufficient rental income to generate a sale or reinvestment value which should be enough to repay the Council loan, with interest. This significantly reduces any impact, though it can never be zero risk, until such time as a buyer/investor is confirmed and the loan is repaid. Deadline for repayment of the Council loan is Nov 16, though if current sale does not conclude, it may not be possible to bring forward another buyer to meet that deadline, at this point</i></p>	
	December 2015	2				
	August 2015	4				
	May 2015	6				
	March 2015	8				
	November 2014	12				
	August 2014	12				
<b>Current Action Status / Control Strategy</b>	<ul style="list-style-type: none"> <li>• Financial Appraisals independently verified by Deloitte</li> <li>• Financial modelling undertaken based on different yields, voids rates and rental levels</li> <li>• Retail and Leisure anchor stores secured (Debenhams and Cineworld) and other major store units now leased.</li> <li>• Robust and tested Funding Agreement, Development Agreement and Lease</li> <li>• Safeguards built in to mitigate financial risks</li> <li>• Council able to exercise step-in rights</li> <li>• Monthly meetings with Developers to monitor progress</li> <li>• (See Council Report 26<sup>th</sup> November 2013)</li> </ul>					
<b>Responsible Officer:</b> Strategic Director – Place						
<b>Responsible Cabinet Member:</b> Cabinet Member for Regeneration and Investment						
<b>Scrutiny Committee:</b> Streetscene, Regeneration and Safety						

<b>RISK 7: City Deal</b>						
That the SE Wales region, which includes Newport CC, cannot conclude a city deal within the timescales and as a result misses the opportunity to secure investment to improve economic outcomes for the communities of the city						
Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
<p>Probability</p> <p>Impact</p>	May 2016	9	3	3	Unchanged	September 2016
	February 2016	9	Medium Probability	Medium Strategic Impact	The initial stage of the city deal process has been completed.	
	December 2015	9				
	August 2015	9				
<b>Current Action Status / Control Strategy</b>	<ul style="list-style-type: none"> <li>The Heads of Terms document for the Cardiff Capital Region City Deal was signed on 15<sup>th</sup> March 2016. This is an agreement between the 10 local authorities of the SE Wales region, Welsh Govt and UK Govt. This is the first critical milestone for the completion of the city deal.</li> <li>The next stage is to conclude the detailed negotiations to enable the council to consider a further report by the end of 2016. This will be point at which the council will have to decide whether to formally commit to the city deal process, including ongoing financial commitments.</li> <li>Formal governance structures are now being put in place, including the establishment of a Shadow Joint Cabinet of all Leaders to exercise appropriate oversight of the city deal process.</li> </ul>					
<b>Responsible Officer:</b> Chief Executive,						
<b>Responsible Cabinet Member:</b> Leader of the Council						
<b>Scrutiny Committee:</b> Community Planning and Development						

# Report



## Audit Committee

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### Part 1

**Date:** 23 June 2016

**Subject** **Draft Financial Accounts 2015/16**

**Purpose** This report submits a copy of the draft 2015/16 financial accounts to Audit Committee for comments & information.

**Author** Head of Finance

**Ward** All wards

**Summary** The Section 151 officer will be signing and publishing the Council's draft accounts by the statutory deadline of 30 June 2016 and are shown here for information and comments, which could, where appropriate, be incorporated into the final signed draft version. Draft accounts are published to enable residents to consider and question the information within them.

The accounts are subject to audit and will be re-presented to the Committee in September for approval following completion of this work.

This report outlines the key statements within the accounts, and issues of interest to provide members with an understanding of the information presented. A presentation on the key documents and what they show will be made at the meeting.

**Proposal** That the Committee note and comment, where necessary, on the draft accounts.

**Action by** Head of Finance – Completion of audit and agreement of any issues

**Timetable** September 2016

This report was prepared after consultation with:

- Monitoring Officer

## Background

The draft financial statements cover the period 1 April 2015 to 31 March 2016 and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Four key statements together with supporting notes detail the financial performance, these are:

- **The Comprehensive Income and Expenditure Statement (CIES):** showing the accounting cost in year of providing services in accordance with generally accepted accounting practices.
- **The Movement in Reserves Statement:** summarises the Authority's income and expenditure activity and shows how this is adjusted to arrive at the Authority's funding, or council tax position, and how surpluses / deficits have been distributed to reserves.
- **The Balance Sheet:** shows the value as at the 31 March 2016 of the assets and liabilities held and recognised by the Authority.
- **The Cash Flow Statement:** shows the movements in cash and cash equivalents of the Authority during the reporting period.

Key areas/issues within the accounts:

1. The CIES shows a financial position which looks different to the underspend reported to Cabinet. This is because the Financial Statements are required to make a number of adjustments under the Code. Note 28 provides a reconciliation back to the surplus reported to Cabinet.
2. Group Accounts – The Council will be producing group accounts but these draft accounts, at time of writing, do not include this note as information is awaited from Newport Bus Company to do this. This work will be completed and group accounts produced for the signed version, by 30<sup>th</sup> June 2016.

These draft accounts, along with supporting working papers have already been given to the WAO w/c 13 June to facilitate early engagement, where possible

A presentation on the key issues contained within the accounts will be made to the Committee and will hopefully facilitate questions and observations.

### Risks

The accounts are prepared in accordance with required codes of practice and disclosure notes relating to risks are included where appropriate.

### Links to Council Policies and Priorities

No direct links but the annual accounts show that the Council financial capacity is good and this is important for any organisation which requires funds to drive forward key priorities and improvements.

### Options available

No authorisation of the draft accounts is required from the Audit Committee.

The Committee is asked to note the draft accounts only and make any comments / seek clarification as necessary which could lead to a change in the accounts before they are signed by the HoF and published

**Preferred Option and Why**

To note the draft accounts and make comments / seek clarification as necessary

**Comments of Chief Financial Officer**

All financial issues are covered in this covering report and in the presentation which will be given to Members.

**Comments of Monitoring Officer**

S151 Officer is required to approve the draft accounts for 2015/16 before 30th June in accordance with the Accounts and Audit (Wales) (Amendment) Regulations 2010. Best practice however requires that these accounts are presented to the Audit Committee for information.

**Staffing Implications-: Comments of Head of Human Resources and Policy**

There are no HR issues in this report

**Local issues**

n/a

**Consultation**

n/a

**Background Papers**

None

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# Statement of Accounts 2015/16



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# Head of Finance's Explanatory Foreword and Report

Statement of Accounts 2015/16

Newport City Council

## Introduction

The purpose of this foreword is to offer a guide to the context in which the Authority operates, provide an overview of the most significant matters affecting the Statement of Accounts, outline any changes in accounting policies applied in preparing the Statement of Accounts and explain the Authority's overall financial position.

These Statement of Accounts cover the period 1 April 2015 to 31 March 2016 and have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2015/16' (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Four key statements together with supporting notes detail the financial performance, these are

- **The Comprehensive Income and Expenditure Statement (CIES):** shows the accounting cost in year of providing services in accordance with generally accepted accounting practices;
- **The Movement in Reserves Statement:** summarises the Authority's income and expenditure activity and shows how this is adjusted to arrive at the Authority's funding, or council tax position, and how surpluses/ deficits have been distributed to reserves;
- **The Balance Sheet:** shows the value as at the 31 March 2016 of the assets and liabilities held and recognised by the Authority;
- **The Cash Flow Statement:** shows the movements in cash and cash equivalents of the Authority during the reporting period.

## Background

The Statement of Accounts need to be seen in the context of the challenging funding position which Local Government faces and local events within the Authority.

### Impact of Current Economic Climate on the Authority

In line with other Authorities, Newport City Council's reducing grant settlement continues to put pressure on the budget, with the need to invest in baseline services and meet increasing demand for services far outweighing funding availability. In 2015/16, like previous years, significant savings were required to produce a balanced budget and maintain essential services, resulting in summary from the following:

- Investment in budgets for key priorities of nearly £4.7m (excluding transfer of specific grants into the base budget)
- Inflationary pressures e.g. annual pay rises, on base budget at just over £2.4m
- Reduction in Revenue Support Grant of nearly £5.6m (excluding transfers of specific grants into the settlement)
- Resulting savings required of nearly £11m with Council Tax increase making up the difference

Delivering this scale of savings year on year brings with it financial risks in terms of delivery and the need to have the resources to fund the 'cost of change'. The Authority has a good level of base budget contingency at £1.5m and an Invest to Save reserve to help in these respects.

While the settlement for 2016/17 from Welsh Government was better than anticipated, there were still significant further savings required to balance the budget for 2016/17. The grant funding outlook, though

# Head of Finance's Explanatory Foreword and Report

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better than originally envisaged, will continue to require the Authority to develop its medium term organisational changes and plans so that the Authority has an organisational plan that delivers key services that are financially sustainable.

## Comprehensive Income and Expenditure Statement – 'Managing our budget'

### Summary

The 2015/16 outturn report shows a positive position for the Authority, with a total reported underspend to Cabinet of £944k. This represents a 0.36% underspend against the Authority's net budget, and given the backdrop of increasing savings and pressures on the organisation, managing within budget is a significant achievement. It was decided that these underspends would be transferred to earmarked reserves, therefore there is a balanced year end position, with no transfer to the general fund balance.

The reported underspend position is following a number of in-year transfers to reserves, which were agreed at Cabinet, consistent with existing policy or part of the base budget. The level of reserves is discussed further in this foreword and detailed balances are included within Note 8 to the Statement of Accounts.

This underspend was reported to the Authority's Cabinet in their June 2016 meeting and the table summarising the position is shown below.

	Budget	Actual Expenditure	Variance To Original
	£'000	£'000	£'000
Social Services:			
- Children & Young People	20,468	20,764	296
- Adult & Community Services	38,169	38,260	91
Education	13,721	13,277	(444)
Schools	86,784	85,646	(1,138)
Regeneration, Investment & Housing	9,432	9,287	(145)
Streetscene & City Services	17,519	17,173	(346)
Corporate Services & Chief Executive	16,191	15,497	(694)
Capital Financing Costs & Interest	28,960	24,474	(4,486)
<b>Total Expenditure On Services</b>	<b>231,244</b>	<b>224,378</b>	<b>(6,866)</b>
Levies/Other	20,120	19,056	(1,064)
Transfer to / (from) Reserves	4,842	13,130	8,288
Restructuring / other related expenditure	3,691	4,646	955
General Contingency	1,473	-	(1,473)
<b>Net Council Fund</b>	<b>261,370</b>	<b>261,210</b>	<b>(160)</b>
Government Grants	(209,254)	(209,254)	-
Council Tax	(52,116)	(52,900)	(784)
<b>Underspend available to be distributed from Reserves</b>	<b>-</b>	<b>(944)</b>	<b>(944)</b>
<b>Transfer to / (from) Earmarked Reserves as agreed by Cabinet</b>		944	944
<b>Amount to be transferred to General Reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Head of Finance's Explanatory Foreword and Report

Statement of Accounts 2015/16

Newport City Council

In terms of this Statement of Accounts, the position is made more complicated by our need to comply with relevant accounting requirements. In essence, we have to charge certain expenditure into the accounts, however, these are not 'cash related' expenditure and therefore do not need funding from the Authority's main funding sources – its revenue support grant and council tax. Therefore, in these Statement of Accounts, in line with the accounting regulations, we also reverse them out which leaves a 'bottom line' based on how we are funded i.e. on our 'funding base'. After this reversal – the 'bottom line' agrees to what was reported to Cabinet.

Within the Comprehensive Income & Expenditure Statement, the Authority is reporting a deficit on provision of services of £9.109m, under the relevant accounting basis. As said, we then reverse certain costs charged to the Income & Expenditure accounts, and this is done through the 'Movement in Reserves' statement which immediately follows the Comprehensive Income & Expenditure Statement, to show a final position based on its funding basis.

The key movements are:

- £20.7m of depreciation and impairment charges on non-current assets;
- £9.9m revaluation losses on property, plant and equipment assets;
- £8m relating to the difference between pension costs chargeable under regulation and those under accounting requirements;
- £4.4m relating to financial instruments, due to premiums payable on restructuring chargeable under regulation and those under accounting requirements; and
- £13.8m of capital grants and contributions applied during the year, are now recognised in full in the Comprehensive Income & Expenditure Statement.

Following these adjustments, the Authority has achieved a balanced 'funding' basis, following the agreed transfer of £944k to earmarked reserves by Cabinet in its June 2016 meeting. Note 28 provides a full reconciliation between the accounting based deficit and the funding based surplus.

## **Balance Sheet – the Authority's Reserves, Provisions and Contingencies**

The Authority has a strong balance sheet position with usable reserves of £101.3m. This provides a good platform to meet future challenges and risks.

The Authority's reserves are an integral part of how the Authority deals with its financial risks as well as its high level strategic financial planning. Over the last 4-5 years it is evident that the Authority's reserves have increased, whilst at the same time, the Council has been making significant savings and increasing Council Tax. Therefore, it is useful to give an explanation of why these reserves have increased and their link to strategic financial planning and management.

Over this time period, key issues facing the Authority have included;

- (i) Implementation of Total Reward, the new pay/grading system and also dealing with historical Equal Pay awards;
- (ii) Funding of significant one-off costs related to cost saving measures, in the face of increasingly challenging financial pressures and lower funding;

# Head of Finance's Explanatory Foreword and Report

Statement of Accounts 2015/16

Newport City Council

- (iii) Managing the risk of making a c£90m loan to developers to bring about the Friar's Walk retail / leisure scheme, a key piece in the regeneration of Newport centre and providing the seed funding required at the outset;
- (iv) Funding those insurance risks previously covered by MMI insurance, now in administration.

All of the above have required the Authority to incorporate appropriate financial plans to manage the risks and / or support the activity and enable them to happen. In addition, the Council continues to plan over the long term and in that respect, has been adding c£2.6m annually into its PFI reserves to build up a fund to cover the difference between funding and costs in the last 20-25 years of their 40 year financial / business plan.

In order to deal with the above, the Council has created or increased appropriate reserves as follows:

- (i) Until 2016/17, having a base budget to credit into reserves each year for the PFI and the Invest to Save fund;
- (ii) Base budget and utilising in year underspending to create one-off reserves for the MMI insurance risk;
- (iii) Funding equal pay on-going costs 2-3 years early and using the base budget in that period to establish a reserve to fund the one-off costs associated with these;
- (iv) Utilising in year underspending to invest into the Invest to Save reserve and create the capacity required there to fund the changes required in the Council and seed funding required for Friar's Walk development;
- (v) Putting aside all interest rate surpluses from the loans made to Queensberry for Friar's Walk as a reserve to cover the inherent risk in making this loan.

A number of the issues highlighted above are close to reaching conclusion, for example:

- Friars walk loan is due to be repaid December 2016;
- Funds will start to be utilised from the PFI reserves in the short term;
- 2016/17 is the final year of one-off costs linked to Total Reward and single status.

This should see reserves being utilised as planned or, in the case of risk mitigation, being utilised elsewhere if no risk actually materialises. As we move through the current financial year and look into the future, two key issues will feature in our planning for reserves:

- (i) One off costs to fund change and modernisation programmes as austerity continues – Invest to Save;
- (ii) Funding the capital programme as opposed to borrowing, thus limiting increases on the revenue costs.

Whilst the above explains the reasons for the increase in reserves over this period, it also shows how planning for and using reserves is integrated into the Council's strategic financial planning. As financial austerity continues, it becomes even more important that the Council considers and uses financial reserves to both protect its financial health and enabling its ambitions and priorities.

In relation to general reserves we have considered the current overall financial position of the Council and concluded that the reserve can be reduced back towards the minimum level required, with the balance transferred to the capital reserves. It is concluded that the current minimum level of general reserves, currently £8.9m can be decreased to £6.5m, which is higher than the historical £5m minimum, for the following reasons:



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- To keep up with the growing net budget of the Council. The current £5m has remained in place for the last 6 years, whereas the net budget has increased by £23.8m, or 10% over same period;
- On-going funding challenges requiring significant savings to be found over the medium term. Each year becomes more challenging and introduces increasing financial risks;
- Taking a general rule of thumb of 5% of net budget (excluding schools) a general fund of £8.7m would be required. As Head of Finance I am still content with a lower amount of General Reserves at £6.5m given that the financial risks facing the Council are mitigated by the following:
  - (i) earmarked reserves covering risks (Note 8);
  - (ii) provisions for known risks (Note 21);
  - (iii) contingency budget of £1.5m within the revenue budget.

## Usable reserves

Note 8 to the Statement of Accounts lists the Authority's main cashable reserves and the movements within those reserves in 2015/16 and balances at 31 March 2016.

In summary, the significant transfers to and from reserves are as follows:

- £5.3m transfer into the Invest to Save reserve, which takes the balance to £12.8m, which will be used to support the future Change/Efficiency Programme. A £950k base budget transfer into the reserve has been taken out as a saving from 2016/17. The amount transferred into the reserve includes a transfer from the pay reserve (£3.5m) following review of the balance.
- £7m transfer into the Capital Expenditure reserve to fund the future risks and pressures arising from the Authority's Capital Programme, therefore reducing the pressure on the medium term revenue budget. The amount transferred into the reserve includes a transfer from the Council general fund reserve (£2.4m); the capital works reserve (£1.7m) and pay reserve (£0.5m).
- £5.3m reduction in the Pay Reserve, following the near conclusion of the Equal Pay / Single Status settlements and initial payments of hardship to employees, this reserve was able to be reduced to a level of £1.9m for future years.
- £3.5m transfer into the Friars Walk reserve from interest received in relation to the loan to Queensberry, this reserve is used to mitigate any risks arising from the loan.
- £2.6m transfer into the PFI reserves, as budgeted, the transfer into these reserves from 2016/17 will reduce and future funding of the expenditure will begin to be utilised from these reserves.

## Impact of Pension Deficit on Reserves

The Authority participates in the Local Government Pension Scheme. Employees and employers contribute into the fund and along with investment income and growth generated; the funds are used to pay its pension obligations. The Fund is valued every three years to assess if the assets are sufficient to fund its pension obligations, taking account of actuarial assumptions of members life expectancy, investment returns, value of

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pensions paid out etc. The last valuation was 2013 and this has been used to assess what future contributions might be required to ensure, that in the long run, the fund is sufficiently funded. Another valuation is currently being undertaken and will be completed in 2016 with the updated contributions being implemented from 2017/18. The Authority is currently assessing the likely impact of the updated contributions and is factoring into its MTFP projections.

On an annual basis, and for the purpose of providing information to meet pensions costs reporting regulations, the scheme's actuaries provide an interim update. As at 31 March 2016, this assessed the scheme as in deficit at £279.720m.

However, this position must not be taken out of context. The fund is there for the long term funding of pensions. Therefore, this deficit on the pension scheme and its impact on the Authority's overall reserves is also a long term issue – the deficit and liability would not arise in any single year. The deficit is currently being addressed over the long term by increased employer and employee contributions in the 2015/16 year on-going, as well as the pension scheme benefits being calculated differently, such as moving to career average salaries as opposed to final salary.

Further details on pension balances and transactions can be found in Notes 40-41.

## Provisions

Provisions are funds set aside on the balance sheet to meet likely liabilities. They are reviewed each year and in particular, an assessment of what new issues and risks are in place which may require sums to be identified and set aside is made.

Following our assessment of risks, total short term provisions decreased by £144k to £8.475m, due largely to provisions included for landfill fines (£214k) and outstanding energy bills (£345k), these are offset by reduction in the accumulated absences provision.

The long-term provision for landfill capping has increased significantly during 2015/16 following a review of the future estimated liability by the service area. This has meant the provision has increased by £3.593m to £5.751m. This provision is capitalised and therefore is charged to revenue via the prudent Minimum Revenue Provision.

Details of the movements of individual provisions are shown in Note 21.

## Contingencies

A number of contingent liabilities are disclosed in the Statement of Accounts (Note 43). No financial provisions have been made for these as they are in relation to events where the Authority has little influence or control over, uncertainty whether they will actually happen, whether there will be any financial impact and if so, how much. However, where applicable, the Authority have taken a prudent approach and put funds aside within reserves to deal with two of the issues disclosed, as noted below.

However, along with the provisions Note 21, it gives the reader of the Statement of Accounts information about the financial risks facing the Authority. For 2015/16, contingent liabilities disclosures covered:

- Municipal Mutual Insurance (MMI) run off claims, where the Authority may be required to meet the balance of remaining claims;

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- On-going insurance claims against the Authority, for which no provision is justifiable at this point under accounting regulations. A reserve of £1.925m has been set aside to fund these potential risks however;
- City Centre Regeneration agreement to loan Queensberry Newport Limited a maximum of £89.110m in order to fund development of Friars Walk. The repayment of the loan is due by December 2016 within 12 months of practical completion and opening of the development in December 2015.

## Capital Expenditure and Funding

Total capital expenditure in 2015/16 was £25.8m (£27.2m in 2014/15). The main items within this figure are shown below:

	<b>Adjusted Estimate</b>	<b>Actual Expenditure</b>	<b>Variance To Original</b>
	£'000	£'000	£'000
Education	6,981	5,964	(1,017)
Regeneration, Investment & Housing	10,351	10,029	(322)
Customer Services & Digital Innovation	1,429	1,201	(228)
People & Business Change	172	15	(157)
Law & Regulation	120	129	9
Adult & Community Services	1,283	1,138	(145)
Children & Young People Services	-	-	-
Streetscene & City Services	8,956	7,307	(1,649)
<b>Total Capital Expenditure</b>	<b>29,292</b>	<b>25,783</b>	<b>(3,509)</b>

\* Actual expenditure via capital programme excludes £4.018m made up of Landfill Provision, Adopted Roads, and Equipment Leases which are included in Note 12, Note 34 and Note 35 of the Statement of Accounts.

The most significant capital expenditure during the year related to:

- £1.2m on Council property asset planned maintenance;
- £1.4m on completion of the new bus station as part of the city centre development;
- £1.6m on the Fleet Replacement Programme;
- £2.1m on Housing Renovation schemes including disabled facilities and energy efficiency grants;
- £2.3m on continuing development works at the waste disposal site;
- £3.8m on projects within the 21<sup>st</sup> Century Schools Programme; and
- £5.7m on delivering the regeneration schemes within year 2 of the Vibrant & Viable Places Programme.

Financial Year 2015/16 was the second year of the four year capital programme approved in February 2014. The programme remains ambitious in terms of its size (£113.3m based on two years' actuals and two years'

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remaining budgets). Responsible officers have carried out and will continue to carry out a robust review of the profiling of the capital programme in order keep slippage at a realistic level.

The Authority has continued to fund most of its capital programme spend from 'cash' resources as opposed to new borrowing. Given its strong cashable reserves position, it has, over a number of years, pursued a general policy of drawing down its cash reserves rather than taking on new borrowing and use short term borrowing to maintain required liquidity. This is cheaper and also ensures it reduces counterparty investment risks.

However, the Authority has required to undertake additional borrowing to cover the loan facility to Queensberry Newport in relation to the development of Friars Walk. At 31 March 2016, the level of borrowing for the Authority has increased, from £190m in 2014/15 to £221m in 2015/16. As highlighted in the contingent liabilities note to the Statement of Accounts, the repayment of the loan with interest is due by December 2016 within 12 months of the practical completion and opening of the development in December 2015. The loan will be repaid by the developer by either re-financing or selling the completed development.

## **Material Assets/Liabilities**

Other than outlined elsewhere in this foreword, the Authority has not taken on any other material assets or liabilities during the year.

## **Changes to Accounting Policies**

IFRS13 Fair Values was implemented in financial year 2015/16. The asset classes that were affected by the introduction of the standard were investment properties and surplus assets; the impact of IFRS 13 on these assets is not significant. The accounting policy also impacts on financial instruments, and fair value of these are disclosed in Note 15 of the Statement of Accounts, although there is no impact on the balance sheet from these valuations.

## **Financial Resilience**

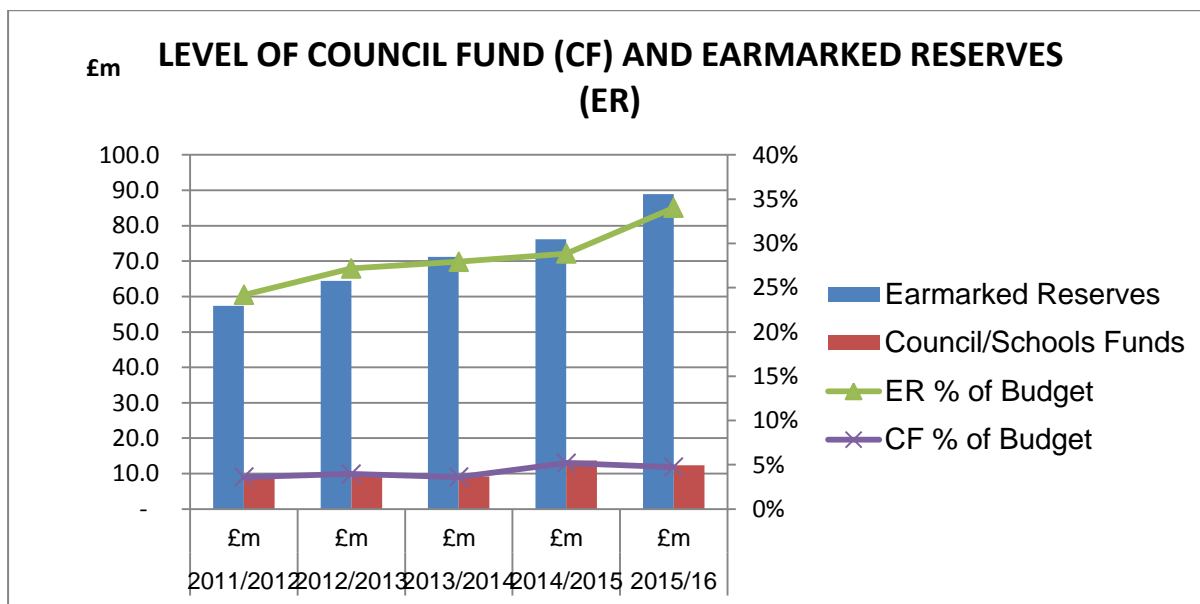
It should be noted that whilst the Authority's outturn for 2015/16 was favourable and allowed funds to be set aside in the earmarked reserves, there continued to be overspending within some service areas, in particular within Social Care on community care and out of authority placements, and pressures within StreetScene and underlying issues still remain in those areas. In addition, a number of 2015/16 savings remain outstanding in terms of deliverability, in particular 'cross-cutting' savings and the delivery of these delayed savings and management of underlying budget issues in the areas highlighted. In addition, new 2016/17 budget savings, remains a key area of risk to be monitored as the year unfolds. The Authority has a general contingency in its base budget which provides short-term mitigation to these issues and protects the overall budget but the resolution to these outstanding issues are key considerations in ensuring the Authority's base budget is robust in going forward.

## **Level of Reserves**

The level of Earmarked Reserves (excluding Council and School Funds) has increased since 2011/12 to 2015/16 from £57.4m to £88.9m, the key movements are detailed earlier in this foreword. This provides the Authority with a level of resilience against future uncertainties and risks, and also allows the smoothing of expenditure where the future impact on funding or expenditure is significant i.e. PFI reserves.

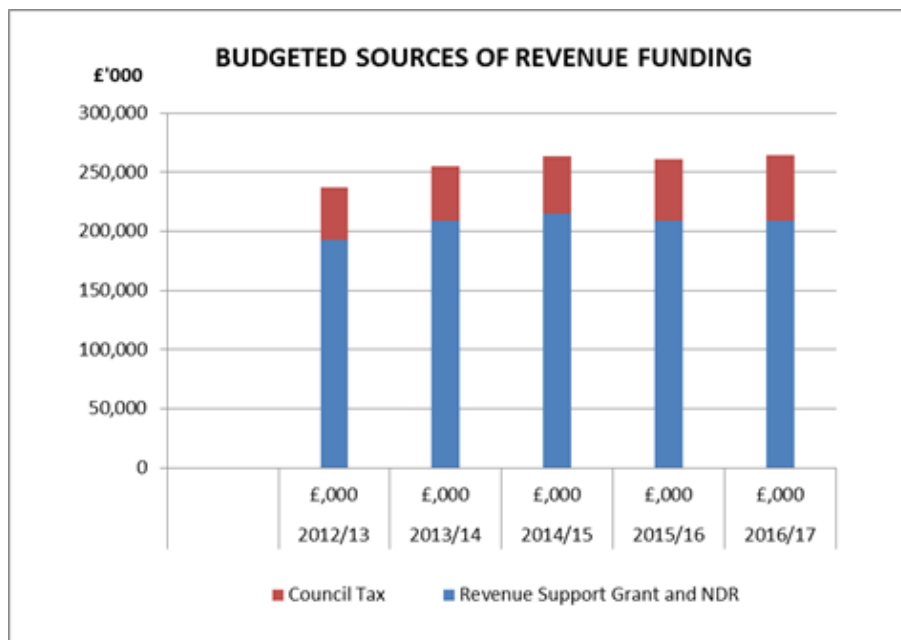
The graph below shows the increase in both the level of earmarked and council fund reserve from 2011/12 to 2015/16.

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## Sources of Funding

The graph below shows the reliance the Authority has on Central Government funding, and its sources of revenue funding. Revenue Support Grant and redistribution of Non Domestic Rates made up approximately 80% of our funding. This is a key risk to the Authority as reductions in Central Government funding has a significant impact on the funding the Authority achieves.



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## **Future developments – Looking Forward**

As has already been mentioned elsewhere in this foreword, the increasing financial challenges being faced by this Authority, with others, will dominate how we plan, structure and deliver services in the future. I am confident that the Authority has a strong position to take this forward in terms of enabling funds.

## **Medium Term Financial Plan (MTFP)**

The Authority developed and implemented its 'Prospectus for Change 2013-17' in 2013, as part of the development of the 2014/15 budget and medium term financial plan process. It underpins the Council's MTFP and the Council's Corporate Plan, 'Standing up for Newport' and the document outlines a range of improvement initiatives which the Council would implement over a 4 year period. A change and efficiency programme was developed, supported by detailed business plans, which included the detailed change and other saving proposals to meet the predicted financial challenges known at that time. The Prospectus and Programme were key parts of the 'golden thread' that linked the Council's vision with the detailed change and efficiency projects and ultimately, annual service plans. The Cabinet approved the 4 year MTFP in February 2015, which was, more or less, balanced over the 4 years.

The worsening revenue grant financial settlement from Welsh Government necessitated significant further savings found for 2015/16 and this has continued into 2016/17, though not at the same level. The grant funding outlook, though better than originally envisaged, will continue to require the Cabinet to further develop its existing medium term organisational changes and plans so that once again, the Council has an organisational plan that delivers key services which are financially sustainable. In that respect, a document titled 'Newport 2020' has been finalised, which, in general terms, maps out the general direction of travel for service areas over the medium term.

The Authority's financial strategy continues to be to maintain key services to the public, develop improvements in how services are delivered and fund key priorities including city centre regeneration. As noted above, business change/improvement and efficiency projects have been developed over the medium term, and major projects within the change programme include:

- Better procurement in Social Care
- New Ways of Working across the Council
- Moving our customers to on-line services wherever possible
- Active Living / Promoting Independence within Adult Social Services
- Reduced capital financing costs from re-phasing of the programme and a technical review of our PFI funding model
- Increased income

Significant one off costs will be required to implement these change and efficiency projects as further saving proposals are developed for future years.

## **Risk and Performance**

As part of setting the Council's budget, key consideration is given to the risks the Council faces and the improvement objectives that the Council has put in place. The Council maintains a corporate risk register and an Improvement Plan, this next section looks at these and identifies how they are dealt with currently in setting out the Council's 2016/17 and medium term budgets.

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## Risk

The Council maintains a corporate risk register which is regularly reviewed by the Corporate Management Team and Cabinet, as well as the Audit Committee from a procedural/risk management framework viewpoint. The Council's budget strategy and MTRP framework needs to reflect risks and incorporate appropriate financial mitigation, where required. The table below lists the current approved corporate risks reported to Cabinet which will then require further on-going review from our budget strategy viewpoint.

Table 1. Corporate Risk Register and associated financial mitigation

<b>Risk</b>	<b>Financial planning mitigation</b>
1. Legislative requirements including, but not limited to: Social Services Act, Welsh Language Act and Future Generations Act	<i>This will be assessed and budget provision /funding made available if deemed essential/unavoidable</i>
2. Increasing Ageing Population – puts significant strain on services and costs	<i>The MTRP has always and currently does reflect the demographic pressures in Social Care budgets</i>
3. Capacity and capability to meet the councils objectives - That there are not skills and or capacity within the workforce to deliver both operational services and also the pace of change needed to modernise services and balance the budget.	<i>The base budget has provision for the increased costs associated with the new pay/grading framework and adequate specific reserve exists to deal with one-off costs of equal pay settlements, pay protection and project cost. The Invest to Save reserve provides funding to change and modernise services, including bringing in additional capacity where necessary in the short term</i>
4. Budget Challenge - That the continuing need for significant annual savings is increasingly difficult to achieve and that could compromise organisational capacity and service delivery including statutory services	<i>The Council has a robust business case approach to service change which identifies impact on services.</i>
5. Safeguarding – Council policies/procedures may be inadequate to protect vulnerable children / adults	<i>No current specific financial issue. All budget saving proposals are supported by robust business plans which highlight, amongst other things, impacts on service delivery / statutory requirements.</i>
6. Friars Walk – developer unable to sell / re-finance at level required to pay back the Council	<i>Project Governance is designed to highlight any problems early in this respect. In addition, specific reserve has provision to cover some losses and legal arrangements provides adequate security against the Council loan facility.</i>
7. City Deal - That the SE Wales region, which includes Newport CC, cannot conclude a city deal within the timescales and as a result misses the opportunity to secure investment to improve economic outcomes for the communities of the city	<i>No current financial issues here.</i>

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In addition to considering each saving and pressure item in respect of achievability, a number of additional specific or general Council risks exist. These include:

Table 2 – Other significant risks identified

Risk	Financial planning mitigation
The need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays to delivery of the proposal has on the budget monitoring position.	<p>Robust financial monitoring and on-going review on the delivery of savings</p> <p>Robust business cases to support saving proposals</p> <p>Appropriate budget strategy to deal with the on-going challenges</p> <p>Base budget contingency to protect the core budget in the short term</p>
The cumulative impact of achieving the savings, within this current year's budget in addition to the unachieved 2014/15 savings which remain to be realised in 2015/16	<p>Robust financial monitoring and on-going review on the delivery of savings</p> <p>Base budget contingency to protect the core budget in the short term</p>
The Council's ability to meet the costs of change e.g. voluntary severance	Established Invest to Save reserve in place and processes to access funds from there to support delivery of MTRP savings
The level of additional borrowing undertaken in previous years and proposed will require more revenue resources to be used for capital financing in future years.	<p>Unavoidable risk based on historical spending</p> <p>Low interest rates provides some mitigation in that cost of borrowing is relatively cheap</p> <p>Review of capital programme and funding sources, including maximising capital receipts</p>
The impact on Newport Bus, which is wholly owned by the Council, from challenging trading conditions and issues such as reductions to the reimbursement rate in respect of concessionary fares.	<p>Good governance arrangements – Board of Directors includes Officer representation and Members</p> <p>No budget expectation for financial dividend included in base budget</p>
The risk of WG levying fines if the Council fails to realise recycling or land fill diversion rates	<p>Specific reserve provides mitigation and given no fines levied for 2014/15 performance, is now recommended to be used to fund specific staff to work with residents on a face to face basis to improve their recycling habits/practices</p> <p>Base budget contingency protects core budget in s/t</p>
The potential for the Council to receive less than the budgeted sum in respect of Outcome Agreement Grant either due to performance shortfalls or statutory interventions	<p>Regular monitoring of relevant performance to ensure required achievement is being reached.</p> <p>Base budget contingency protects core budget in short term</p>
The impact of the on-going uncertainty in respect of the outcome of local government reorganisation.	On-going review by Senior Management. No financial issues known with certainty currently.



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The impact of these challenges are reviewed as part of the financial monitoring process and through the Corporate Risk Register, both of which are reported regularly to the Cabinet and the Senior Management Team. The Council's Audit Committee also regularly review the Corporate Risk Register.

## Performance

The Improvement Plan helps the Council demonstrate its continuous improvement. The Plan contains the priority areas for improvements in service delivery, and the tracking of various actions and measures will allow the authority to prove its success in these areas. The Council has identified 8 Improvement Objectives to form part of the Improvement Plan for 2016-2018. The selection of the objectives followed a consultation with the public where over 600 responses were received.

The Improvement Objectives for 2016-18 fit into the Corporate Plan themes as follows:

- A Caring City
  - Ensuring people have the right social services to meet their needs
  - Improving independent living for older people
- A Fairer City
  - Ensuring people have access to suitable accommodation
- A Learning and Working City
  - City regeneration and development
  - Supporting young people into education, employment or training
  - Improving educational outcomes for children
- A Green and Healthy City
  - Increasing Recycling
- A Safer City
  - Preventing offending and re-offending of young people

The Authority's base budget provides the resources required to meet the numerous targets linked to these Improvement Objectives, Annual Service Plans include further details about the appropriate targets and budgets in place which contribute to their delivery/achievement.

## Conclusion

In summary, as from the foreword above 2015/16 has been a challenging year, with the continuation of austerity, increased pressures and ongoing savings, but the Authority has managed these well and has shown a good outturn position and strong financial resilience.

The challenges are set to continue into 2016/17 and beyond, with significant challenges on setting a balanced Medium Term Financial Plan and increased pressures on the Capital Programme, which the strong balance sheet, a good track record of delivery of savings and delivery budgets within target should help achieve.

# Statement of Responsibility for the Statement of Accounts

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## The Authority's responsibilities

The Authority is required to:

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

## The Head of Finance's Responsibility

The Head of Finance is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Head of Finance has:

- Selected suitable accounting policies and then applied them consistently
- Made judgments and estimates that were reasonable and prudent
- Complied with the Local Authority Code.

The Head of Finance has also:

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

## Head of Finance Certificate

I certify that the Statement of Accounts set out in pages 41 to 130 give a true and fair view of the financial position of Newport City Council at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

1 This Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Society of Local Authority Chief Executives and Senior Managers (SOLACE); and the 'Delivering Good Governance in Local Government Framework'. It embraces the elements of internal financial control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

## 2 Scope of Responsibility

2.1 Newport City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and to proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation.

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

2.3 The Council's financial management arrangements conform to the governance requirements of the 'CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)'.

2.4 The code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government', was initially approved by Cabinet and then Council in July 2013 with a further update approved by Cabinet in July 2014. A copy of the code can be obtained from the Head of Finance. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (Wales) Regulations 2014.

## 3 The Purpose of the Governance Framework

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

3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.3 The governance framework has been in place at the Council for the current year 2015/16, and up to the date of approval of the statement of accounts.

## 4 The Governance Framework

4.1 The Council's code of governance has been developed in line with the following principles:

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

The key elements of the Council's governance framework are as follows:

- 4.2 The Council's vision is to be "recognised as a high performing Council, ensuring the right services are provided to our communities, our councillors and our staff".
- 4.3 The Council's mission is 'Improving people's lives – providing the best affordable services'.
- 4.4 The Council's Corporate Plan for 2012-2017 "Standing Up For Newport" sets out the 5 year vision for the Council. The strategy is set out in the Corporate Plan and these have been adopted as the Council's Improvement Objectives: Newport is
- A Caring City;
  - A Fairer City;
  - A Learning and Working City;
  - A Greener and Healthier City;
  - A Safer City;
  - Supported by an improving and transformed City Council

The [strategic planning process](#) shows how the corporate plan fits in with the improvement plan and other key plans and strategies in Newport.

- 4.5 The [Improvement Plan](#) is the delivery vehicle for the Corporate Plan. The Improvement Plan summary leaflet highlights what the Council is aiming to do and how it is going to measure its success towards the aims set out above; 8 Improvement Objectives were agreed by Council in April 2015.
1. Supporting Older People leaving hospital
  2. Improving care and support services for adults
  3. Developing and regenerating the City
  4. Supporting young people into education, employment or training
  5. Ensuring the best educational outcomes for children
  6. Helping children have a flying start in life
  7. Increasing recycling
  8. Improving outcomes for youth justice
- 4.6 The Single Integrated Plan (SIP) (Cabinet February 2013) – 'Feeling good about Newport 2013-17' represents the combined strategic planning intent of a partnership of the key public service providers in Newport which includes the Council – for improving the quality of life in terms of the social, economic and environmental well-being of the whole community. It is agreed by all partner organisations that are members of the One Newport Local Service Board (LSB). A review of partnership arrangements, in line with Welsh Government planning guidance has resulted in an

integrated partnership structure and Single Integrated Plan (SIP) that replaces the Community Strategy and four core partnerships of:

- Healthy Newport (Health, Social Care and Wellbeing Strategy)
- Young Newport (Children and Young People's Plan)
- Prosperous Newport (Prosperous Newport Plan)
- Safer Newport (Community Safety Plan)

The priorities within the SIP are:

- Skills and work
- Economic opportunity
- Safe and cohesive communities
- Health and wellbeing
- City centre
- Alcohol and substance misuse

- 4.7 The Council's values are Accountable, Open and United and these are communicated to staff via the intranet.
- 4.8 The Council's stakeholders are consulted in regard to determining the priorities needed to realise the vision set out in the Corporate Plan, Improvement Plan, SIP, and the service-planning process establishes and communicates those priorities and means of achieving them.
- 4.9 The Council's Risk Management Strategy requires the proactive participation of all those responsible for planning and delivering services in identifying, evaluating and managing significant risks to the Council's priorities, services and major projects. The risks and the controls necessary to manage them are recorded in the respective service plans, and any required improvements to controls are monitored to ensure implementation.
- 4.10 Processes are in place to ensure the economic, effective and efficient use of resources and for securing continuous improvement in the way that functions are exercised. This is supported by reviews undertaken by the external auditors and inspectors, and co-operating with the Welsh Government and as part of the wider collaborative agenda.
- 4.11 The Chief Executive and the Strategic Directors are accountable for ensuring that the Council Priorities are delivered, and performance against key targets is regularly monitored via the performance management framework, Views, and is regularly reported to the Performance Board.
- 4.12 In order to ensure the successful delivery of services and completion of projects, central guidance and support is provided in respect of procurement and project management.
- 4.13 The Constitution, which can be found on the Council's website, sets out:
- how the Council operates and makes decisions;
  - the procedures to ensure that decision-making is transparent and accountable to local people and other stakeholders;
  - the key roles of all members and senior officers, including the lead responsibilities for corporate governance of the Leader, the Chief Executive and other designated senior officers;
  - a scheme of delegated powers for decision-taking;

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

4.14 The Council takes its decisions by way of the full Council meeting or the Executive. The Executive comprises the Cabinet working as a collective. Decisions are also taken by individual Cabinet Members and Chief Officers. The Scheme of Delegation and the Terms of Reference which are included in the Constitution, make it clear at which level decisions are taken. Agendas, reports, decision schedules and minutes of all meetings of the Council or the Cabinet are available to the public by way of the Council's website except in exceptional circumstances where reports are not available to the public as they may contain exempt or confidential matters. Any minutes or decisions arising from the consideration of such reports are, however, available to the public via the website. Report and Decision schedules showing decisions taken by individual Cabinet Members are also available to the public via the websites except in similar exceptional circumstances. Every report considered as part of the decision making process by Members must contain comments by the Council's Monitoring Officer and by the Section 151 Officer and (where there are staffing issues) by the Head of People and Business Change. The report template ensures report authors consider potential risks and financial implications of their proposals.

4.15 The Council has appointed 3 Scrutiny Committees to assist in policy development and also to hold the executive to account:

- Learning, Caring and Leisure Scrutiny
- Street Scene, Regeneration and Safety Scrutiny
- Community Planning and Development Scrutiny

Each Committee is politically balanced and the chairs are allocated in proportion to the number of seats held by political groups. In response to the Local Government Measure the Council established an Audit Committee and a Democratic Services Committee. Agendas, reports, decision schedules and minutes of all meetings of these Committees are available to the public by way of the Council's website except in exceptional circumstances where exempt or confidential matters are discussed. The Audit Committee has appointed an independent chairman; he is not part of the political structure of the Council.

4.16 There are robust arrangements for effective financial control through the Council's accounting procedures, Financial Regulations and Contract Standing Orders (CSOs), revised May 2016 (draft). These include established budget planning procedures, which are subject to risk assessment, and regular reports to members comparing actual revenue and capital expenditure to annual budgets. The Head of Finance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972. Procedures for tendering and contract letting are included in the CSOs. The Council's Treasury Management arrangements follow professional practice and are subject to regular review by the Council's Audit Committee and full Council.

4.17 The ethical governance framework includes:

- codes of conduct for officers and members, which are regularly reviewed, updated and tested for compliance;
- a protocol governing Member/Officer relations;
- a whistle-blowing policy widely communicated within the Council and which is regularly reviewed;
- registers of personal and business interests for Members and Chief Officers;

- an agreed policy and associated corporate procedures for ensuring that complaints about services can be properly made and investigated, and for ensuring that any lessons can be applied; and
  - the Strategic Equality Plan and Equality Objectives 2016-2020 (Cabinet February 2016).
- 4.18 The Head of Law and Regulation is the designated 'Monitoring Officer' in accordance with the Local Government and Housing Act 1989, and ensures compliance with established policies, procedures, laws and regulations. After appropriate consultation, this officer will report to the full Council in respect of any proposals, decisions or omissions which could be unlawful or which have been subject of an Ombudsman investigation resulting in a finding of maladministration.
- 4.19 Established anti-fraud and corruption arrangements provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. These include procedures designed to combat money-laundering, the anti-fraud and corruption policy and the whistleblowing policy.
- 4.20 The Audit Committee considers the work of internal and external auditors and the responses to audit recommendations. It also has responsibility for approving the Annual Statement of Accounts and its associated reports (which include this statement).
- 4.21 All reports to Scrutiny forums, Cabinet Members and Cabinet incorporate a risk assessment. Scrutiny forums also consider and monitor service plans which include the key risks of service provision within that area.
- 4.22 Internal Audit operate to the standards set out in the Public Sector Internal Audit Standards (PSIAS) and its role and status is set out in the Council's Internal Audit Charter. The Chief Internal Auditor is accountable to the Head of Finance and the Audit Committee.
- 4.23 The Chief Internal Auditor reports to the Audit Committee a summary of audit findings for each quarter, and also reports annually an opinion on the overall adequacy and effectiveness of the Council's internal control environment. The overall opinion for 2015/16 was 'Reasonable'.
- 4.24 The Council has an objective and professional relationship with its external auditors and statutory inspectors, as evidenced by the Annual Information Risk Report. This can be found on the Council's website. The Council is subject to external compliance requirements such as the Wales Audit Office high level risk assessments for its financial systems and information and technology, and the extensive requirements of Public Services Network (PSN) compliance, assessed annually by the Cabinet Office, and Payments Card Industry Data Security Standards (PCI-DSS).
- 4.25 Local Authorities collect, store, process, share and dispose of a vast amount of information. The Council must meet its statutory responsibilities effectively and protect the personal information it holds throughout its life cycle and invest in security measures to ensure compliance with data and information security standards as outlined in the Digital Strategy 2015-2020 (approved by Cabinet November 2015).
- 4.26 Following adoption of the Information Risk Management Policy in 2013 the Council has defined roles and responsibilities for information risk as:
- The Senior Information Risk Owner (SIRO) has high level responsibility for controls relating to information security and the role is undertaken by the Head of Law & Regulation;
  - Information Asset Owners (IAO's) must effectively manage the information assets that they own;

- The Information Management team are the operational lead on information governance in conjunction with the IT Service;
- The Information Governance Group provides a high level management overview of information governance;
- The Council's Information Risk Register is maintained by the Information Management team to document and manage risks, reported annually.

Information risks are also considered in the Corporate Risk Strategy and Register.

- 4.27 The Standards Committee, which includes a majority of independent representatives, advises on and monitors the Member Code of Conduct, the Protocol for Member/Officer Relations, and any other Codes relating to the conduct of Members.
- 4.28 The Council's recruitment procedures provide equality of employment opportunities. An equality-assessed pay structure to meet the requirements of the Single Status Agreement of 1997 was implemented in April 2015.
- 4.29 Agreed arrangements enable the Council to comply with statutory requirements in respect of child protection and the protection of vulnerable adults. Recruitment procedures help to ensure that Council employees and Members working with children or vulnerable adults are checked for their suitability to do so.
- 4.30 In accordance with its statutory responsibilities, the Council has in place a Health and Safety Policy and related procedures.
- 4.31 The Council is required to meet statutory obligations regarding the handling of data and as part of the development of the Information & Technology (now Digital) Strategy, has adopted an Information Risk Management Policy which outlines roles and responsibilities for information risk management. This ensures that the requirements of legislation, including the Data Protection Act 1998, Environmental Information Regulations 2004 and the Freedom of Information Act 2000 are met and that the risks around information are managed appropriately. The Information Risk Management Policy also formalised the requirement for an Annual Information Risk Report which was reviewed by Scrutiny Committee before being reported to the Deputy Leader in July 2015.
- 4.32 The Annual Information Risk Report provides an annual assessment of the Council's information governance arrangements and key risks, supported by an action plan. The highest level information risks are escalated in the Corporate Risk Register as appropriate.
- 4.33 There are also agreed procedures to meet the requirements of the Regulation of Investigatory Powers Act 2000.
- 4.34 In terms of Transparency, the Council publishes all expenditure >£500 on its website on a quarterly basis in accordance with the Information Commissioners Office (ICO) and Central Government guidance.
- 4.35 In line with the Local Government Measure a separate Democratic Services Committee was established during 2012/13 along with a Chief Democratic Services Officer; this committee meets quarterly dealing with national consultation exercises, national policy and Members codes and development.



## 5 Review of Effectiveness

- 5.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Senior Leadership Team within the Council which has responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 5.2 The governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework.
- 5.3 The processes that have been applied to maintain, review and improve the effectiveness of the governance framework include:
- i) Periodic reviews of the Constitution and ethical governance arrangements (including the extent of compliance with the Regulation of Investigatory Powers Act) by the Monitoring Officer;
  - ii) Periodic reviews of the financial controls by the Chief Finance Officer;
  - iii) Formal risk management and regular on-going review of the processes involved;
  - iv) The Internal Audit function, whose work takes account of identified risks through regular audits of the major systems, establishments and major projects in accordance with the annual internal audit plan, and which includes 'follow-up' work to ensure that Heads of Service implement agreed management actions;
  - v) The work of the Scrutiny Forums and other Committees, including its Standards Committee and Audit Committee;
  - vi) The opinions and recommendations of the Council's external auditors and other inspection and review agencies;
  - vii) Regular monitoring of performance against the Improvement Plan and service plans and of key targets, and reporting of this to senior management and members;
  - viii) The outcomes of the Annual Information Risk Report.
- 5.4 Audit Committee Members undertook a self-assessment of the effectiveness of the Audit Committee during 2015/16.

## 6 Principle 1: Focusing on the purpose of Newport City Council and on outcomes for the community and creating and implementing a vision for the local area

- 6.1 One Newport's Single Integrated Plan (SIP) – Feeling Good about Newport 2013-2017– was produced and published in May 2013. A Single Integrated Plan (SIP) is a defining statement of strategic planning intent for the local authority area and contains the LSB's vision for improving the City. No single organisation can meet the total needs of a community, so there is a requirement to plan and deliver services in collaboration with other public and private sector organisations.
- 6.2 The SIP identifies key priorities and programmes that the LSB will work towards achieving over a set period of time. These priorities have been identified as those where the LSB and other key stakeholders must work together to achieve success.

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- 6.3 The One Newport Local Service Board annual report 2014/15 was taken to the Local Service Board in May 2015; progress against the Single Integrated Plan 2015/16 was presented in September 2015.
- 6.4 An update of the Council's Corporate Plan was taken to Cabinet in July 2014; this report provides the story behind the programmes and activities that have taken place over the previous 12 months that have contributed to the City's on-going improvement journey and the council's commitment to 'Improving people's lives'.
- 6.5 The annual review of the 2014/15 Improvement Plan was presented to Cabinet in September 2015 – Overall progress against the 2014/15 plan was assessed as being 'good', with most Improvement Objectives performing well with 'Ensuring people have the right social services to meet their needs'; 'Education attainment'; and 'Flying Start' all assessed as excellent. Newport was the third most improved Council in Wales.
- 6.6 Progress reports on the Council's Improvement Plan were taken through Cabinet regularly in 2015/16.
- 6.7 The Improvement Plan for 2015/16 sets out eight improvement objectives that contribute towards the themes in the Corporate Plan. The eight improvement objectives 2015/16 are linked to the themes in the Corporate Plan 2012-2017.
- 6.8 In September 2015 Cabinet received a progress report to Q1 on the Improvement Plan 2015/16; the overall assessment of progress towards achieving the improvement objectives set out in the plan was classed as 'Amber – Good.' Good progress is being made in a number of key areas including: Developing and regenerating the City; supporting young people into education, employment or training; ensuring the best educational outcomes for children; and helping children have a flying start in life, each of which had been assessed as excellent.
- 6.9 In December 2015 Cabinet received a progress report to Q2; the overall assessment of progress towards achieving the Improvement Objectives set out in the plan is classed as 'Amber – Good.' Excellent progress is being made in some areas including: 'Ensuring the best educational outcomes for children' and 'Helping children have a flying start in life'.
- 6.10 Improvement Plan priorities for 2016/17 were taken through Cabinet in January 2016 following a consultation exercise; 8 Improvement Objectives were identified as priorities of the Corporate Plan.
- 6.11 The Wales Audit Office issued the Council with a Certificate of Compliance following an audit of the Council's Improvement Plan 2015/16 which went to Cabinet in June 2015.
- 6.12 The Wales Audit Office Data Quality Review was considered by Performance Board in March 2014; the key message was "Improvement planning is developing but still needs strengthening and processes for dealing with data are not consistently applied or embedded across services leading to significant weaknesses in the accuracy of reported data". In their Corporate Assessment Review issued in May 2015, the Wales Audit Office stated "that there have been some enhancements to the Council's improvement planning and performance management arrangements, but the scrutiny of performance is not sufficiently challenging to consistently drive improvement." The Performance Team were working on an action plan to further improve the processes in place.
- 6.13 Early analysis of Performance Indicators 2014/15 was presented to the Performance Board in June 2015; 76% of measures had met or exceeded targets; 62% of measures had met or exceeded previous year's targets. Overall 2014/15 performance was reported to the Performance Board in September 2015; 76% performed better than target, 71% performed better than last year, 52% have performance better than Wales Average. Mid-year performance analysis of the 2015/16 performance was reported to the performance Board in December 2015.

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- 6.14 Progress has been made in ensuring that the Strategic Director's vision of 'Every Child, Every Chance, Every Day' is shared and understood by Education Service staff and schools. This also forms the basis of the foreword to the Education Service Plan which is a public document. The Strategic Director's vision links to the Corporate Plan and Medium Term Financial Plan.
- 6.15 2015/16 service planning incorporated an understanding of customer needs, service area outcomes and improvement priorities, performance management and monitoring, an action plan to achieve the outcomes, an assessment of service related risk, an acknowledgement of regulators' proposals for improvement and an equalities impact assessment.
- 6.16 A Prospectus for Change 2013-17 – Improving People's Lives – Providing the Best Affordable Services was introduced in 2013/14, with an update presented to Cabinet in October 2014. The Cabinet was informed that good progress had been made towards delivering the first year targets for the Change and Efficiency programme with a number of key successes in the first half year of 2014/15.
- 6.17 This was refreshed with Newport 2020 which went through Cabinet in February 2016.
- 6.18 Reports were taken through the Scrutiny process during the year which linked service plans to the Council's policies, priorities and objectives. The agendas and minutes of which became public documents available through the Council's website.
- 6.19 Communication is important to Newport; the Annual Statement of Accounts 2014/15 was taken through the Audit Committee process before being endorsed by Cabinet and Council. All Council decisions, reports and questions asked by Members are available on the website; as are Cabinet Member decisions, Audit Committee reports, Performance Board and the work of the Scrutiny Committees. Headline figures of the Council's financial position were included in the Council tax leaflets distributed with all bills. Financial information, Improvement Plan progress, Council activities, achievements, developments, updates and events were included in Newport Matters which is distributed to every household in the City, this is also available on the Council's intranet and website.
- 6.20 Equality Impact Assessments are required by law under the Equality Act 2010. Newport's assessments also examine 'Fairness' and the Welsh language to ensure that the needs of other vulnerable people are considered, as well as the effect on different areas within Newport. A range of these were undertaken during 2015/16 which have been published on the website.
- 6.21 To ensure that users receive a high quality of service, service plans were reviewed mid-year and at the end of the year through Scrutiny. The Customer Complaints Policy was updated and reported through Cabinet; the process of which is available on the website, where the public can also report a problem or concern via the StreetScene pages.
- 6.22 Dealing with customer complaints helps Newport to identify and deal with failures in service delivery. The Council's complaint / compliment procedure is available on the web site. The following table shows the number of complaints received for the past three years:

	2013/14	2014/15	2015/16
Stage 1 Complaints	475	387	293
Stage 2 Complaints	30	50	34

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Complaints to Ombudsman	2	8*	9
Customer Feedback / Compliments	347	227	128

\* The Ombudsman reviewed the complaints but did not investigate any of them

- 6.23 The Customer Services Strategy included a target of increasing the number of people using online services – monitored by Customer Service and Digital Innovation service plan.
- 6.24 And where things are not working as well, the Performance Board has recognised the shared role of Cabinet Members in performance against Improvement targets. The Performance Board also recognises the role of Scrutiny in looking at any systematic failures. Newport is learning from its mistakes. The implementation of action plans continued across the board with the Corporate Assessment, Improvement Plan, Estyn Inspections, service plans and internal audit reports.
- 6.25 Where value for money of the public pound is concerned, the budget proposals were examined by a joint meeting of Scrutiny Committees and then by the individual committees as part of the budget process. It is intended that the Medium Term Financial Plan (MTFP) will form the basis of some of the Scrutiny Reviews in the coming year. As part of its review process the internal audit team checks to ensure corporate contacts are being utilised.

## Procurement Gateway Process

- 6.26 In 2015 NCC introduced a 'Procurement Gateway Process' mandatory to follow if seeking to commission or procure goods, services or works over £3,000 in value. The processes are designed to give a consistent approach to procurement across the Authority and enable senior management to have visibility of the goods and services being purchased by the Council. The process includes completion and submission of a Procurement Gateway Approval Form, which includes a detailed explanation of each Gateway stage.
- 6.27 The Gateway process is being implemented due to major reforms in EU legislation for procurement and the Introduction of the National Procurement Service for Wales (NPS), ensuring compliance and transparency.
- 6.28 We need to ensure that we are in compliance with the new Directives and that we are not purchasing anything that must be sourced via collaborative arrangements such as those by NPS.
- 6.29 For all procurements over £100,000 there is a monthly Gateway Board chaired by the Chief Executive that will approve or reject new Business Cases. The Strategic Procurement Category Managers lead service areas in both the gateway process and submitting business case.

## Thresholds:

- 6.30 Up to £3,000 it is necessary only to demonstrate and record that value for money is being achieved.
- 6.31 From £3,000 to £25,000, requirements should either be sought through the 'Quick Quote' section on [www.sell2wales.gov.uk](http://www.sell2wales.gov.uk) or openly advertised on [www.sell2wales.gov.uk](http://www.sell2wales.gov.uk). Quotations must either be sought from a minimum of three recognised suppliers in the appropriate market, or previously established competitive sources of supply (Quick Quote), or where limited market knowledge exists and suppliers are unknown, an open quotation must be used.
- 6.32 From £25,000 to £100,000 all requirements must be openly advertised on [www.sell2wales.gov.uk](http://www.sell2wales.gov.uk) and tendered using the Council's electronic etenderwales tendering system.

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6.33 Over £100,000 all requirements must be openly advertised on [www.sell2wales.gov.uk](http://www.sell2wales.gov.uk) and tendered using the council's electronic etenderwales tendering system.

6.34 Some examples of achieving value for money through the procurement process included:

Contract	Collaborative	Type	Savings
WPC Milk Commodity Supply of Fresh Pasteurised Liquid Milk	Yes with 13 Local Authorities	Competitive Tender  Robust Qualification and Specification  60% Quality 40% Price	Contract Value = £3,174,168.00  Annual Savings = £697,961.00  NCC savings = £34,157
Cyclical assessment of trees owned and managed by Newport City Council  Phase 2	No	Competitive Tender  Quality 30% Price 70%	Actual Contract Value for EOS Lots - £19,952.00 Saving - £20,048.00 Savings used to procurement additional work linked to the requirements meant that actual savings = £1,318.00 (based on moving from 12 month to 18 month assessments)
Provision of an independent living support service for the tenants at Ty Nant, Newport	No	Competitive Tender  Quality 60% Price 40%	Estimated contract value per annum based on the total cost £619,944.00* of six tenants being in residence  Estimated saving per annum over current contract value £85,823.00*
<p>*These figures are indicative as only basic pen pictures of tenants were provided within the tender document.</p> <p>Therefore the estimated value of the contract based on five residents would be as follows:</p> <p>Estimated contract value per annum £516,620.00 Estimated saving per annum £58,397.00</p>			

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Provision of a Supported Living Service to Tenants at the Long Barn, Caerphilly	No	Competitive Tender Process  60% quality  40% price	The current contract spend is £404,593.00 per annum and the new contract value, including negotiation, will be £292,073.00 per annum which will result in a saving of £112,520.00  <i>However, this saving will be reduced by £12K</i>
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## Medium Term Financial Plan

- 6.35 Regular budget / outturn reports for revenue and capital were presented to and approved by Cabinet during the year. The updated MTFP and budget monitoring reports were presented to and approved by Cabinet June 2015, July 2015, September 2015, November 2015, December 2015, January 2016 and February 2016. The 2016/17 Budget consultation and MTFP were submitted to Council in February 2016; budget proposals also went through the Learning, Caring and Leisure Scrutiny, Street Scene, Regeneration and Safety Scrutiny, Community Planning and Development Scrutiny, in September 2015, October 2015, December 2015, January 2016 and through joint scrutiny in January 2016. The Council recognises that timely and accurate budget monitoring information is essential for effective decision making purposes. A public consultation exercise was also undertaken to determine the 2016/17 budget proposals.
- 6.36 The Local Service Board review includes the monitoring of targets to ensure policies are delivering the agreed outcomes to ensure services are effective, focused on local people and improved quality of life in the City. In terms of measuring the environmental impact of policies, plans and decisions, the Council is working with the Welsh Local Government Association as one of 10 lead authorities for sustainability.
- 7 Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles in order to achieve the best possible outcomes for citizens.**
- 7.1 Developing the relationship between Cabinet and Scrutiny was a major focus of both the National Scrutiny Study and the Corporate Assessment, highlighting the need to clarify roles and responsibilities of Cabinet and Scrutiny. Regular meetings have taken place to further develop the relationship between Scrutiny and the Executive.
- 7.2 The scheme of delegation in the constitution sets out the various responsibilities of Members and Officers. This is updated as required via the Democratic Services Committee. Standing Orders and the Constitution were updated to take account of the requirements of the Local Authorities (Standing Orders) (Wales) (Amendment) Regulations in July 2014.
- 7.3 The Democratic Services Committee reviewed the Constitution (September 2015), taking into account the outcome of the Council's Corporate Assessment and proposed a new more logical structure. The role descriptions were further reviewed during the year.
- 7.4 Appropriate and relevant job descriptions were in place for the Chief Executive, Senior Leadership Team (SLT), Monitoring Officer and Head of Finance. The minutes of the SLT were also made available on the Intranet during the year.

- 7.5 To ensure agreed procedures and all applicable statutes are complied with, the Monitoring Officer attends all Council meetings; authors of all scrutiny, Audit Committee, Cabinet, Council reports need to obtain comments from the Monitoring Officer, Chief Finance Officer and the Head of People and Business Change before submission. All reports taken in 2015/16 included such comments.
- 7.6 A protocol on Members / Officers relations is included within the Council's Constitution and this was reviewed by the Standards Committee during 2013/14. The Procedure for Dealing with Complaints of Breaches of the Members' Code of Conduct was reviewed in March 2015. A Planning Committee Code of Best Practice is also in place.
- 7.7 Remunerating Members - The Members' scheme is now determined by the Independent Remuneration Panel. A report on any discretionary payments is presented to the Council following consideration by the Democratic Services Committee. The Schedule of Member Remuneration 2015/16 was published on the website.
- 7.8 In order to effectively monitor service delivery, the Performance Board monitors the Improvement Plan and addresses areas of under-performance; Performance Board agendas and minutes. Service plans are monitored by the Scrutiny Committees as evidenced in minutes.

## **Partnerships / Collaboration Working**

- 7.9 Partnership and Co-operative Principles (Outcome Agreement) is included within the Council's Improvement Plan with its aim being to support the delivery of public sector reform by working collaboratively with our partners to improve outcomes for the City. A single plan for partnership working in Newport is being delivered via the "One Newport" Local Service Board (Single Integrated Plan) – inter-related work streams include: health and wellbeing, skills and work, economic opportunity, safe and cohesive communities, the city centre and alcohol and substance misuse.
- 7.10 Although the majority of partnership and collaborative arrangements were identified during 2013/14 for all service areas, the governance arrangements for individual relationships needs to be worked through and clarified in order to determine the continuation of the partnership relationships.
- 7.11 The establishment of the Education Achievement Service (EAS) for 5 South East Wales Education authorities in 2012 including Newport, has appropriate governance arrangements in place. The EAS Business Plan for 2016-2019 was taken through Cabinet in March 2016.
- 7.12 Prosiect Gwyrdd is a key partnership Newport is involved in with 5 neighbouring local authorities (Cardiff, Vale of Glamorgan, Caerphilly and Monmouthshire); Newport's Contract Waste Profile was reported to Cabinet March 2012. This partnership is covered by an Inter-Authority Agreement (IAA).
- 7.13 The Gwent Frailty Programme was launched in April 2011. The Frailty Programme is a multi-agency partnership aimed at improving Intermediate Care services in Gwent and spans the Aneurin Bevan Health Board (ABHB), 5 Local Authority partners and a number of voluntary sector organisations.
- 7.14 In One Place obtained Cabinet support in November 2013 to facilitate collaboration between Aneurin Bevan Health Board (ABHB), the five local authorities and Housing Associations within Gwent with the aim of streamlining the process of developing suitable accommodation for people with complex health and social care needs in Gwent.
- 7.15 One Newport Local Service Board (LSB) includes health, police, colleges, local government, housing, third sector and central government; it has a shared strategic purpose detailed in the Single Integrated Plan with terms of reference and the Performance Management Framework. The LSB refreshed its partnership structure to enable it to better deliver its priorities (May 2015).

- 7.16 In response to The Wellbeing of Future Generations (Wales) Act which became law in Wales on 29 April, 2015, a Public Services Board (PSB) Development Group was established, which would replace the LSB with effect from 1<sup>st</sup> April 2016.
- 7.17 The South East Wales Improvement Collaborative (SEWIC) Fostering Group is a working group to develop a marketing strategy, with the objective of creating a unified brand to represent all 10 of the local authorities in South East Wales. It reports to SEWIC Board of Social Services Directors.
- 7.18 In July 2015 Cabinet was informed of the Team around the Cluster which is a collaboration between schools and public services (health, social care, police) designed to meet the needs of vulnerable children. The model had been tested with two pioneer clusters (Llanwern and Newport High) and there had already been significant improvements in the lives of vulnerable children and families and Head Teachers have given their support to this initiative.
- 7.19 There is a Council policy on information sharing along with numerous information sharing protocols with our partners. Information sharing is key to joined up service delivery. The Wales Accord on the Sharing of Personal Information (WASPI) was developed as a practical approach to multi agency sharing for the public sector in Wales, and Newport signed up to this in January 2011. The Council is required to meet statutory obligations regarding the handling and sharing of data, in accordance with the Data Protection Act 1998. The Information Sharing Policy has been developed to ensure information is only shared appropriately, safely and compliantly.
- 8 Principle 3: Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour**
- 8.1 The code of conduct and member / employee relationship documents are set out in the constitution.
- 8.2 In July 2015 The Standards Committee reviewed the Register of Gifts and Hospitality and recommended reducing the threshold of £80 for Members to register gifts and hospitality to £25. This was agreed by Council in September 2015.
- 8.3 Induction training for employees covers code of conduct, expected standards of behaviour and the importance of the whistleblowing policy. These documents are also available on the staff intranet.
- 8.4 A revised whistleblowing policy was commended in March 2015 and a confidential helpline set up. A new question was added to the bi-annual employee survey to establish levels of awareness on whistleblowing and 84% of employees surveyed agreed that they knew how to effectively report concerns of malpractice in the organisation.
- 8.5 In 2015/16 there were no incidents of whistleblowing recorded.
- 8.6 There were no successful “call-in” challenges to decisions on procedural grounds and no judicial review challenges on grounds of legality during the year.
- 8.7 There were no complaints of Member misconduct made to the Ombudsman in 2015/16 involving City Councillors. Therefore, there were no referrals to the Standards Committee and no findings of misconduct or breaches of the Member Code.
- 8.8 The Ombudsman had issued the Council with his Annual Letter for 2014/15 which set out information relating to the numbers of complaints of maladministration and misconduct which were referred to his office during this period relating to Newport City Council and its Councillors.



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- 8.9 The Number of complaints received in Newport was below the Welsh average, in particular, serious complaints of maladministration. Most of the complaints received by the Ombudsman were discontinued or resolved. There were no findings of maladministration or misconduct during 2014/15. In Newport's case, whilst the volume of complaints increased this mostly lead to a satisfactory outcome.
- 8.10 All waivers of the Contract Standing Orders are reported through the Audit Committee quarterly. The Internal Audit team continues to deliver awareness raising sessions on the importance of compliance with these Contract Standing Orders.
- 8.11 The Audit Committee has the power to call in a Head of Service and Cabinet Member to hold them to account for addressing required improvements to the internal control environment within their service area.
- 8.12 34 Internal Audit opinions were issued in 2015-16; 9 were good, none were deemed to be unsound. The overall opinion on the adequacy of the internal control environment for 2015/16 was therefore **REASONABLE**.

	2013-14	2014-15	2015-16
Very Good	2	0	0
Good	21	8	9
Reasonable	18	21	17
Unsatisfactory	0	5	8
Unsound	0	0	0
<b>Total</b>	<b>41</b>	<b>34</b>	<b>34</b>

- 8.13 Management have agreed to implement the action points in order to address the weaknesses identified and Internal Audit will be following this up in 2016/17. 91% of agreed management actions for 2014/15 were implemented by management.
- 8.14 The audit opinions are about the adequacy of the internal control environment within a particular service area or establishment at a particular point in time. They are not a reflection of how well the service is delivered or the establishment is run.
- 9 Principle 4: Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk in order to foster innovation.**
- 9.1 Minutes, Agendas & Reports along with their subsequent decision schedules and questions to Cabinet Members are all available on the web site. Council, Cabinet, Scrutiny and Audit Committee reports are available on the Council's website.

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- 9.2 A Scrutiny Improvement Group was established in 2013/14 to review and improve the scrutiny function, which is supported by Cabinet. The group comprises of members and officers and meets monthly.
- 9.3 The Democratic Services Committee undertook a review of the Council's three scrutiny committees during 2015/16 looking at a re-focus of work programmes in order to achieve a more efficient and effective scrutiny process.
- 9.4 Audit Committee meets regularly and its activities can be seen via the Council's website.
- 9.5 To enable good, quality information, advice and support to ensure that services are delivered effectively and are what the community wants / needs, a report template has been developed which helps authors to consider relevant issues in report writing and insists that statutory officers are consulted. Minutes, Agendas & Reports along with decision schedules are all available on the website. Legal / Finance / HR officers attend key meetings to respond to questions as required.

## Risk Management

- 9.6 The Council's Corporate Risk Strategy and Risk Register was updated and taken through Cabinet in September 2014 after being considered by the Audit Committee. The Corporate Risk Register was further updated and presented to Cabinet in April 2015, June 2015, September 2015, December 2015; further updates were presented to Audit Committee during the year.
- 9.7 Mitigation of risk is incorporated within the risk register, which moves the risk from inherent to residual. The major risks Newport has identified, following an assessment of current controls or mitigation in place; the top 7 risks facing the Council as at March 2016 were as follows:

	<b>Risk</b>	<b>Risk Assessment</b> August 2015	<b>Risk Assessment</b> December 2015	<b>Risk Assessment</b> February 2016
1	<b>Legislative Requirements</b> That new legislative requirements potentially place significant duties on the Authority that it cannot fulfil (resulting in adverse judgements from regulators, significant fines and potential court proceedings and/or existing services are compromised) .	16	16	16
2	<b>Increasing Ageing Population</b> That an increasing percentage of the population are over 65 and this puts an increasing strain on demand led services, particularly those that are statutory in nature and significant budgetary overspends.	12	12	12
3	<b>Capacity and capability to meet the councils objectives</b> That there are not skills and or capacity within			

# Annual Governance Statement

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Newport City Council

	the workforce to deliver both operational services and also the pace of change needed to modernise services and balance the budget.	12	12	12
4	<b>Budget Challenge</b> That the continuing need for significant annual savings is increasingly difficult to achieve and that could compromise organisational capacity and service delivery including statutory services.	16	12	12
5	<b>Safeguarding</b> That the arrangements and the implementation of policies and procedures by the council (and its partners) are not adequate to protect vulnerable adults and children who may be at risk of significant harm.	8	8	8
6	<b>Investment in Friars Walk Development</b> That the development does not realise its target value and the developer is unable to sell or re-finance the scheme to repay the loan.	4	2	2
7	<b>City Deal</b> That the SE Wales region, which includes Newport CC, cannot conclude a city deal within the timescales and as a result misses the opportunity to secure investment to improve economic outcomes for the communities of the city.	9	9	9

- 9.8 The above figures relate to a likelihood v impact score where the higher the number, the higher the risk.
- 9.9 The Audit Committee felt that managing the risks faced by service areas was an important aspect of the manager's role and should be part of his / her day to day responsibilities. Further work was required to ensure that risk management became fully embedded within Council operations so that it became more of a living document so that operational managers took greater responsibility for owning and dealing with the risks identified in their areas.
- 9.10 A report template for all formal member and scrutiny reports requires authors to consider risk and its management or mitigation when writing reports.

- 9.11 Heads of Service submitted their 2015/16 service plans to the respective scrutiny forum in July 2015. The plan included an overview of the service area, budget information and links to the medium term financial plan, an understanding of its customers' needs, service area outcomes, service improvement priorities, performance measures, links to corporate priorities and equalities assessments. The key risks for each service area were identified in each of the service plans. Service Plans were reviewed by Scrutiny members in November 2015 to ensure that the delivery of the service was on track and key objectives were being met. These will continue to be reviewed.
- 9.12 Each Head of Service incorporates the key risks to their service within operational plans which identified the impact, the likelihood and any mitigation in place to manage those risks.

## Information Governance

- 9.13 The purpose of the Annual Information Risk Report is to provide an assessment of the information governance arrangements for the Council and identify where action is required to address weaknesses and make improvements. This was received by Scrutiny in [June 2015](#) and reported to the Deputy Leader with the Scrutiny Committee comments in July 2015.
- 9.14 The Annual Information Risk Report forms an important element of information risk management, and includes an action plan. Progress on the actions reported in the 2014/15 report included:
- 350 staff trained on information security since April 2014;
  - Information Governance group continues to meet quarterly (Chair changed in line with Wales Audit Office recommendations);
  - Further development of a number of policies including Records Management and Incident Reporting;
  - High level information risk now included in the Corporate Risk Register;
  - PSN (Public Services Network) compliance renewed;
  - Payment Card Industry standards (PCI-DSS) achieved;
  - New Information Sharing protocols developed.

Other work is on-going, and the report for 2014/15 will also consider security incidents, and data breaches through the year;

(Link) [Annual Information Risk Report 2015](#)

- 9.15 The Council's website includes other information which the Council is required to publish, such as allowances paid to members in accordance with statutory provisions, and developing the transparency agenda for the publication of data on Council spending over £500. There are also agreed procedures to meet the requirements of the Regulation of Investigatory Powers Act 2000. Further data has been published in the last year, including business rates.

(Link to transparency data): [www.newport.gov.uk/transparency](http://www.newport.gov.uk/transparency)

- 9.16 The Information Commissioner (ICO) recommends that Councils publish information proactively and the Council has adopted the ICO [publication scheme](#) in this respect. The model publication scheme commits the Council to publishing certain classes of information. It also specifies how the Council should make the information available, any charges, and what we need to tell members of the public about the scheme. This has been updated in line with new requirements to provide sets of electronic data on request.

9.17 This year Freedom of Information requests are also available through an online form on the Council's website.

## **10 Principle 5: Developing the capacity and capability of Members and Officers to be effective.**

10.1 Councillor programmes have been held mainly based on their various roles within the Council. The Democratic Services Committee recognised the Council needed to do more to base the programme on individual needs as identified by Councillors. To this end the Committee agreed to pilot a series of interviews with the Organisation Development team to participate in this pilot.

10.2 There is an on-going programme of events for Members involved in Planning & Licensing Committees and Sub Committees. In February 2016, the Democratic Services Committee responded to a WLGA document on what they considered to be mandatory training for Members.

10.3 Embedded Appraisal arrangements for Chief Officers are in place, including:

- Chief Executive's Annual Appraisal;
- Chief Executive's one to one meetings with Strategic Directors;
- Executive Directors' one to one meetings with Heads of Service;
- Appraisal of Chief Officers (Heads of Service).

10.4 The majority of employees have undertaken the 'my review' process. This ensures that all officers and managers reflect on continued professional development (CPD) opportunities which are needed to improve their skill, knowledge and understanding base. Corporate Health Measures were taken to the Performance Board in June 2015.

10.5 Core Skills training is available through Organisational Development aligned to our corporate values with specific training available on topics such as Customer Care, Stress Management and Equality and Diversity.

10.6 Management Capacity is being developed through:

- A mandatory introduction to Management programme for new line managers;
- Further In-house management development modules for middle managers;
- Aspiring Leaders Programme delivered in partnership with the University of South Wales.

10.7 Senior Management lead Cabinet Member briefings on a regular basis. Briefings stimulate discussion around the need for Member training. These considerations are followed up with Democratic Services, ensuring that an appropriate and timely Members training programme is planned.

10.8 Scrutiny are leading a programme of training and support aimed at improving challenge and scrutiny. The Gwent Scrutiny Challenge is being undertaken in partnership with Gwent colleagues and with support from Welsh Government's Scrutiny Development Fund, Wales Audit Office, Welsh Local Government Association and Centre for Public Scrutiny.

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

11.1 The Scrutiny Annual Report is produced for the Council meeting in July each year.

11.2 The Scheme of Delegation sets out responsibilities for decision making. The Council's website includes the Cabinet and Cabinet Member decisions / Member profiles. The Scrutiny Handbook was

# Annual Governance Statement

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updated in 2013/14. Development of Customer Insight to better understand our communities. Dissemination of ward meeting minutes.

- 11.3 Social media, Twitter and Facebook for example, is increasingly being used to engage local people and communicate the corporate message.
- 11.4 The majority of meetings are held in public as shown from Committee agendas and minutes which are then available on the website. The Council now broadcasts Council meetings and Planning / Licensing Committees live on the internet and is working towards webcasting other formal member meetings.
- 11.5 The Council has responded to Freedom of Information Act requests within the required 20 days:

	2013-14	2014-15	2015-16
No' of FOI requests	869	895	914
No' responded to within 20 days	757	785	844
Percentage of FOIs responded to within 20 days [Target 87% - national standard 85%]	87%	88%	92%

**12 Action Plan**

12.1 The Wales Audit Office have undertaken a Corporate Assessment and a follow up assessment of Newport City Council. The Corporate Management Team on behalf of the Council, is working on an action plan to incorporate the recommendations of these assessments to further improve and strengthen the governance arrangements and their effectiveness in future years.

**13 Conclusion**

13.1 We propose over the coming year to continually monitor and review the projects within each service area to mitigate and manage these risks to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: .....Date..... 2016

Leader

Signed: .....Date..... 2016

Chief Executive

# ***Independent Auditor's Report to the Members of Newport City Council***

Statement of Accounts 2015/16

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# Comprehensive Income and Expenditure Statement

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This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2014/15			2015/16			
Gross Expenditure	Gross Income	Net Expenditure	Notes	Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
7,399	(5,060)	2,339		7,829	(5,499)	2,330
16,384	(5,411)	10,973		15,355	(1,668)	13,687
16,855	(2,419)	14,436		21,586	(6,595)	14,991
7,090	(6,680)	410		12,227	(9,764)	2,463
176,453	(45,356)	131,097		193,265	(49,527)	143,738
24,415	(8,137)	16,278		21,269	(6,416)	14,853
63,064	(60,414)	2,650		63,738	(60,471)	3,267
64,550	(19,343)	45,207		63,868	(17,959)	45,909
3,785	(30)	3,755		3,795	(23)	3,772
306	(305)	1		(1,300)	(3)	(1,303)
32	-	32		737	-	(737)
<b>380,333</b>	<b>(153,155)</b>	<b>227,178</b>	<b>Cost of services</b>	<b>400,895</b>	<b>(157,925)</b>	<b>242,970</b>
1,525	-	1,525	6	-	-	-
21,964	(1,846)	20,118	9	19,399	-	19,399
22,775	(1,826)	20,949	10	27,885	(7,876)	20,009
-	-	-		-	-	-
-	(279,517)	(279,517)	11	10,579	(283,848)	(273,269)
<b>426,597</b>	<b>(436,344)</b>	<b>(9,747)</b>	<b>(Surplus) / Deficit on Provision of services</b>	<b>458,758</b>	<b>(449,649)</b>	<b>9,109</b>
		(2,846)	(Surplus) / deficit on revaluation of Property Plant and Equipment assets			(39,368)
		62,767	Actuarial (gains) / losses on pensions assets / liabilities			19,578
		<b>59,921</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(19,790)</b>
		<b>50,174</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(10,681)</b>

# Movements in Reserves Statement

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

	Council Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at the 31 Mar 2014 carried forward</b>	(5,000)	(69,966)	(5,402)	<b>(80,368)</b>	(15,693)	<b>(96,061)</b>
<b>Movement in reserves during 2014/15</b>						
(Surplus) / deficit on the provision of services	(9,747)	-	-	<b>(9,747)</b>	-	<b>(9,747)</b>
Other comprehensive Income and Expenditure	-	-	-	-	59,921	<b>59,921</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(9,747)</b>	-	-	<b>(9,747)</b>	<b>59,921</b>	<b>50,174</b>
Adjustments between accounting basis and funding basis under regulations ( <b>Note 7</b> )	1,854	-	(1,566)	<b>288</b>	(288)	-
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(7,893)</b>	-	<b>(1,566)</b>	<b>(9,459)</b>	<b>59,633</b>	<b>50,174</b>
Transfer to/ from Earmarked Reserves	3,967	(3,967)		-	-	-
<b>Increase/ Decrease in 2014/15</b>	<b>(3,926)</b>	<b>(3,967)</b>	<b>(1,566)</b>	<b>(9,459)</b>	<b>59,633</b>	<b>50,174</b>
<b>Balance at the 31 Mar 2015 carried forward</b>	<b>(8,926)</b>	<b>(73,933)</b>	<b>(6,968)</b>	<b>(89,827)</b>	<b>43,940</b>	<b>(45,887)</b>
<b>Balance at the 31 Mar 2015 carried forward</b>	<b>(8,926)</b>	<b>(73,933)</b>	<b>(6,968)</b>	<b>(89,827)</b>	<b>43,940</b>	<b>(45,887)</b>
<b>Movement in reserves during 2015/16</b>						
(Surplus) / deficit on the provision of services	9,109	-	-	<b>9,109</b>	-	<b>9,109</b>
Other comprehensive Income and Expenditure	-	-	-	-	(19,790)	<b>(19,790)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>9,109</b>	-	-	<b>9,109</b>	<b>(19,790)</b>	<b>(10,681)</b>
Adjustments between accounting basis and funding basis under regulations ( <b>Note 7</b> )	(19,502)	-	(1,091)	<b>(20,593)</b>	20,593	-
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>	<b>(10,393)</b>	-	<b>(1,091)</b>	<b>(11,484)</b>	<b>803</b>	<b>(10,681)</b>
Transfer to/ from Earmarked Reserves ( <b>Note 8</b> )	12,819	(12,819)	-	-	-	-
<b>(Increase) / Decrease in 2015/16</b>	<b>2,426</b>	<b>(12,819)</b>	<b>(1,091)</b>	<b>(11,484)</b>	<b>803</b>	<b>(10,681)</b>
<b>Balance at the 31 Mar 2016 carried forward</b>	<b>(6,500)</b>	<b>(86,752)</b>	<b>(8,059)</b>	<b>(101,311)</b>	<b>44,743</b>	<b>(56,568)</b>

# Balance Sheet

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The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2015		Notes	31 March 2016
£'000			£'000
469,932	Property, Plant and Equipment	12	495,129
12,946	Heritage Assets	13	13,077
7,237	Investment Property	14	13,799
251	Long Term Investments	15	251
54,193	Long Term Debtors	15	96,935
<b>544,559</b>	<b>Long Term Assets</b>		<b>619,191</b>
5,199	Assets Held for Sale	19	656
237	Inventories	16	207
51,040	Short Term Debtors	17	46,614
2,666	Cash and Cash Equivalents	18	3,191
<b>59,142</b>	<b>Current Assets</b>		<b>50,668</b>
(4,481)	Bank Overdrafts	18	(6,727)
(16,212)	Short Term Borrowing	15	(35,585)
(34,482)	Short Term Creditors	20	(27,742)
(8,619)	Provisions	21	(8,475)
<b>(63,794)</b>	<b>Current Liabilities</b>		<b>(78,529)</b>
(11,223)	Long Term Creditors	15	(11,938)
(2,158)	Long Term Provisions	21	(5,751)
(176,827)	Long Term Borrowing	15	(187,696)
(303,812)	Other Long Term Liabilities		(329,377)
<b>(494,020)</b>	<b>Long Term Liabilities</b>		<b>(534,762)</b>
<b>45,887</b>	<b>Net Assets</b>		<b>56,568</b>
(89,827)	Usable Reserves	22	(101,311)
43,940	Unusable Reserves	23	44,743
<b>(45,887)</b>	<b>Total Reserves</b>		<b>(56,568)</b>

# Cash Flow Statement

Statement of Accounts 2015/16

Newport City Council

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2014/15		Note	2015/16
£'000			£'000
(9,747)	Net (surplus) / deficit on the provision of services as shown on the Comprehensive Income and Expenditure Statement		9,109
28,592	Adjustments to net surplus or deficit on the provision of services for non-cash movements	27	(841)
1,846	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	1,682
<b>20,691</b>	<b>Net cash flows from Operating Activities</b>		<b>9,950</b>
15,487	Investing Activities	25	19,908
(35,058)	Financing Activities	26	(28,137)
<b>1,120</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>1,721</b>
(695)	Cash and cash equivalents at the beginning of the reporting period	18	(1,815)
<b>(1,815)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	18	<b>(3,536)</b>

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## I ACCOUNTING POLICIES

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Public Accounts and Audit (Wales) Regulations 2005, and in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16 and supported by International Financial Reporting Standards (IFRS).

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

### Accruals of Income and Expenditure

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

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

### Cash and Cash Equivalents

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### Discontinued Operations

Discontinued operations arise where an activity has permanently ceased; terminates during the period or within three months of the period end; has a material impact on the Authority's service provision or on the Authority's net

# Notes to the Statement of Accounts

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Newport City Council

expenditure; and the operation has clearly defined assets, liabilities, income and expenditure on operations for operational and financial reporting purposes.

## **Exceptional Items**

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

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

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

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

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

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

Service revenue accounts and central support services are debited with the following amounts to recognise the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Authority is not required to raise council tax to cover these charges but instead has to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This charge is known as the minimum revenue provision (MRP) and is calculated in accordance with an annual MRP policy approved by the Authority.

Depreciation, impairment losses and amortisations are therefore replaced by the MRP in the Movement of Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account.

## **Employee Benefits**

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

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

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

## **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Council Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

## **Post-Employment Benefits**

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pension on behalf of the Department for Education.
- The Local Government Pension Scheme, administered by Torfaen County Borough Council.

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

## **The Local Government Pension Scheme**

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

- The liabilities of the Torfaen County Borough (Greater Gwent) pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions around areas such as mortality rates and employee turnover rates, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate (based on the indicative rate of return on high quality corporate bonds).
- The assets of the Torfaen County Borough (Greater Gwent) pension fund attributable to the Authority are included in the Balance Sheet at their bid value
  - Equity securities – quoted prices in active markets
  - Real Estate, investment funds and unit trusts, cash & cash equivalents = quoted prices not in active markets
- The change in the net pensions liability is analysed into the following components:

## Service Costs

- **current service cost** – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs; and
- **net interest on the net defined benefit liability (asset)** - the net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

## Re-measurements

- **the return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

**Contributions paid to the Torfaen County Borough (Greater Gwent) pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Council Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

## **Discretionary Benefits**

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Full pensions details are included in Notes 40 and 41.

## **Events after the Balance Sheet Date**

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



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

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

## **Fair Value Measurement**

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as borrowings and investments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy as follows:

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

## **Financial Instruments**

### ***Financial Liabilities***

Financial liabilities are contractual obligations to deliver cash or other financial assets or exchange potentially unfavourable assets and liabilities. These are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income & Expenditure Account for interest payable are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income & Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited in the Comprehensive Income & Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing

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instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income & Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Account, regulations allow the impact on the Council Fund Balance to be spread over future years. Where there has been an early repayment and no new loans taken up then the Authority policy is to spread the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. However, where a new loan has replaced the early repayment, the gain or loss is spread over the term of the new loan.

The reconciliation of amounts charged to the Comprehensive Income & Expenditure Account to the net charge required against the Council Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement in Reserves.

## **Financial Assets**

Financial assets include cash, equity instruments and contractual rights to receive cash or exchange potentially favourable assets or liabilities. In this respect, loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income & Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income & Expenditure Account is the amount receivable for the year in the loan agreement.

The Authority does not issue loans to external organisations at interest rates less than market rates.

The Authority does not have financial assets that are Available for Sale.

## **Government Grants and Contributions**

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income. Capital Grants are reversed out to the capital adjustment account as expenditure is incurred. Unused capital grants are held within the Capital Grants Unapplied Reserve. Grants or contributions requiring return if conditions are not satisfied, are held on the balance sheet as grants received in advance until the conditions are met at which point they are recognised in the Comprehensive Income and Expenditure Statement.

## **Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)**

The Authority's Heritage Assets are held in a number of collections in varying locations across the Authority. The Authority holds collections of heritage assets in order to increase the knowledge, understanding and appreciation of the history and culture of the Authority's local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However some measurement rules are relaxed in relation to heritage assets as detailed below. The Authority's collections of heritage assets are accounted for as follows.

### **Museum Collection**

The Museum collection includes paintings (both oil and watercolour) and lithographs which are reported in the Balance Sheet at market value. The collection is generally re-valued every five years by the most appropriately deemed method. On occasion assets will be re-valued outside of this where they are loaned to other organisations. The assets within the collection are deemed to have indeterminate lives, and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation, with valuations made with reference to appropriate commercial markets for the assets using the most relevant and recent information from sales at auctions.

### ***Tredegar House – Property and Contents***

Tredegar House is a 17th century Charles II mansion and grounds which is reported in the balance sheet at market value. In line with the Authority's accounting policies on property, plant and equipment, the property is re-valued every five years, and depreciated over its estimated remaining useful life.

The contents of the property include paintings, furniture and other artefacts of the time period. These items are reported in the balance sheet at insurance value which is based on market values. These insurance valuations will be updated every five years. The artefacts within the collection are considered to have indeterminate lives; hence the Authority does not consider it appropriate to charge depreciation.

The collection is relatively static, with acquisitions and donations very rare. Where they do occur acquisitions are initially recognised at cost and donations are recognised at a valuation ascertained by the museum's curators in accordance with the Authority's policy on valuations of art collections.

### ***Public Art and Features***

The Authority holds a large number of public art features, such as murals and statues, on public display throughout the local area. These are reported in the Balance Sheet at market value. The collection is re-valued every five years by the Authority's internal experts based on anticipated replacement costs of the art, which is considered to closely represent their market value. The assets within the Public Art collection are deemed to have indeterminate lives, and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation, with valuations made with reference to appropriate commercial markets.

### ***Archaeology***

The Authority does not consider that reliable cost information can be obtained for the items held within its archaeological collection. This is because of the diverse nature of the assets held and the lack of comparable market values. Consequently the Authority does not generally recognise these assets on the balance sheet. However where specific costs can be identified, these will be capitalised, for example the freeze drying requirements of the Newport Ship. Depreciation on these items is considered on a case by case basis. The Authority's acquisitions principally relate to the ancient ship discovered in the early 1990's. The Authority does not normally make any purchases of archaeological items.

### ***Heritage Assets – General***

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for these assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see impairment note in this summary of significant accounting policies.

The Authority will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the Statement of Accounts and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see later notes in this summary of significant accounting policies).

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## **Interest in Companies and Other Entities**

The Authority has considered the status of its relationships with its partner organisations and where not material interests in other companies and entities are shown in a disclosure note in the notes to the Statement of Accounts. Newport Transport Ltd are consolidated with Newport City Councils statements in the group accounts.

## **Inventories and Long Term Contracts**

The value of stocks at the year-end is recorded in the Statement of Accounts at historical cost. This valuation is not in accordance with IAS2 or the Code of Practice, which requires the value to be stated as the lower of cost and net realisable value (NRV). Any difference between cost and NRV is considered to be negligible and historical cost has been used for all valuations.

## **Investment Property**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

## **Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The Authority does not recognise on its Balance Sheet the assets that it controls and the liabilities that it incurs and it debits and credits the Comprehensive Income and Expenditure Statement with the only expenditure and income it incurs directly with the operation. It does not include the share of expenditure with or income it earns from the activity of the operation. As a result these have not been incorporated into the 2014/15 or 2015/16 Statement of Accounts.

The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Note 47 outlines the income and expenditure of these operations for information.

## **Leases**

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

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

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

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## The Authority as Lessee

### **Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

### **Operating Leases**

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

## The Authority as Lessor

### **Finance Leases**

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment (PPE) or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), and matched by a lease (long-term debtor) asset in the Balance Sheet.

The Authority utilises external care home facilities to support its customers' needs. In most instances occupancy is relatively small. However, there are two homes of 4 and 6 beds where occupancy is significant. Notwithstanding this, the valuation of these two properties is small compared to the total PPE asset base and therefore is not included in the figures shown in Note 12.

Lease rentals receivable are apportioned between:

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

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

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

## ***Operating Leases***

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

## **Overhead and Support Service**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2014/15* (SERCOP). The full cost of overheads and support services are shared between users in proportion to the benefits received. The proportions used are: Central departments - allocated on a time allocation or usage basis; administrative buildings - floor area; and Computing costs - usage. Exceptions to this are: Corporate and Democratic Core (costs relating to the Authority's status as a multi-functional democratic organisation); and Non-Distributed Costs (the cost of discretionary benefits awarded to employees retiring early). These two categories are accounted for as separate headings in the Comprehensive Income and Expenditure Account, as part of the Net Cost of Services.

## **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.

## ***Recognition***

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Authority maintains a de minimus cost of £10,000 for any asset to be capitalised. However where groups of assets e.g. PCs are purchased individually fall below the de minimus level, these will be considered for capitalisation as a group of assets on a case by case basis.

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Where the acquisition or creation of IT systems incorporates both physical hardware and licences to use the system, judgement is made as to whether this will be classified wholly as Property, Plant and Equipment or Intangible Assets, as per the CIPFA Code of Practice on Local Authority Accounting.

## **Measurement**

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Land and buildings – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- Non-specialised operational properties – existing use value (EUV);
- Specialised operational properties (such as schools) – depreciated replacement cost (DRC);
- Vehicles, plant and equipment – depreciated historical cost as a proxy for current value on materiality grounds;
- Infrastructure assets – depreciated historical cost or nominal value if unavailable;
- Community assets – historic cost where available, or existing use value (EUV);
- Assets under construction – historical cost; and
- Investment properties and surplus assets – fair value, estimated at highest and best use from a market participant's perspective.

Assets are included in the balance sheet at current value and are re-valued where there have been material changes in the value, but as a minimum every five years. When Assets under Construction are completed, they are valued at the date of completion in line with the appropriate valuation method for the asset type. Valuations are on the basis recommended by CIPFA and in accordance with the statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

- where there is a balance in the Revaluation Reserve the difference between the historic carrying value of the asset and its re-valued value is written off against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance the difference between the historic carrying amount of the asset and its re-valued value (impaired value) is written down against the relevant service line(s) in the Comprehensive income and Expenditure Account.

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

Valuations are undertaken by Mrs Eirian Jones (MRICS), Senior Estates Portfolio Officer at Newport Norse Ltd.

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

Adopted roads built by developers are in many respects seen as donated assets. Whilst donated assets are required to be measured at fair value at recognition, infrastructure assets are measured initially at historical cost and subsequently at depreciated historical cost rather than fair value.

## **Impairment**

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

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

- where there is a balance in the Revaluation Reserve the difference between the historic carrying value of the asset and its re-valued value is written off against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance the difference between the historic carrying amount of the asset and its re-valued value (impaired value) is written down against the relevant service line(s) in the Comprehensive income and Expenditure Account.

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

## **Depreciation**

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

Depreciation is calculated on the following bases:

<b>Asset</b>	<b>Policy</b>	<b>Life</b>
Land	No depreciation charged	
Buildings	Straight line depreciation on estimated remaining life	As advised by Valuer
New roads	Straight line depreciation on estimated remaining life	40 years
Vehicles & Plant	Straight line depreciation on estimated remaining life or over the term of the lease in the case of assets acquired by finance leases	5 - 7 years
Computer Equipment	Straight line depreciation on estimated remaining life	Usually 5 years



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

No depreciation is charged in the year of acquisition or enhancement of an asset, and a full year's depreciation is charged in the year of disposal of a depreciating asset.

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.

## **Componentisation**

Assets purchased or re-valued during the year are reviewed to confirm whether any part of the asset will have a significantly different useful life. Where this is the case the asset will be 'componentised' and the differing parts will be depreciated over their respective useful lives.

However, property assets will only be componentised where the total asset value is £2.5m or greater. These assets are componentised into Buildings, Land, Mechanical and Electrical plant and Externals elements on revaluation.

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

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

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## **Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services, where responsibility for making available the required property, plant and equipment needed to provide services passes to the contractor. The Authority is deemed to control the services provided under its PFI schemes and as ownership of the property, plant and equipment passes to the Authority at the end of the contract, the Authority carries the assets used under the contracts within its own balance sheet as part of property, plant and equipment.

The recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by a liability for amounts due to the scheme operator to pay for the assets. Non-current assets recognised on the balance sheet are re-valued and depreciated in the same way as property, plant and equipment directly owned by the Authority.

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

- Fair value of the services received during the year which recognises performance achieved – charged to the relevant service in the Income and Expenditure Account;
- Finance cost – an interest charge on the outstanding balance sheet liability, charged to Financing and Investment Income and Expenditure in the Income and Expenditure Account;
- Contingent rent – an amount paid in respect of the property during the contract, charged to Financing and Investment Income and Expenditure in the Income and Expenditure Account;
- Payment toward liability – used to write down the balance sheet liability towards the operator;
- Lifecycle replacement costs – recognising elements of the assets require regular replacement and therefore charged to fixed assets on the balance sheet, or revenue as appropriate.

The Authority receives government grants to support its financing liabilities each year. In the early years of such contracts this income exceeds the Authority's net expenditure on these schemes. The Authority has agreed that it will transfer any consequential Income and Expenditure surpluses arising from its PFI arrangements, together with any additional revenue provision deemed necessary to a PFI Reserve. The reserve funds are released in the later years of the contract when payments exceed available revenue support.

## **Provisions**

Provisions are shown where a past event has placed the Authority in a position where it has an obligation that is likely to lead to it incurring a cost. The precise timing and value of the cost may be unknown but can be reliably estimated.

Provisions are charged to the Comprehensive Income and Expenditure Statement to the appropriate service revenue account in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. Estimates are reviewed at the end of each financial year and any changes are reflected within relevant service revenue accounts. When payments related to the obligation are eventually made they are charged to the provision set up in the Balance Sheet.

## **Contingent Assets / Liabilities**

Contingent Assets and Liabilities are obligations or assets arising from past events where:

- The existence or value of the obligation is dependent on future events which are outside the control of the Authority;
- It is not probable that a flow of economic benefits will be required to settle the obligation; and
- The obligation/contingent asset cannot be measured reliably.

# Notes to the Statement of Accounts

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Contingent Liabilities and Assets are not recognised in the Balance Sheet but are disclosed in Notes 43 and 44. The disclosure sets out the scale of potential costs and likelihood of these being realised.

## **Reserves**

The Authority maintains a range of reserves, reflecting both the extent to which its assets exceed its liabilities and any restrictions (statutory or voluntary) which are placed upon the usage of these balances. The main unrestricted reserve used to hold available Council funds is the Council Fund. Expenditure to be financed from an earmarked reserve is initially shown as a cost in the Comprehensive Income and Expenditure Statement. An offsetting transfer is then recorded in the Movement in Reserves Statement to ensure that there is no impact on General Fund or Council Tax.

**Council Fund Balance:** The Authority holds a Council Fund Balance to meet future funding requirements and as a hedge against any unforeseen financial losses. The adequacy of the level of this reserve is reviewed annually by the Chief Finance Officer as part of the Authority's budget approval process.

## **Earmarked Reserves:**

The Authority has discretion to set aside specific amounts as reserves where they wish to earmark available funds for future policy purposes; to cover contingencies or manage cash flows. These are summarised in Note 8. The most significant reserve is the Southern Distributor Road PFI which will meet future liabilities over the lifetime of the PFI scheme.

## **Unusable Reserves**

A number of reserves exist to manage the accounting for non-current assets, financial instruments and employee benefits; these do not represent usable funds for the Authority, these are explained in the relevant policies and notes and are classed as Unusable Reserves, found in Note 23.

## **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax. This expenditure does form part of the Authority's Capital Financing Requirement.

## **Value Added Tax (VAT)**

Income and expenditure excludes any amounts related to VAT, as all VAT collected on income is paid over to HM Revenue and Customs, and all VAT paid on expenditure is recovered from them. Income and expenditure arising from changes in legislation affecting amounts claimed are included against services unless significant in which case, they appear as Exceptional Items on the Comprehensive Income and Expenditure Statement.

## **Carbon Reduction Commitment Allowances**

The authority is required to participate in the Carbon Reduction Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowance. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

## 2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2016. The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) takes effect from 1 April 2016. The Code confirms the changes arising from the Infrastructure Code do not require retrospective adjustment to the accounts. Under the Infrastructure Code, transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment known as the Highways Network Asset, measured at depreciated replacement cost. This will consist of several components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land.

The disclosure will require the transfer of assets between infrastructure and the new highways network asset categories. This is likely to result in a revaluation gain due to a change from depreciated historic cost to depreciated replacement cost basis. Thus the new valuation will reflect the current cost of replacement rather than original cost of works, which would have been built over a significant time period. If the changes had been implemented in 2015/16, based on current estimates the net book value of infrastructure assets would increase from £156m to circa £745m.

In addition there are a number of minor amendments to International Financial Reporting Standards, but these are not expected to have any material impact on the accounts.

## 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There remains a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision;
- Following the publication of updated guidance from CIPFA the Council has reviewed its recognition and treatment of the various types of schools and the assets they operate from. Schools governing bodies are separate entities to the Authority but for the purpose of preparing Statement of Accounts they are within the group boundary and their activities must be reported.

Despite the fact they are separate bodies, in recognition of the unique nature of the relationship Councils are required to report any material expenditure, income, assets and liabilities of these schools within its primary statements. Specific consideration has to be given as to whether the assets from which these schools operate meet the necessary criteria (in terms of access to services and control) to be recognised as Council assets under IAS16.

In Newport's case it has been judged that faith schools (voluntary aided or controlled) which are not sited on Authority land and over which it has no long term guarantees of availability do not meet the criteria for recognition as an asset under IAS16. This results in the exclusion of 20 schools from the Authority's non-current assets.

# Notes to the Statement of Accounts

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## 4 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Head of Finance on XX June 2016. Events taking place after this date are not reflected in the financial statements or notes. There are no events after the balance sheet date at the date the Statement of Accounts was authorised for issue.

## 5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contain estimated figures that are based on assumptions made by the Authority about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
<b>Fair value measurements</b>	<p>When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities.</p> <p>Where level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the senior external valuer).</p>	<p>The authority uses a selection of valuation methods to measure the fair value of its surplus assets, investment properties and financial assets and liabilities.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement particularly for the investment properties.</p>
<b>Pensions Liability</b>	<p>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</p>	<p>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>The actuary has advised the effects of a 0.5% increase in the following criteria:</p>

# Notes to the Statement of Accounts

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	<p>rates and expected returns on pension fund assets.</p>	<p>Discount Rate – £77.8m decrease to liability.</p> <p>Salary Increase Rate – £27.3m increase to liability.</p> <p>Pension Increase Rate - £49.2m increase to liability.</p> <p>A one year increase in life expectancy would result in an additional liability of £20.1m.</p>
<b>Property, Plant and Equipment</b>	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Due to the uncertainty about the actual useful life of an asset there is uncertainty of this charge if the useful life was to change.</p>	<p>If the useful life of assets is reduced, depreciation increases and the net carrying value of the assets falls.</p>
<b>Provisions</b>	<p>The Authority makes a number of provisions for liabilities that it may face where a reasonable estimate of value can be made.</p> <p>In most cases these are subject to legal claims such as Insurance claims and other items as disclosed in the provisions note. Provisions relating to landfill sites, due to their significant value and long life are subject to a high level of estimation of future liabilities, this is detailed further in the provisions note.</p>	<p>The provisions are based on information known at the Balance Sheet date and best estimates and professional internal and external advice is used to determine value and number of provisions. The outcomes of such issues will have an impact on the outturn of the Council in future years, however due to the uncertain nature of these events, these are difficult to quantify.</p>
<b>Provisions in relation to arrears</b>	<p>At 31 March 2016, the Authority had amounts it was owed for items such as sundry debtors, Council Tax, Non Domestic Rates (NDR) and rents. After taking into account trends in past collection experience and other relevant changes that may impact on collectability such as the economic climate, a level of impairment is assumed which may or may not be deemed to be sufficient.</p>	<p>Improvements in collection will improve future reported outturn position, however where customers are finding it difficult to pay for Council services, this will require increases in the level of provisions currently set aside.</p>

## 6 MATERIAL ITEMS OF INCOME AND EXPENSE

Material items occurring outside of the Authority's normal activities and which, by virtue of their size and potential incidence on the Statement of Accounts are disclosed separately to give a true and fair view.

In 2014/15 the following one-off payments totalling £1.525m have been made which have been classed as exceptional items. These are:

- £500k provision for bridging payments in relation to equal pay claims
- £400k provision for outstanding equal pay claims
- £625k transfer to pay reserve to cover future costs in relation to Total Reward

There are no items classed as exceptional items in 2015/16.

# Notes to the Statement of Accounts

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## 7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions, as being available to the Authority to meet future capital and revenue expenditure.

**2015/16**

	Usable Reserves		
	Council Fund Balance	Capital Receipts Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>	<b>(13,238)</b>	-	<b>13,238</b>
<i>Reversal of Items debited or credited to the Comprehensive Income and Expenditure Account</i>	<b>(27,709)</b>	-	<b>27,709</b>
Charges for depreciation and impairment of non-current assets	(20,729)	-	20,729
Revaluation losses on PPE & Assets Held for Sale	(9,803)	-	9,803
Movements in the fair value of Investment Properties	2,433	-	(2,433)
Capital grants and contributions applied	13,845	-	(13,845)
Revenue expenditure funded from capital under statute	(8,219)	-	8,219
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(5,236)	-	5,236
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>	<b>14,471</b>	-	<b>(14,471)</b>
Statutory provision for the financing of capital investment	12,929	-	(12,929)
Capital expenditure charged against the General Fund	1,542	-	(1,542)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>	<b>1,682</b>	<b>(1,091)</b>	<b>(591)</b>
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	1,682	(1,682)	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	591	(591)
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>	<b>3,791</b>	-	<b>(3,791)</b>
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,791	-	(3,791)



# Notes to the Statement of Accounts

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**Adjustment primarily involving the  
Financial Instruments Adjustment  
Account:**

(4,434) - 4,434

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements

(4,434) - 4,434

**Adjustments primarily involving the  
Pensions Reserve:**

(7,991) - 7,991

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)

(22,179) - 22,179

Employer's pensions contributions and direct payments to pensioners payable in the year

14,188 - (14,188)

**Adjustment primarily involving the  
Accumulated Absences Account:**

688 - (688)

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements

688 - (688)

**TOTAL ADJUSTMENTS**

**(19,502) (1,091) 20,593**

**2014/15 Comparative figures**

**Usable Reserves**

	Council Fund Balance	Capital Receipts Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>	<b>6,373</b>	-	<b>(6,373)</b>
<i>Reversal of Items debited or credited to the Comprehensive Income and Expenditure Account</i>	<b>(6,882)</b>	-	<b>6,882</b>
Charges for depreciation and impairment of non-current assets	(18,179)	-	18,179
Revaluation losses on Property Plant and Equipment	336	-	(336)
Movements in the market value of Investment Properties	(3)	-	3
Capital grants and contributions applied	20,680	-	(20,680)
Revenue expenditure funded from capital under statute	(8,148)	-	8,148
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,568)	-	1,568
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>	13,255	-	(13,255)

# Notes to the Statement of Accounts

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Statutory provision for the financing of capital investment	12,820	-	(12,820)
Capital expenditure charged against the General Fund	435	-	(435)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>	1,846	(1,566)	(280)
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,846	(1,846)	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	280	(280)
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>	141	-	(141)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	141	-	(141)
<b>Adjustments primarily involving the Pensions Reserve:</b>	(4,770)	-	4,770
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	(19,817)	-	19,817
<i>Employer's pensions contributions and direct payments to pensioners payable in the year</i>	15,047	-	(15,047)
<b>Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:</b>	310	-	(310)
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	310	-	(310)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>	(2,046)	-	2,046
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,046)	-	2,046
<b>TOTAL ADJUSTMENTS</b>	<b>1,854</b>	<b>(1,566)</b>	<b>(288)</b>

# Notes to the Statement of Accounts

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## 8 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund as 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 2015/16.

	Balance at 31-Mar-15	Movements between Reserves		Via Comprehensive I&E Account		Balance at 31-Mar-16	Reserve Type
		Transfers Out	Transfers In	Transfers Out	Transfers In		
	£'000	£'000	£'000	£'000	£'000	£'000	
Council Fund:	(8,926)	2,426				(6,500)	General
Balances held by schools for future use	(4,760)				(1,121)	(5,881)	Schools
<b>Earmarked Reserves:</b>							
Capital Expenditure	(51)		(4,635)	20	(2,418)	(7,084)	Risk
Insurance Reserve	(1,772)			44	(197)	(1,925)	Risk
MMI Insurance Reserve	(665)			563	(250)	(352)	Risk
Legal Claims	(100)					(100)	Risk
Health & Safety	(16)					(16)	Risk
Music Service	(165)				(40)	(205)	Risk
Council Tax Reduction	(500)					(500)	Risk
Education Achievement Service	(92)					(92)	Risk
Schools Redundancies	(225)				(228)	(453)	Risk
Friars Walk	(2,629)				(3,547)	(6,176)	Risk
Gem Services Reserve	(100)					(100)	Risk
Pay Reserve	(7,302)	4,240		2,014	(900)	(1,948)	Enabling / Risk
Invest to Save	(7,520)		(3,500)	2,009	(3,827)	(12,838)	Enabling
Super Connected Cities	(1,041)			292		(749)	Enabling
Landfill Reserve	(163)			32		(131)	Enabling
Christmas Lights	(75)			28		(47)	Enabling
Capital Works	(1,250)		1,709	41	(500)	-	Enabling
Usable Capital Receipts	(6,968)			591	(1,682)	(8,059)	Enabling
STEP School Computers	(879)			241		(638)	Smoothing
Municipal Elections	(86)				(34)	(120)	Smoothing
Local Development Plan	(476)				(52)	(528)	Smoothing
Glan Usk PFI	(418)				(553)	(971)	Smoothing
Southern Distributor Road PFI	(42,484)				(2,014)	(44,498)	Smoothing
Works of art	(21)					(21)	Other
School Works	(424)			172	(20)	(272)	Other
Theatre & Arts Centre	(233)					(233)	Other
Cymorth Income	(38)					(38)	Other
Pupil Referral Unit	(60)					(60)	Other
Chartist Commission	(50)			50		-	Other
Gypsy and Traveller Site	(20)			13		(7)	Other
Homeless Prevention	(38)					(38)	Other
Environmental Health - Improve Air Quality	(50)					(50)	Other
Refurbishment of a Children/Older People Homes	(80)				(35)	(115)	Other
Apprenticeship Scheme Reserve	(50)				(30)	(80)	Other
City Economic Development Reserve	(50)		(35)		(110)	(195)	Other
Great Western Cities	(50)	35		15		-	Other
Welsh Language Standards	-		(240)			(240)	Other
YS Dilapidation Costs Information Shop	-				(51)	(51)	Other
<b>Total</b>	<b>(89,827)</b>	<b>6,701</b>	<b>(6,701)</b>	<b>6,125</b>	<b>(17,609)</b>	<b>(101,311)</b>	

# Notes to the Statement of Accounts

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Key Reserves to note are:

- **Invest to save reserve** - established to enable funding of specific projects which demonstrate savings to the revenue budget within pay-back period within approximately 5 years;
- **School reserves** - these are balances held by schools for their future use;
- **Capital Expenditure reserve** - established to fund specific capital schemes and risks included in the Capital Programme;
- **Insurance reserve** - to assist in the management of the Authority's insurance risks. To meet excesses and costs of claims against the Authority and to provide cover on self-insured risks;
- **MMI Insurance reserve** - established to assist with potential future funding requirements of MMI in line with the agreed 'Scheme of Arrangement';
- **Pay reserve** - established to fund potential pay liabilities in future years;
- **Usable capital receipts reserve** - holds proceeds from sale of property, plant and equipment, used to finance new capital expenditure;
- **Southern Distributor Road and Glan Usk PFI reserves** - smoothes out funding differences that arise between the funding available and the capital payments made to the contractor. The reserve will balance over the life of the project;
- **Friars Walk reserve** - established to assist with any potential future funding needs for the Friars Walk scheme.

## 9 OTHER OPERATING EXPENDITURE

31-Mar-15		31-Mar-16
£'000		£'000
	<b>Precepts and Levies:</b>	
228	Community Councils	239
6,912	South Wales Fire Authority	6,817
928	Caldicot and Wentlooge Drainage Board	762
151	Home Office	160
11,186	Police and Crime Commissioner for Gwent	11,758
991	(Gains) and Losses on assets held for sale	(101)
(278)	Loss / (Profit) on the disposal of non-current assets	(236)
<b>20,118</b>	<b>Total</b>	<b>19,399</b>

# Notes to the Statement of Accounts

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Newport City Council

## 10 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

31-Mar-15		31-Mar-16
£'000		£'000
14,915	Interest payable and similar charges	19,410
7,860	Pensions interest cost and expected return on pensions assets	8,320
(1,147)	Interest receivable and similar income	(4,207)
	PFI special grant	-
(96)	Income and expenditure in relation to investment properties and changes in their fair value	(3,514)
(583)		
<b>20,949</b>	<b>Total</b>	<b>20,009</b>

## 11 TAXATION AND NON SPECIFIC GRANT INCOME

31-Mar-15		31-Mar-16
£'000		£'000
(50,331)	Council tax income	(54,320)
(44,745)	Re-distributed non domestic rates	(41,092)
(171,628)	Non-ring fenced government grants	(169,693)
(12,813)	Capital grants and contributions	(8,164)
<b>(279,517)</b>	<b>Total</b>	<b>(273,269)</b>

### National Non-Domestic Rates (NNDR)

The total rateable value for non-domestic rates was £154,979,373 at 31 March 2016 (£154,389,156 at 31 March 2015). The rate poundage for occupied properties was 48.2p per £ of rateable value (47.3p in 2014/15) with empty properties being charged at 48.2p (47.3p in 2014/15).

31-Mar-15		31-Mar-16
£'000		£'000
(65,433)	NNDR collectable	(64,162)
64,497	Payments to NNDR pool	63,205
616	NNDR bad debts written off and/or provided for	641
320	NNDR cost of collection allowance	316
-		-

In 2015/16 Newport received £41.092m from the Welsh NNDR pool in support of its services (£44.745m – 2014/15).

# Notes to the Statement of Accounts

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Newport City Council

## LOCAL TAXATION

### Council Tax Collection

	31-Mar-15 £'000	31-Mar-16 £'000
<b>INCOME</b>		
Council Taxes (net of Council Tax benefits)	(50,855)	(54,687)
Council Tax benefits	(10,448)	(10,579)
<b>Total income</b>	<b>(61,303)</b>	<b>(65,266)</b>
<b>EXPENDITURE</b>		
Precepts payable		
- Gwent Police Authority	11,186	11,758
- Community Councils	228	239
Newport Council Fund requirement	49,104	52,117
Council tax written off and provided for	420	368
<b>Total expenditure</b>	<b>60,938</b>	<b>64,482</b>
<b>Net surplus for the year</b>	<b>(365)</b>	<b>(784)</b>

### Council Tax Requirement

	31-Mar-15		31-Mar-16	
	Dwellings	Tax Base	Dwellings	Tax Base
Total number of properties on valuation list	64,679	64,679	65,247	65,247
<b>Adjusted as follows</b>				
Less exempt properties @ 100%	2,115	(2,115)	1,929	(1,929)
Less single discounts @ 25%	24,058	(6,015)	5,949	(5,949)
Less multiple discounts @ 50%	1,198	(599)	575	(575)
Band D conversion		(323)		(245)
Losses on collection		(984)		(989)
<b>Tax Base</b>		<b>54,643</b>		<b>55,560</b>
		£		£
Council tax requirement		60,517,448		64,113,419
Less payable to Gwent Police		(11,185,538)		(11,757,615)
Less payable to Community Councils		(227,673)		(239,145)
<b>Net requirement Newport City Council</b>		<b>49,104,237</b>		<b>52,116,659</b>
<b>Band D tax for the year</b>		<b>893.36</b>		<b>938.03</b>

Losses on collection have been calculated at 1.75% (1.75% 2014/15)

This basic amount of £938.03 for a band D property (£893.36 in 2014/15) is multiplied by the proportion specified for the particular band to give the individual amount due:

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

# Notes to the Statement of Accounts

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## 12 PROPERTY, PLANT AND EQUIPMENT

	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets within PPE £'000
<b>Cost or Valuation</b>								
At 1 April 2015	297,898	29,869	209,286	574	6,506	9,163	553,296	70,939
Additions	7,686	3,725	1,260	-	-	8,640	21,311	-
Re-classifications	(4,345)	2,418	-	(1)	2,342	(4,726)	(4,312)	-
Impairments & Revaluations	12,498	-	-	-	(2,510)	-	9,988	-
Disposals	(13)	(2,715)	-	-	-	-	(2,728)	-
<b>At 31 March 2016</b>	<b>313,724</b>	<b>33,297</b>	<b>210,546</b>	<b>573</b>	<b>6,338</b>	<b>13,077</b>	<b>577,555</b>	<b>70,939</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2015	(15,698)	(19,573)	(48,093)	-	-	-	(83,364)	(14,589)
Depreciation Charge in Year	(8,165)	(1,984)	(6,193)	-	(4)	-	(16,346)	(1,859)
Re-classifications	257	-	-	-	(257)	-	-	-
Revaluation Impact	14,704	-	-	-	261	-	14,965	-
Disposals	-	2,319	-	-	-	-	2,319	-
<b>At 31 March 2016</b>	<b>(8,902)</b>	<b>(19,238)</b>	<b>(54,286)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(82,426)</b>	<b>(16,448)</b>
<b>Net Book Value</b>								
At 1 April 2015	282,200	10,296	161,193	574	6,506	9,163	469,932	56,350
<b>At 31 March 2016</b>	<b>304,822</b>	<b>14,059</b>	<b>156,260</b>	<b>573</b>	<b>6,338</b>	<b>13,077</b>	<b>495,129</b>	<b>54,491</b>

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	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>								
At 1 April 2014	<b>293,248</b>	<b>28,965</b>	<b>203,933</b>	<b>376</b>	<b>7,796</b>	<b>1,302</b>	<b>535,620</b>	<b>70,939</b>
Additions	3,074	2,887	5,472	-	-	7,684	19,117	-
Re-classifications	(962)	-	2	195	17	177	(571)	-
Impairments & Revaluations	2,855	(5)	(121)	3	(1,056)	-	1,676	-
Disposals	(317)	(1,978)	-	-	(251)	-	(2,546)	-
<b>At 31 March 2015</b>	<b>297,898</b>	<b>29,869</b>	<b>209,286</b>	<b>574</b>	<b>6,506</b>	<b>9,163</b>	<b>553,296</b>	<b>70,939</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2014	(7,873)	(19,711)	(42,060)	-	-	-	(69,644)	(12,743)
Depreciation Charge in Year	(8,199)	(1,815)	(6,033)	-	(105)	-	(16,152)	(1,846)
Re-classifications	-	-	-	-	-	-	-	-
Revaluation Impact	374	-	-	-	105	-	479	-
Disposals	-	1,953	-	-	-	-	1,953	-
<b>At 31 March 2015</b>	<b>(15,698)</b>	<b>(19,573)</b>	<b>(48,093)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(83,364)</b>	<b>(14,589)</b>
<b>Net Book Value</b>								
At 1 April 2014	285,375	9,254	161,873	376	7,796	1,302	465,976	58,196
<b>At 31 March 2015</b>	<b>282,200</b>	<b>10,296</b>	<b>161,193</b>	<b>574</b>	<b>6,506</b>	<b>9,163</b>	<b>469,932</b>	<b>56,350</b>



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The Authority also has a number of schools located within the Newport area which are Voluntary Aided and Voluntary Controlled and which are not owned by the Authority. Although these schools are recognised as located within the Authority's boundary, they are not disclosed within the Balance Sheet as they are not Authority owned assets.

Infrastructure Assets includes £261k of adopted assets (2014/15: £1,469k), which relate to a number of roads built by and adopted from developers through the year.

## Depreciation

Assets are depreciated on a straight line basis using the following useful asset lives:

ASSET	POLICY	LIFE
Land	No depreciation charged	
Buildings	Straight line depreciation on estimated remaining life	As advised by Valuer
New Roads	Straight line depreciation on estimated remaining life	40 years
Vehicles and Plant	Straight line depreciation on estimated remaining life or over the term of the lease in the case of assets acquired by finance leases	5 - 7 years
Computer equipment	Straight line depreciation on estimated remaining life	Usually 5 years

## Capital Commitments

The Authority continued its programme of capital investment in 2015/16 to improve the infrastructure and facilities in Newport. Of this programme, the Authority is contractually committed to carry out works as follows:

	31-Mar-15	31-Mar-16
	£'000	£'000
Central Services	-	-
Cultural & Related Services	0	-
Education	909	1381
Environmental Services	-	-
Highways, Roads & Transport	1,519	6
Housing (General Fund)	-	-
Planning & Development Services	975	37
	<u>3,403</u>	<u>1,424</u>

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## Revaluations

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

	Other Land & buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at Historic Cost	138	33,297	210,546	-	-	13,077	<b>257,058</b>
Valued at fair value as at:							
31 March 2016	201,001	-	-	-	-	-	<b>201,001</b>
31 March 2015	3,516	-	-	54	6,337	-	<b>9,907</b>
31 March 2014	15,293	-	-	376	-	-	<b>15,669</b>
31 March 2013	92,381	-	-	144	-	-	<b>92,525</b>
31 March 2012	1,395	-	-	-	-	-	<b>1,395</b>
<b>Total Cost or Valuation</b>	<b>313,724</b>	<b>33,297</b>	<b>210,546</b>	<b>574</b>	<b>6,337</b>	<b>13,077</b>	<b>577,555</b>

## Fair Value Measurement of Surplus Assets

Details of the Authority's surplus assets and information about the fair value hierarchy as at 31 March 2016 are as follows:

<i>Recurring fair value measurements using:</i>	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2016
	£000	£000	£000
Residential properties	331	935	1,266
Commercial units/Land	3,153	1,918	5,071
<b>Total</b>	<b>3,484</b>	<b>2,854</b>	<b>6,338</b>

As the fair value hierarchy has been introduced in 2015/16, there were no transfers between any of the levels during the year.

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

**Significant Unobservable Inputs – Level 3:** The remainder of the residential properties and commercial units/land located in the area are measured using the best information available and using the Valuer's experience to make

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assumptions on how the market would assess the value of the asset. These are therefore categorised as Level 3 in the fair value hierarchy as significant unobservable inputs are used in determining the fair value measurement.

In estimating the fair value of the authority's surplus assets, the highest and best use of these assets has been considered. This is not necessarily the existing use and assumptions have been made to arrive at this assessment of value. However, from the list of relevant assets for 2015/16, there has been no change in the valuation techniques used during the year for surplus assets.

The fair value of the authority's surplus assets portfolio is measured annually at each reporting date. All valuations are carried out by an external valuer, Newport Norse Ltd, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation experts work closely with the Authority's finance officers.

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## 13 Heritage Assets

### Reconciliation of the carrying value of heritage assets held by the Authority

	Museum Collection	Tredegar House & Park	Public Art & Features	Archaeology	Total Heritage Assets
	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>					
At 1 April 2015	8,005	1,930	2,917	103	12,955
Revaluations	-	-	140	-	140
<b>At 31 March 2016</b>	<b>8,005</b>	<b>1,930</b>	<b>3,057</b>	<b>103</b>	<b>13,095</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2015	-	(9)	-	-	(9)
Depreciation charge in year	-	(9)	-	-	(9)
<b>At 31 March 2016</b>	<b>-</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>(18)</b>
<b>Net Book Value</b>					
At 1 April 2015	8,005	1,921	2,917	103	12,946
<b>At 31 March 2016</b>	<b>8,005</b>	<b>1,912</b>	<b>3,057</b>	<b>103</b>	<b>13,077</b>

	Museum Collection	Tredegar House & Park	Public Art & Features	Archaeology	Total Heritage Assets
	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>					
At 1 April 2014	8,005	1,930	2,917	92	12,944
Additions	-	-	-	11	11
<b>At 31 March 2015</b>	<b>8,005</b>	<b>1,930</b>	<b>2,917</b>	<b>103</b>	<b>12,955</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2014	-	-	-	-	-
Depreciation charge in year	-	(9)	-	-	(9)
<b>At 31 March 2015</b>	<b>-</b>	<b>(9)</b>	<b>-</b>	<b>-</b>	<b>(9)</b>
<b>Net Book Value</b>					
At 1 April 2014	8,005	1,930	2,917	92	12,944
<b>At 31 March 2015</b>	<b>8,005</b>	<b>1,921</b>	<b>2,917</b>	<b>103</b>	<b>12,946</b>

## Further information on the collections held

### Museum Collection

The Authority has developed its collection since 1888. The collection now illustrates the changing face of the South Wales' rural and industrial landscape and includes donations from the Arts Council of Wales and the Contemporary Art Society for Wales.

Elements of the collection are regularly exhibited at the museum on a rotating basis. Key elements of the collection include:

- 19th and 20th century mainly British oil paintings, watercolours, drawings and prints with particular attention directed to topographical works relating to Newport. The collection represents the work of a large number of artists including James Flewitt Mullock, David Cox, Dame Laura Knight, Stanley Spencer, William Roberts, Merlyn Evans and William Russell Flint;
- Contemporary paintings by Welsh artists or artists living in Wales. These include works by Falcon Hildred, Harry Holland, Thomas Rathmell, Evan Charlton, Felicity Charlton, Ernest Zobole and Jack Crabtree;
- Contemporary prints including work by Patrick Caulfield, Derek Boshier, John McFarlane, Chris Orr, Terry Millington, Anthony Davies and Norman Ackroyd;
- Decorative arts including Staffordshire figures, commemorative ware and studio ceramics. These include the Iris and John Fox collection, the John Wait teapot collection and works by Jane Hamlyn, Lucie Rie, Nicholas Homoky, Geoffrey Swindell and Morgan Hall.

### Tredegar House & Park

Tredegar House is one of the best examples of a 17th century Charles II mansion in Britain. The contents of the property include paintings, furniture and other artefacts of the time period. From 16 March 2012 the property has been leased to the National Trust for Wales. Further information on the preservation and management of this property can be found on their website at <http://www.nationaltrust.org.uk>.

### Public Arts & Fixtures

The Authority holds a large number of public art features, such as murals and statues, on public display throughout the local area.

### Archaeology

There are a number of archaeological sites within the Authority area, and as a result, over the last 25 years this collection has substantially increased in size.

The archaeology collections of the Newport Museum and Art Gallery include:

- ❖ Prehistoric material from the old County of Gwent most notably the Severn Estuary;
- ❖ Roman material mostly from the Roman sites of Caerwent and Caerleon, Mill Street;
- ❖ Medieval material representing mostly castles and abbeys;
- ❖ Collections of local and non-local prehistoric flints; and
- ❖ Associated archive material.

In addition some material originating from excavations carried out on historic monuments on behalf of the Welsh Office (Cadw), and excavations prior to new developments is held – most significantly, the Newport Ship timbers and associated artefacts.

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The management of the collections is overseen by the Museums Officer (Collections and Premises). The Museums Officer manages a small team of professional staff which curates the collections and monitors its wellbeing. A project to establish a full computerised inventory of the collections is currently underway. The project started in 2006 and encompasses all collections cared for by the Museums & Heritage Service. Completing the documentation plan remains an important goal for the museum, but due to staffing resourcing issues the timetable for completion has slipped and it is hoped to be completed by 2016/17. This programme of work allows for improvements in storage conditions and highlights specific conservation needs of objects and collections. While the in-house focus is on preventive conservation measures which aim to stabilise an object's condition, specialist active conservation treatment is out-sourced and generally sought before objects are displayed.

The Curatorial team are also responsible for all acquisitions and disposals of collections' objects. Each potential acquisition is assessed against a number of criteria set out in the Museums Acquisitions and Disposals Policy. Most objects added to the collections are donated by individuals or organisations. Purchases are few and far between and are often carried out with grant aid from external bodies such as The Art Fund or the V&A Purchase Grant Fund. The disposal process follows ethical guidelines published by the Museums Association, an umbrella organisation for museums and museum professionals in the UK. It favours the transfer of objects to other organisations within the public domain.

## 14 INVESTMENT PROPERTIES

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

	31-Mar-15	31-Mar-16
	£'000	£'000
Rental income from investment property	(586)	(3,670)
Direct operating expenses arising from investment property	-	156
<b>Net gain / (loss)</b>	<b>(586)</b>	<b>(3,514)</b>

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

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

	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Balance at start of the year</b>	7,240	7,237
Disposals:		
Net gains/ (losses) from fair value adjustments	(3)	2,433
Transfers:		
- to/ from Property, Plant and Equipment	-	4,129
<b>Balance at end of the year</b>	<b>7,237</b>	<b>13,799</b>

## Fair Value Measurement of Investment Property

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2016 are as follows:

Recurring fair value measurements using:	Other significant	Significant	Fair value as at 31 March 2016 £000
	observable inputs (Level 2) £000	unobservable inputs (Level 3) £000	
Office units	-	274	274
Commercial units	4,972	8,553	13,525
<b>Total</b>	<b>4,972</b>	<b>8,827</b>	<b>13,799</b>

As the fair value hierarchy has been introduced in 2015/16, there were no transfers between any of the levels during the year.

**Significant Observable Inputs – Level 2:** The fair value for some of the commercial units has been based on an income approach in the current market, having regard to the passing rent being adopted and utilising comparable evidence of other similar lettings in close proximity where rent reviews are due. Where appropriate, rent has been capitalised in line with what the market is currently demanding, following research into appropriate yields and multipliers relevant to local conditions. The level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

**Significant Unobservable Inputs – Level 3:** The office units and many of the commercial units in the local authority area are also based on rent information where it exists, but in the absence of comparable evidence for specific properties, having to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy levels and bad debt levels. These properties are therefore categorised as Level 3 in the fair value hierarchy as significant unobservable inputs are used to determine the measurements.

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

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## Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs – Level 3

	31-Mar-16 £000	Valuation technique used to measure fair value	Unobservable inputs and Sensitivity
Office Units	274	Hardcore and Topslice	Rental growth, Collection of rent, Discount rate, Basis of occupation
Commercial Units	8,553	Term and Reversion, Hardcore and Topslice	Rental growth, Special purchaser, Discount rate

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out by an external valuer, Newport Norse Ltd, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation experts work closely with the authority's finance officers.

## 15 FINANCIAL INSTRUMENTS

### a) Financial Instruments – Classifications

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

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Authority.

The Authority's non-derivative financial liabilities held during the year measured at amortised cost and comprised:

- Long-term loans from Public Works Loan Board and commercial lenders
- Short-term loans from other local authorities
- Overdraft with Santander bank
- Finance leases detailed in Note 35
- Private Finance Initiative contracts detailed in Note 36
- Trade payables for goods and services received

### Financial Assets

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year and held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- Cash in hand
- Bank current and deposit accounts with Santander bank
- Loans to companies and individuals as detailed in the note
- Transferred debt from a number of local authorities as a result of local government reorganisation
- Trade receivables for goods and services delivered

Unquoted equity investments held at cost, comprising:

- Equity investments in Newport Transport Ltd



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## b) Financial Instruments – Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long-Term		Short-Term	
	31-Mar-15	31-Mar-16	31-Mar-15	31-Mar-16
	£'000	£'000	£'000	£'000
<b>Borrowings</b>				
Financial Liabilities at amortised cost	176,710	187,502	16,139	35,516
Financial Liabilities at fair value through profit and loss	117	194	73	70
<b>Total included in borrowings</b>	<b>176,827</b>	<b>187,696</b>	<b>16,212</b>	<b>35,585</b>
<b>Bank Overdraft</b>	-	-	<b>4,481</b>	<b>6,727</b>
<b>Other Long Term Liabilities</b>				
Southern Distributor Road - PFI	40,020	38,510	-	-
Glan Usk Primary School - PFI	11,602	10,996	-	-
Finance Leases	15	130	-	-
House Mortgages	25	20	-	-
<b>Total Other Long-Term Liabilities</b>	<b>51,662</b>	<b>49,656</b>	-	-
<b>Creditors</b>				
Financial Liabilities at amortised cost:				
- Section 106 deposits	4,955	4,292	-	-
- Tredegar Lease Premium	3,733	2,567	-	1,257
- Other long term creditors	2,535	5,079	-	-
Financial Liabilities carried at contract amount	-	-	34,482	26,485
<b>Total Creditors</b>	<b>11,223</b>	<b>11,938</b>	<b>34,482</b>	<b>27,742</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>239,712</b>	<b>249,290</b>	<b>55,175</b>	<b>70,054</b>

The financial asset disclosed in the Balance Sheet are analysed in the following categories:

	Long-Term		Short-Term	
	31-Mar-15	31-Mar-16	31-Mar-15	31-Mar-16
	£'000	£'000	£'000	£'000
<b>Debtors</b>				
Loans and Receivables at amortised cost:				
- Tredegar House Lease Premium*	11,086	10,845	241	241
- Friars Walk Development*	39,925	-	-	83,028
- Kings Hotel Development	1,714	-	-	1,860
- Officers Car Loan Schemes	79	-	122	99
- Gwent Crematorium	744	744	-	-
- Deferred Debt - Gwent Police	245	196	-	-
- Other long term debtors	400	262	-	-
Financial assets carried at contract amounts	-	-	50,677	46,074
<b>Total Included in Debtors</b>	<b>54,193</b>	<b>12,047</b>	<b>51,040</b>	<b>131,302</b>

\* The value of long-term debtors differs to that on balance sheet, due to the loans to Friars Walk and Kings Hotel Development now being due within 12 months, it has been kept on long-term debtor line for comparative purposes.

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## Investments

Loans and Receivables at amortised cost	-	-	2,560	3,100
Unquoted equity investment at cost (Newport Transport Ltd)	251	251	-	-
<b>Total Investments</b>	<b>251</b>	<b>251</b>	<b>2,560</b>	<b>3,100</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>54,444</b>	<b>12,298</b>	<b>53,600</b>	<b>134,402</b>

## c) Financial Instruments – Gains and Losses

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

	Financial Liabilities		Financial Assets		2014/15 Total £000
	Amortised Cost £000	Fair Value through Profit & Loss £000	Loans & Receivables £000	2015/16 Total £000	
Interest expense	14,194	-	-	14,194	14,622
Losses on derecognition	646	-	-	646	156
Reductions in fair value	-	73	-	73	57
Fee expense	42	-	-	42	80
<b>Interest payable and similar charges</b>	<b>14,882</b>	<b>73</b>	<b>-</b>	<b>14,955</b>	<b>14,915</b>
Interest Income	-	-	(4,206)	(4,206)	(1,147)
<b>Interest and Investment Income</b>	<b>-</b>	<b>-</b>	<b>(4,206)</b>	<b>(4,206)</b>	<b>(1,147)</b>
Net Gain/(Loss) for the year	<b>14,882</b>	<b>73</b>	<b>(4,206)</b>	<b>10,749</b>	<b>13,768</b>

## d) Financial Instruments – Fair Values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2016, using the following methods and assumptions:

- Loans borrowed by the Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity in 31<sup>st</sup> March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

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

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices

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

	Fair Value Level	Balance Sheet 31-Mar-15 £000	Fair Value 31-Mar-15 £000	Balance Sheet 31-Mar-16 £000	Fair Value 31-Mar-16 £000
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	69,961	100,050	72,437	92,917
Long-term LOBO loans	2	35,655	53,147	35,000	52,891
Other long-term loans	2	87,423	86,560	80,259	92,074
Lease payables and PFI liabilities	3	51,637	78,678	49,636	78,808
<b>Total</b>		<b>244,676</b>	<b>318,435</b>	<b>237,332</b>	<b>316,689</b>
Liabilities for which fair value is not disclosed*		50,211		82,012	
<b>Total Financial Liabilities</b>		<b>294,887</b>		<b>319,344</b>	
<i>Recorded on balance sheet as:</i>					
Short-term creditors		34,482		27,742	
Short-term borrowing		16,212		35,585	
Bank Overdraft		4,481		6,727	
Long-term creditors		11,223		11,938	
Long-term borrowing		176,827		187,696	
Other long-term liabilities		51,662		49,656	
<b>Total Financial Liabilities</b>		<b>294,887</b>		<b>319,344</b>	

\* The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

Fair values of the Authority's financial assets is not significantly different to the amortised cost as recognised on the balance sheet. This is due to the large proportion of them relating to long term debtor loans which are now short term and are due in the next financial year.

## 16 INVENTORIES

Inventories are purchased and used by the Authority at historical cost. Work in progress is included at cost. An analysis is as follows:

	31-Mar-15 £'000	31-Mar-16 £'000
<b>Stocks</b>		
Building Services	176	134
Leisure & Catering	27	24
Museum Shop	5	7
Printing/Stationery	21	33
Monwel Hankinson	8	9
	<u>237</u>	<u>207</u>

# Notes to the Statement of Accounts

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Newport City Council

## 17 SHORT TERM DEBTORS

Short term debtors are shown in the Balance Sheet net of provisions for bad and doubtful debts:

	31-Mar-15			31-Mar-16		
	Gross £'000	Provision £'000	Net £'000	Gross £'000	Provision £'000	Net £'000
General	21,348	(2,536)	18,812	25,350	(2,784)	22,566
Council tax payers	5,209	(2,983)	2,226	5,294	(3,175)	2,119
NHS bodies	582	-	582	1,021	-	1,021
Central government bodies *	28,685	(1,253)	27,432	21,081	(2,116)	18,965
Other local authorities	1,988	-	1,988	1,943	-	1,943
	<b>57,812</b>	<b>(6,772)</b>	<b>51,040</b>	<b>54,689</b>	<b>(8,075)</b>	<b>46,614</b>

\*Client Account NNDR debts and pre-payments are incorporated into Government Departments in accordance with the Code.

\* Central government bodies debtors include grants issued by Welsh Assembly Government that were initially issued to other Local Authorities, who act as banking facilities, but relate to funds directly for Newport City Council.

## 18 CASH AND CASH EQUIVALENTS

The cash held by the Authority represents petty cash balances held by numerous establishments throughout the Authority and any credit bank balances that are not included within our "pooled account" with Santander.

The bank overdraft includes un-cleared payments within the banking system. In practice, the treasury management policy of the Authority is to maintain the pooled bank account balance as near to zero as possible to minimise interest charges on overdrawn balances and maximise interest earned by short-term lending of surplus funds. The actual pooled bank balance at the close of business on 31 March 2016 was a credit balance of £2k (31 March 2015 – credit balance of £272k).

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

	31-Mar-15 £'000	31-Mar-16 £'000
Short-Term Investments classified as cash equivalent	2,560	3,100
Cash held by the authority	106	91
Bank Current accounts	(4,481)	(6,727)
<b>Total Cash and Cash Equivalents</b>	<b>(1,815)</b>	<b>(3,536)</b>

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 19 ASSETS HELD FOR SALE

	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Assets at the start of the year</b>	<b>6,595</b>	<b>5,199</b>
Assets newly classified as held for sale:		
Property, Plant and Equipment	671	449
Revaluation losses	(991)	(73)
Revaluation gains	-	174
Assets declassified as held for sale:		
Property, Plant and Equipment	(100)	(266)
Assets sold	<u>(976)</u>	<u>(4,827)</u>
<b>Assets at year-end</b>	<b><u>5,199</u></b>	<b><u>656</u></b>

## 20 SHORT TERM CREDITORS

The following is an analysis of the short term creditors shown in the Balance Sheet:

	31-Mar-15	31-Mar-16
	£'000	£'000
General	(25,494)	(17,221)
Central government bodies	(5,260)	(5,823)
Prepayments of council tax	(1,210)	(1,046)
NHS bodies	(141)	(145)
Other local authorities	<u>(2,377)</u>	<u>(3,507)</u>
	<b><u>(34,482)</u></b>	<b><u>(27,742)</u></b>

NNDR client prepayments are now included within Debtors – Government Grants in accordance with the Code

# Notes to the Statement of Accounts

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Newport City Council

## 21 PROVISIONS

Provisions represent sums set aside for liabilities or losses which are likely to be incurred or certain to be incurred, but where the amount or timing of such liability is not certain. In the case of each of the provisions listed below, the amount of the liability and the timing of the resulting transfer of economic benefits are uncertain.

	31-Mar-15	Further provisions	Amounts used	Unused amounts reversed	31-Mar-16
	£'000	£'000	£'000	£'000	£'000
<i>Current Provisions</i>					
Accumulated absence provision	(6,168)	-	-	669	(5,499)
Pill Kiosk	(10)	-	-	10	-
MMI Provision	(43)	(544)	-	-	(587)
Insurance Provision	(1,348)	(416)	932	-	(832)
Equal Pay - Outstanding Claimants	(400)	-	-	400	-
Equal Pay - Bridging Payments	(500)	-	-	500	-
Equal pay - Back pay provision	-	(974)	8	-	(966)
Landfill Fines	-	(214)	-	-	(214)
Energy Provision	-	(345)	-	-	(345)
Other	(150)	-	118	-	(32)
	<b>(8,619)</b>	<b>(2,493)</b>	<b>1,058</b>	<b>1,579</b>	<b>(8,475)</b>
<i>Long Term Provisions</i>					
Landfill Capping	(2,158)	(3,593)	-	-	(5,751)
	<b>(2,158)</b>	<b>(3,593)</b>	<b>-</b>	<b>-</b>	<b>(5,751)</b>

Equal Pay	Provision to comply with recommended practice in respect of equal pay claims. The majority of payments have been made, and final negotiations are on-going with agreement expected during 2016/17.
Accumulated Absences	Accounting provision to recognise impact of accruing leave at the end of the year. No payment is made as employees have to take leave prior to leaving the Authority. This is therefore not cash backed.
Land Charges	A provision to recognise the recovery of land charges.
Landfill Capping	Provision to comply with recommended practice in respect of costs relating to the future capping of Landfill sites once they have been fully utilised.
Insurance	Provision for known insurance claims currently being made against the Authority for a variety of incidents.
Energy Provision	Amount set aside for energy bills from previous years that are expected to be paid in 2016/17. Due to problems with billing with the energy supplier, the Authority is unable to be certain of what service areas this will impact upon or the certainty over the value of the bills that will ultimately be paid therefore this has been set aside as a provision.

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 22 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Note 8.

## 23 UNUSABLE RESERVES

	31-Mar-15	31-Mar-16
	£'000	£'000
Revaluation Reserve	(89,893)	(125,316)
Capital Adjustment Account	(126,136)	(117,434)
Financial Instruments Adjustment Account	1,933	6,367
Deferred Capital Receipt Reserve	(31)	(3,822)
Transport Company Realisation Account	(251)	(251)
Pensions Reserve	252,151	279,720
Equal Pay - Back Pay	-	-
Accumulated Absence Account	6,167	5,479
	<b>43,940</b>	<b>44,743</b>

### Revaluation Reserve

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

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

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

	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Balance at 1 April</b>	<b>(88,466)</b>	<b>(89,893)</b>
Upward revaluation of assets	(4,945)	(49,108)
Downward revaluation of assets and impairment losses not charged to provision of services	2,099	9,740
Surplus or deficit on revaluation of non-current assets not charged to provision of services	(2,846)	(39,368)
Difference between fair value depreciation and historic cost depreciation	1,050	1,056
Accumulated gains on assets sold or scrapped	369	2,889
Amount written off to the Capital Adjustment Account	1,419	3,945
<b>Balance at 31 March</b>	<b>(89,893)</b>	<b>(125,316)</b>

# Notes to the Statement of Accounts

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## Capital Adjustment Account

The requirement to maintain a Capital Adjustment Account commenced in April 2007 as a requirement of the 2007 SORP. The opening balance represented the closing value of the previously maintained Capital Financing Account and Fixed Asset Restatement Account. The Account represents a store of capital resources set aside to meet past capital expenditure.

	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Balance at 1 April</b>	<b>(118,064)</b>	<b>(126,136)</b>
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>		
Charges for depreciation and impairment of non-current assets	18,179	20,729
Revaluation losses/gains on Property, Plant and Equipment	(1,327)	9,904
Amortisation of intangible assets	-	-
Revenue Expenditure Funded from Capital under Statute	8,148	8,219
Amount of non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	1,568	5,236
	<u>26,568</u>	<u>44,088</u>
Adjusting amounts written out of the Revaluation Reserve	(1,419)	(3,945)
Net written out amount of the cost of non-current assets consumed in the year	25,149	40,143
<i>Capital financing applied in the year:</i>		
Use of Capital Receipts Reserve to finance new capital expenditure	(280)	(591)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(20,680)	(13,845)
Statutory provision for the financing of capital investment charged against the Council Fund balances	(12,820)	(12,929)
Capital expenditure charged against the Council Fund balance	(435)	(1,542)
	<u>(34,215)</u>	<u>(28,907)</u>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	3	(2,433)
Movements in the market value of Assets Held for Sale debited or credited to the Comprehensive Income and Expenditure Statement	991	(101)
<b>Balance at 31 March</b>	<b>(126,136)</b>	<b>(117,434)</b>



# Notes to the Statement of Accounts

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## Financial Instruments Adjustment Account

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

The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the Council Fund Balance through the Movement in Reserves Statement. Over time, the expense is posted back to the Council Fund Balance in accordance with statutory arrangements for spreading the burden on the Authority tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at the end of the year will be charged to the Council Fund over the next 40 years.

	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Balance at 1 April</b>	<b>2,074</b>	<b>1,933</b>
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	4,566
Proportion of premiums incurred in previous financial years to be charged against the Council Fund Balance in accordance with statutory requirements	(141)	(132)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(141)	4,434
<b>Balance at 31 March</b>	<b>1,933</b>	<b>6,367</b>

## Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gain recognised on the disposal of non-current assets for which a cash settlement has yet to be received. Under statutory arrangements, the Authority does not treat these gains as usable for financing capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Balance at 1 April</b>	<b>(31)</b>	<b>(31)</b>
Transfer of deferred sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	-	(3,822)
Transfer to Capital Receipts Reserve	-	31
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	(3,791)
<b>Balance at 31 March</b>	<b>(31)</b>	<b>(3,822)</b>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned

# Notes to the Statement of Accounts

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by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

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

	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Balance at 1 April</b>	<b>184,614</b>	<b>252,151</b>
Actuarial gains or losses on pensions assets and liabilities	62,767	19,578
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	19,817	22,179
Employer's pensions contributions and direct payments to pensioners payable in the year	(15,047)	(14,188)
<b>Balance at 31 March</b>	<b>252,151</b>	<b>279,720</b>

## Equal Pay - Back pay Account

The Equal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the Council Fund Balance until such time as cash might be paid out to claimants. This is a best practice accounting requirement which is not cash backed.

	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Balance at 1 April</b>	<b>310</b>	-
Decrease in provision for back pay in relation to Equal Pay cases	(310)	-
Cash settlements paid in the year	-	-
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(310)	-
<b>Balance at 31 March</b>	<b>-</b>	<b>-</b>

## Accumulated Absences Account

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

# Notes to the Statement of Accounts

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	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Balance at 1 April</b>	<b>4,121</b>	<b>6,167</b>
Settlement or cancellation of accrual made at the end of the preceding year	(4,121)	(6,167)
Amounts accrued at the end of the current year	6,167	5,479
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,046	(688)
<b>Balance at 31 March</b>	<b>6,167</b>	<b>5,479</b>

## 24 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items reported under Financing Activities:

	31-Mar-15	31-Mar-16
	£'000	£'000
Interest received	(59)	(1,132)
Interest paid	16,453	19,443
	<b>16,394</b>	<b>18,311</b>

## 25 CASH FLOW STATEMENT - INVESTING ACTIVITIES

	31-Mar-15	31-Mar-16
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	17,333	21,050
Purchase of short-term and long-term investments	304,035	596,870
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,846)	(1,682)
Proceeds from short-term and long-term investments	(304,035)	(596,330)
<b>Net cash flows from investing activities</b>	<b>15,487</b>	<b>19,908</b>

## 26 CASH FLOW STATEMENT - FINANCING ACTIVITIES

	31-Mar-15	31-Mar-16
	£'000	£'000
Cash receipts of short- and long-term borrowing	(151,085)	(143,882)
Other receipts from financing activities	-	-
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,955	2,169
Repayments of short- and long-term borrowing	114,072	113,576
<b>Net cash flows from financing activities</b>	<b>(35,058)</b>	<b>(28,137)</b>

# Notes to the Statement of Accounts

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## 27 CASH FLOW STATEMENT – NON CASH MOVEMENTS

	31-Mar-15	31-Mar-16
	£'000	£'000
Depreciation	(16,156)	(16,355)
Impairment and downward valuations	(945)	(14,177)
(Increase) / Decrease in bad debt provision	97	(1,303)
Increase / (Decrease) in short term debtors	14,216	(3,123)
Increase / (Decrease) in long term debtors	40,880	42,742
(Increase) / Decrease in short term creditors	789	6,740
(Increase) / Decrease in long term creditors	(2,121)	(715)
Increase / (Decrease) in stock	(25)	(30)
(Increase) / Decrease in provisions	(2,689)	(3,449)
Pensions liability	(4,770)	(7,991)
Carrying amount of non-current assets sold	(2,310)	(5,236)
Financial Instrument adjustments	141	132
Movement in Value of Investment Properties	(3)	2,433
Other non cash adjustments	1,488	(509)
	<b>28,592</b>	<b>(841)</b>

## 28 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SERCOP).

Decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across Service Areas.

The resource allocation reports are prepared on a cash limit basis so that managers are responsible for income and expenditure for which they have direct control. This is different from the accounting policies used in preparing the Statement of Accounts. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year as contained within the Comprehensive Income and Expenditure Statement; and
- Expenditure on some support services is budgeted for centrally and only charged to services at the year-end.

The Authority monitors spending on the basis of its management structure, not SERCOP. The statements on the following pages facilitate a better understanding as to how the Authority monitors its income and expenditure in the new structure during the year and how it reports the financial accounts position through the Comprehensive Income and Expenditure Statement.

# Notes to the Statement of Accounts

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Item	Education (inc Schools)	Social Services	Regeneration, Investment & Housing	Street Scene	Corporate Services	Sub Total Service Analysis	Capital Financing & Interest	Non Departmental Costs / Levies etc.	Restructuring and Invest to Save	Extraordinary Expenditure	Council Tax and Grant Funding	Out-turn Reported to Management	Adjustments to Out-turn following Cabinet	Revised Out-turn	Services and Support Services not in Analysis	Amounts not reported for Decision Making	Amounts not included in I&E	Cost of Services	Corporate Amounts	CI&S TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Income	(23,512)	(11,612)	(5,814)	(9,155)	(5,094)	<b>(55,187)</b>	-	-	-	-	-	<b>(55,187)</b>	-	<b>(55,187)</b>	32,177	(11,334)	-	<b>(34,344)</b>	-	<b>(34,344)</b>
Government Grants and Contributions	(22,832)	(16,714)	(14,291)	(8,371)	(1,877)	<b>(64,085)</b>	-	(59,695)	-	-	(209,254)	<b>(333,034)</b>	-	<b>(333,034)</b>	-	(9,652)	-	<b>(342,686)</b>	-	<b>(342,686)</b>
Interest & Investment Income	-	-	-	-	-	-	(4,152)	-	-	-	-	<b>(4,152)</b>	-	<b>(4,152)</b>	-	(3,569)	-	<b>(7,721)</b>	-	<b>(7,721)</b>
Income from Council Tax	-	-	-	-	-	-	-	-	-	-	(64,898)	<b>(64,898)</b>	-	<b>(64,898)</b>	-	-	-	<b>(64,898)</b>	-	<b>(64,898)</b>
<b>Total Income</b>	<b>(46,344)</b>	<b>(28,326)</b>	<b>(20,105)</b>	<b>(17,526)</b>	<b>(6,971)</b>	<b>(119,272)</b>	<b>(4,152)</b>	<b>(59,695)</b>	-	-	<b>(274,152)</b>	<b>(457,271)</b>	-	<b>(457,271)</b>	32,177	<b>(24,555)</b>	-	<b>(449,649)</b>	-	<b>(449,649)</b>
Employee Expenses	93,586	25,075	12,207	11,847	15,250	<b>157,965</b>	-	1,113	286	-	-	<b>159,364</b>	-	<b>159,364</b>	-	4,676	-	<b>164,040</b>	-	<b>164,040</b>
Other Service Expenses	51,681	62,275	17,185	22,852	7,218	<b>161,211</b>	-	74,259	-	-	-	<b>235,470</b>	-	<b>235,470</b>	-	13,663	-	<b>249,133</b>	-	<b>249,133</b>
Invest to Save Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Support Service Recharges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(32,177)	-	-	<b>(32,177)</b>	-	<b>(32,177)</b>
Depreciation, amortisation and Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,633	-	<b>30,633</b>	-	<b>30,633</b>
Interest Payments	-	-	-	-	-	-	9,737	-	-	-	-	<b>9,737</b>	-	<b>9,737</b>	-	-	17,993	<b>27,730</b>	-	<b>27,730</b>
Precepts & Levies	-	-	-	-	-	-	-	19,736	-	-	-	<b>19,736</b>	-	<b>19,736</b>	-	-	-	<b>19,736</b>	-	<b>19,736</b>
Capital Financing Costs	-	-	-	-	-	-	18,889	-	-	-	-	<b>18,889</b>	-	<b>18,889</b>	-	(18,889)	-	-	-	-
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(337)	-	<b>(337)</b>	-	<b>(337)</b>
<b>Total Expenditure</b>	<b>145,267</b>	<b>87,350</b>	<b>29,392</b>	<b>34,699</b>	<b>22,468</b>	<b>319,176</b>	<b>28,626</b>	<b>95,108</b>	<b>286</b>	-	-	<b>443,196</b>	-	<b>443,196</b>	<b>(32,177)</b>	<b>29,746</b>	<b>17,993</b>	<b>458,758</b>	-	<b>458,758</b>
Reserves Transfers	-	-	-	-	-	-	-	-	-	-	-	<b>13,131</b>	-	<b>13,131</b>	-	-	(13,131)	-	-	-
<b>(Surplus) / Deficit on Service Provision</b>	<b>98,923</b>	<b>59,024</b>	<b>9,287</b>	<b>17,173</b>	<b>15,497</b>	<b>199,904</b>	<b>24,474</b>	<b>35,413</b>	<b>286</b>	-	<b>(274,152)</b>	<b>(944)</b>	-	<b>(944)</b>	-	5,191	4,862	<b>9,109</b>	-	<b>9,109</b>

Amounts reported to Council as part of Budget Monitoring Process

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

2014-15

Item	Lifelong Learning & Leisure (inc Schools)	Social Services	Regeneration & Regulatory	Street Scene	Corporate Services	Sub Total Service Analysis	Capital Financing & Interest	Non Departmental Costs / Levies etc.	Restructuring and Invest to Save	Extraordinary Expenditure	Council Tax and Grant Funding	Out-turn Reported to Management	Adjustments to Out-turn following Cabinet	Revised Out-turn	Services and Support Services not in Analysis	Amounts not reported for Decision Making	Amounts not included in I&E	Cost of Services	Corporate Amounts	CI&S TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Fees, Charges & Other Service Income	(28,192)	(8,711)	(7,071)	(10,857)	(3,665)	(58,496)	-	(305)	-	-	-	(58,801)	-	(58,801)	40,290	-	-	(18,511)	-	(18,511)
Government Grants and Contributions	(26,875)	(18,034)	(6,322)	(6,857)	(4,469)	(62,557)	-	(60,368)	-	-	(214,826)	(337,751)	-	(337,751)	-	(20,680)	-	(358,431)	-	(358,431)
Interest & Investment Income	-	-	-	-	-	-	(1,125)	-	-	-	-	(1,125)	(22)	(1,147)	-	-	-	(1,147)	-	(1,147)
Income from Council Tax	-	-	-	-	-	-	-	-	-	-	(49,364)	(49,364)	-	(49,364)	-	-	(11,413)	(60,777)	-	(60,777)
<b>Total Income</b>	<b>(55,067)</b>	<b>(26,745)</b>	<b>(13,393)</b>	<b>(17,714)</b>	<b>(8,134)</b>	<b>(121,053)</b>	<b>(1,125)</b>	<b>(60,673)</b>	<b>-</b>	<b>-</b>	<b>(264,190)</b>	<b>(447,041)</b>	<b>(22)</b>	<b>(447,063)</b>	<b>40,290</b>	<b>(20,680)</b>	<b>(11,413)</b>	<b>(438,866)</b>	<b>-</b>	<b>(438,866)</b>
Employee Expenses	103,169	27,908	9,821	10,091	15,160	166,149	-	1,608	532	-	-	168,289	161	168,450	(40,290)	-	6,506	134,666	-	134,666
Other Service Expenses	57,298	59,395	12,761	20,656	8,563	158,673	-	71,394	-	-	-	230,067	197	230,264	-	-	981	231,245	-	231,245
Invest to Save Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Support Service Recharges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation, amortisation and Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,252	-	25,252	-	25,252
Interest Payments	-	-	-	-	-	-	9,638	-	-	-	-	9,638	263	9,901	-	-	5,014	14,915	-	14,915
Precepts & Levies	-	-	-	-	-	-	-	8,243	-	-	-	8,243	-	8,243	-	-	11,164	19,407	-	19,407
Capital Financing Costs	-	-	-	-	-	-	19,391	-	-	-	-	19,391	-	19,391	-	(19,391)	-	-	-	-
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	713	-	713	-	713
<b>Total Expenditure</b>	<b>160,467</b>	<b>87,303</b>	<b>22,582</b>	<b>30,747</b>	<b>23,723</b>	<b>324,822</b>	<b>29,029</b>	<b>81,245</b>	<b>532</b>	<b>-</b>	<b>-</b>	<b>435,628</b>	<b>621</b>	<b>436,249</b>	<b>(40,290)</b>	<b>6,574</b>	<b>23,665</b>	<b>426,198</b>	<b>-</b>	<b>426,198</b>
Reserves Transfers	-	-	-	-	-	-	-	-	-	-	-	6,300	588	6,888	-	-	(3,967)	2,921	-	2,921
<b>(Surplus) / Deficit on Service Provision</b>	<b>105,400</b>	<b>60,558</b>	<b>9,189</b>	<b>13,033</b>	<b>15,589</b>	<b>203,769</b>	<b>27,904</b>	<b>20,572</b>	<b>532</b>	<b>-</b>	<b>(264,190)</b>	<b>(5,113)</b>	<b>1,187</b>	<b>(3,926)</b>	<b>-</b>	<b>(14,106)</b>	<b>8,285</b>	<b>(9,747)</b>	<b>-</b>	<b>(9,747)</b>
	Amounts reported to Council as part of Budget Monitoring Process												Adjustments Required for Financial Reporting							

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# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 29 MEMBERS' ALLOWANCES AND EXPENSES

All Councils are required to publish details of the amounts paid to elected members each year. Information on the amounts actually paid to each Council member is published on the Authority's web site. The total allowances and expenses paid in the financial year was £904,430 (2014/15 – £915,384). All members are entitled to the same basic allowance of £13,300 per annum (2014/15 - £13,300). Also additional responsibility allowances are paid to members holding the following positions:

	31-Mar-15	31-Mar-16
	£	£
Leader of the Council	34,700	34,700
Deputy Leader	20,200	20,200
Cabinet Member	15,700	15,700
Chair of Scrutiny Forum	8,700	8,700
Chair of Planning	8,700	8,700
Chair of Democratic Services	8,700	8,700
Chair of Licensing	8,700	8,700
Opposition Leader	8,700	8,700

The Authority also pays seven lay (unelected) members a total of £1,610 (2014/15: £5,134) to sit on a number of committees. This includes both fees and expenses.

This table has been restated to account for the Chair of Democratic Services Allowance that was previously not included.

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 30 OFFICER REMUNERATION

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

Post Holder Information		Salary/ Payment*	Car Allowances & Mileage	Pensions contributions	Total
		£	£	£	£
Chief Executive	2015/16	134,638	900	16,695	152,233
	2014/15	134,638	900	25,850	161,388
Strategic Director (People)	2015/16	103,316	900	12,811	117,027
	2014/15	100,249	900	19,248	120,397
Strategic Director (Place)	2015/16	106,875	1,040	13,253	121,167
	2014/15	106,875	900	20,520	128,295
Chief Education Officer	2015/16	89,130	675	11,052	100,857
	2014/15	87,819	675	16,861	105,355
Head of Legal Services (Monitoring Officer)	2015/16	77,946	450	9,665	88,061
	2014/15	76,800	450	14,746	91,996
Head of Finance (Section 151 Officer)	2015/16	76,048	450	9,430	85,928
	2014/15	72,538	450	13,927	86,915
Head of People and Business Change (formerly Transformation)	2015/16	80,465	997	9,587	91,050
	2014/15	76,800	675	14,746	92,221
Head of Customer Services and Digital Innovation (formely Head of Customer and Information Services) (Left Authority November 2015)	2015/16	51,964	450	6,444	58,858
	2014/15	76,800	675	14,746	92,221
Head of Regeneration and Regulatory Services (took up role March 2015)	2015/16	62,735	1,090	7,779	71,604
	2014/15	5,059	77	971	6,107
Head of Regeneration and Regulatory Services (acting up April - January 2015)	2014/15	-	-	-	-
	2014/15	52,533	800	10,086	63,419
Head of Continuing Learning and Leisure (left June 2014)	2015/16	-	-	-	-
	2014/15	12,510	128	2,402	15,040
Head of Continuing Learning and Leisure (From June to Mar 2015)	2014/15	-	-	-	-
	2014/15	51,391	336	9,867	61,594
Head of Adult and Community Service (Started with the Authority September 2015)	2015/16	36,257	343	4,496	41,096
	2014/15	-	-	-	-
Head of Adult and Community Service (Left Authority August 2015)	2015/16	-	-	-	-
	2014/15	66,563	675	12,780	80,018
Head of Children and Family Services (Staff secondment from Barnardo's)	2015/16	84,342	-	0	84,342
	2014/15	78,221	922	0	79,143
Head of Streetscene (from February 2016)	2015/16	9,855	85	1,222	11,163
Head of Streetscene (Total inclusive costs of agency staff *)	2014/15*	36,831	388	7,315	44,534

\*Payments made to third parties are not necessarily the payments made to Officers

The values above reflect the payments to the post and not individuals, where more than one personnel fulfilled the post.

The employer pension contributions in 2015/16 reflect a contribution rate of 12.4%, as the additional amount paid to the fund of the difference to 19.2% was paid as a lump sum payment, therefore is not reflected as an employer contribution for the individual.



# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## Election Returning Officer Fees

During 2015/16 the Chief Executive received no remuneration for his role as the Authorities Returning Officer. (In 2014/15, he received £5,001)

There were no employees whose salary, excluding pension contributions, exceeded £150,000 per annum.

The ratio between the Authority's highest paid employee and the median position for 2015/16 was 1:6.9 (2014/15 was 1:6.8)

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

	31-Mar-15		31-Mar-16	
	Teaching	Other	Teaching	Other
£115,000-£119,999	1	0	0	0
£105,000-£114,999	0	0	1	0
£100,000 - £104,999	1	1	0	0
£95,000 - £99,999	3	1	1	0
£90,000 - £94,999	2	1	1	0
£85,000 - £89,999	3	1	3	1
£80,000 - £84,999	1	1	3	1
£75,000 - £79,999	3	0	3	1
£70,000 - £74,999	8	2	12	0
£65,000 - £69,999	12	1	13	4
£60,000 - £64,999	24	0	18	2
<b>Total</b>	<b>58</b>	<b>8</b>	<b>55</b>	<b>9</b>

The figures above include amounts that are paid to employees on redundancy.

The number of exit packages, with the total cost per band and the total cost of the compulsory and other redundancies are set out below:

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages	Total Cost of exit packages in each band
	31-Mar-16	31-Mar-16	31-Mar-16	31-Mar-16 £
£0 - £20,000	46	65	111	842,445
£20,001 - £40,000	4	21	25	681,405
£40,001 - £60,000	-	12	12	600,834
£60,001 - £80,000	-	-	-	-
£80,001 - £100,000	-	1	1	93,747
Over £100,000	-	1	1	121,845
<b>Total</b>	<b>50</b>	<b>100</b>	<b>150</b>	<b>2,340,276</b>

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages	Total Cost of exit packages in each band
	31-Mar-15	31-Mar-15	31-Mar-15	31-Mar-15 £
£0 - £20,000	16	88	104	1,289,881
£20,001 - £40,000	5	28	33	1,143,898
£40,001 - £60,000	0	9	9	550,057
£60,001 - £80,000	1	3	4	280,759
£80,001 - £100,000	0	1	1	86,647
<b>Total</b>	<b>22</b>	<b>129</b>	<b>151</b>	<b>3,351,242</b>

## 31 EXTERNAL AUDIT COSTS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and for any non-audit services provided by the Authority's external auditors:

	31-Mar-15 £'000	31-Mar-16 £'000
Fees payable with regard to external audit of accounts	191	192
Fees payable in respect of local government measure	104	105
Fees payable for the certification of grant claims and returns for the year	82	81
<b>Total</b>	<b>377</b>	<b>378</b>

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 32 GRANTS INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

	31-Mar-15 £'000	31-Mar-16 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	170,081	168,162
Contribution from Non-Domestic Rates	44,745	41,092
Outcome Agreement Grant	1,547	1,531
<b>Total</b>	<b>216,373</b>	<b>210,785</b>
	<b>31-Mar-15</b>	<b>31-Mar-16</b>
	£'000	£'000
<b>Credited to Services</b>		
<b><i>Lifelong Learning - Grants</i></b>		
Streets Ahead	32	32
Foundation Phase/Education Improvement Grant	4,956	5,507
ISB Funding	7,682	7,582
Flying Start	4,069	5,284
Adult Education	393	323
SEG Poverty	1,129	-
Pupil Deprivation	4,030	4,707
GEMS	1,292	1,749
Education Management	299	126
Families First Youth	458	427
Sport & Leisure Management	-	971
Other	3,343	3,460
<b><i>Lifelong Learning Contributions</i></b>		
Gwent Music	417	11
Other	151	448
<b><i>Lifelong Learning Donations</i></b>	931	1,109
<b><i>Social Services Grants</i></b>		
Supporting People	6,933	6,527
Substance Misuse	4,381	4,381
Preventions	501	383
Integrated Family Support	850	-
Families First	1,165	1,515
Training	400	358
Youth Offending Service	425	338
Intermediate Care Fund	451	521
Welsh Independent Living Grant	-	637
Regional Domestic Violence	-	395
Other	341	425
<b><i>Social Services Contributions</i></b>		
Section 28A funding	2,095	2,095
Other	2,734	1,060
<b><i>Environment &amp; Regeneration Grants</i></b>		
Housing Benefit Subsidy	59,532	58,857
Communities First Grants	2,508	2,377

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

Sustainable Waste	2,879	2,876
Other	1,851	1,406
<b>Environmental and Regeneration Contributions</b>	606	354
<b>Environment and Regeneration Donations</b>	46	8
<b>Corporate Services Grants</b>		
Housing Benefit Subsidy	879	834
NNDR	320	316
Other	704	825
<b>Corporate Service Contributions</b>		
Other	154	52
<b>Corporate Service Donations</b>	-	2
<b>Total</b>	<b>118,937</b>	<b>118,277</b>

This table has been restated to include contributions and donations by service. Where grants, contributions and donations are given, subject to conditions being met, they are held as Capital Grants Received in Advance (Unapplied) until the conditions are met.

## 33 RELATED PARTIES

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

### Welsh Government

The Welsh government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits).

Grants received from government departments are set out in the analysis in Note 32.

### Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of Members' allowances paid in 2015/16 is shown in Note 29. During 2015/16, works and services to the value of £11.47m (2014/15: £9.64m) were commissioned from or paid to companies in which eleven members had an interest. This included balances of £3.56m paid to Newport Transport Limited (2014/15: £4.80m) which is further disclosed below.

Within these payments, the Authority also made payments to Newport Waste Savers Ltd amounting to £3.43m in 2015/16 (£1.540m in 2014/15). This company is independent from the Authority. The company have invited three Members of the Council on the board, in their capacity as elected members, not private individuals. The council contract with the company for waste recycling services.

Newport City Council also made payments to Newport Live amounting to £2.05m in 2015/16, this is a company that has charitable status and is independent from the Authority. 2015/16 was its first year of trading. The company has invited two members of the Council on the board, in their capacity as elected members, not private individuals. Newport Live is contracted by the Council to run its sport and leisure services.

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

There were no declarations of interest submitted where grants have been paid to voluntary organisations. (Grants totalling £0.521m were paid in 2014/15 in which two members had interest).

## Officers

The Head of Children and Young People Services has been seconded from Barnardo's. The Authority also makes payments to Barnardo's and in 2015/16 this amounted to £1.522m (2014/15 £1.690m). These payments relate to grants and contracts that were in existence prior to this agency appointment. The majority of these payments to Barnardo's relate to the following areas:

- a. Family First Grant projects (£0.522m)
- b. the preferred provider Family Support Team partnership arrangements (£0.494m)
- c. the provision of contracts through the Substance Misuse Action Fund Grant (£0.246m)

There were no declared organisations in which senior officers of the Authority held pecuniary interests.

## Other Public Bodies

Precepts and Levies – details of precepts collected on behalf of other organisations and an analysis of amounts levied on the Council by other bodies can be found in note 9 to these accounts.

Senior Officers do not hold any positions of seniority within any other Public Sector body.

## Entities Controlled or Significantly Influenced by the Authority

### **Newport Transport Ltd**

This is a company wholly owned by the Authority. Newport Transport's board includes four Council members and one Council officer nominated by the Council. The services provided principally related to maintenance work on the Authority's vehicle fleet. Details of financial transactions are detailed in Note 45 to the Statement of Accounts.

### **Newport Norse**

The Authority's first joint venture company, Newport Norse, was launched on July 1<sup>st</sup> 2014. The new JV company, which now oversees the Authority's property maintenance, estates, facilities management and capital projects design functions, employs over 200 members of staff. Newport Norse and their subsidiary NPS Newport Limited, are Joint Venture Companies in which the Authority has a 20% share and minority representation on the Board. The Authority has a 50% "gain share" in the profits, which reduces the Authority's service charge. The first year's trading (accounting period covering July 2014 to January 2015) delivered a provisional profit share of £60k to Newport City Council, in 2015/16 the provisional profit share is £223k. At the draft stage the Authority does not have the financial statements for Newport Norse to include in these Statement of Accounts.

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	31-Mar-15	31-Mar-16
	£'000	£'000
<i>Opening Capital Financing Requirement</i>	286,227	280,678
<u>Capital investment</u>		
Property, Plant and Equipment	18,793	21,435
Heritage Assets	11	-
Revenue Expenditure Funded from Capital Under Statute	8,148	8,219
Long Term Debtors	1,714	369
<u>Sources of finance</u>		
Capital receipts	(280)	(591)
Government grants and other contributions	(20,680)	(13,845)
Sums set aside from revenue	(212)	(464)
Direct revenue contributions	(223)	(1,078)
Minimum Revenue Provision	(12,820)	(12,929)
<i>Closing Capital Financing Requirement</i>	<b>280,678</b>	<b>281,794</b>
<i>Explanation of movements in year</i>		
Increase in underlying need to borrow:		
Supported by government financial assistance	3,936	3,996
Un-supported by government financial assistance	3,335	9,826
Assets acquired under finance leases	-	-
Bullet Repayment of PFI Liability	-	-
Assets acquired under PFI contracts	-	-
Minimum Revenue Provision	(12,820)	(12,929)
<i>Increase in Capital Financing Requirement</i>	<b>(5,549)</b>	<b>893</b>

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 35 LEASES

### Authority as Lessee

#### Finance Leases

The Authority has acquired a number of vehicles and equipment under finance leases. The assets acquired under these leases are included in Property Plant and Equipment in the balance sheet at the following net amounts as these are cancellable.

	31-Mar-15	31-Mar-16
	£'000	£'000
Vehicle, Plant, Furniture and Equipment	<u>9</u>	<u>130</u>
	<b>9</b>	<b>130</b>

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

	31-Mar-15	31-Mar-16
	£'000	£'000
Finance lease liabilities (net present value of minimum lease payments)		
- current	15	43
- non-current	-	87
Finance costs payable in future years	<u>-</u>	<u>10</u>
Minimum lease payments	<b>15</b>	<b>140</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-15	31-Mar-16	31-Mar-15	31-Mar-16
	£'000	£'000	£'000	£'000
Not later than one year	15	48	15	43
Later than one year and not later than five years	-	92	-	87
	<u>15</u>	<u>140</u>	<u>15</u>	<u>130</u>

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## Operating Leases

The Authority has acquired some of its buildings and fleet by operating leases. All vehicles acquired are now within the secondary rental period of the lease agreement and therefore payments due are excluded from the table below. The minimum lease payments due on properties under non-cancellable leases in future years are:

	31-Mar-15	31-Mar-16
	£'000	£'000
Not later than one year	986	1,150
Later than one year and not later than five years	2,909	2,747
Later than five years	3,424	3,111
	<u>7,319</u>	<u>7,008</u>

## Authority as Lessor

### Finance Leases

The Authority does not currently lease out any properties under a finance lease.

### Operating Leases

The Authority leases out some property under operating leases for the following purposes:

- to enable the Authority to provide services for the local community; or
- to provide an income stream to help support the council tax levy.

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

	31-Mar-15	31-Mar-16
	£'000	£'000
Not later than one year	1,451	1,385
Later than one year and not later than five years	3,781	3,427
Later than five years	87,118	84,104
	<u>92,350</u>	<u>88,916</u>

The Authority leases out a number of farms on a life tenancy basis. These leases have been assumed to have a 99 year lease term.

## 36 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

### Southern Distributor Road PFI Scheme

Newport City Council entered into a 40 year contract with Morgan Vinci Ltd to design, build, operate and finance the Southern Distributor Road. The contract specifies minimum standards of performance over a range of areas including reductions in journey time, reduction in the level of congestion, accident levels, improvements in road safety and road availability. The contractor took on the obligation to construct and maintain the road to an acceptable minimum standard.

The road was opened on 13th December 2004 and the agreement has a 40 year life.



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## Property Plant and Equipment

The assets used to provide services on the Southern Distributor Road are recognised on the Authority's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 12.

## Payments

The Authority makes an agreed annual payment which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments, remaining to be made under the PFI contract at 31 March 2016 (excluding any estimation of inflation and availability/ performance deductions), are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£'000	£'000	£'000	£'000
Payable in 2016/17	693	1,566	4,460	6,719
Payable within two to five years	2,972	6,531	18,367	27,870
Payable within six to ten years	4,267	8,465	24,466	37,198
Payable within eleven to fifteen years	4,726	10,457	24,837	40,020
Payable within sixteen to twenty years	5,497	11,972	25,575	43,044
Payable within twenty one to twenty five years	6,084	13,046	24,579	43,709
Payable within twenty six to thirty years	1,405	2,437	4,510	8,352
<b>Total</b>	<b>25,644</b>	<b>54,474</b>	<b>126,794</b>	<b>206,912</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable. The liability outstanding is as follows:

	31-Mar-15	31-Mar-16
	£'000	£'000
Balance outstanding at start of year	41,157	40,020
Payments during the year	(1,461)	(1,510)
Other	324	-
<b>Balance outstanding at year-end</b>	<b>40,020</b>	<b>38,510</b>

\*The PFI liability above includes an estimated lifecycle cost of £324k within 2014/15.

## Glan Usk Primary School

2015/16 was the seventh year of a 25 year PFI contract for the construction and facilities management of Glan Usk Primary School.

The school operates its core areas 44 weeks per annum including a multi-use gaming area and an artificial turf pitch. The multi-use gaming area and the artificial turf pitch are also available to the community during non-school hours.

The contract operates minimum standards for the services to be provided by the contractor, with deductions from the fees payable being made if facilities are unavailable or performance is below minimum standards.

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## Property Plant and Equipment

The assets used to provide services on the Glan Usk Primary School are recognised on the Authority's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 12.

## Payments

The Authority makes an agreed annual payment which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2016 (excluding any estimation of inflation and availability/ performance deductions) are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£'000	£'000	£'000	£'000
Payable in 2016/17	585	640	748	1,973
Payable within two to five years	1,268	1,254	1,493	4,015
Payable within six to ten years	6,148	3,791	4,900	14,839
Payable within eleven to fifteen years	5,202	2,757	3,479	11,438
Payable within sixteen to twenty years	3,453	2,554	2,891	8,898
<b>Total</b>	<b>16,656</b>	<b>10,996</b>	<b>13,511</b>	<b>41,163</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable. The liability outstanding is as follows:

	31-Mar-15	31-Mar-16
	£'000	£'000
Balance outstanding at start of year	12,206	11,602
Payments during the year	(604)	(606)
<b>Balance outstanding at year-end</b>	<b>11,602</b>	<b>10,996</b>

## 37 IMPAIRMENT LOSSES

Impairment losses and impairment reversals by class of assets are disclosed within the Property, Plant and Equipment balances consolidated in Note 12. The amounts are charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure dependent on the class of impairment.

During 2015/16 the Authority has recognised the following impairment losses:

	31-Mar-15	31-Mar-16
	£'000	£'000
Land & Buildings	3,211	4,841
Community Assets	3	-
Infrastructure Assets	121	-
Vehicles Plant & Equipment	5	-
Assets Under Construction	-	-
Heritage Assets	-	-
<b>Total</b>	<b>3,340</b>	<b>4,841</b>

## 38 CAPITALISATION OF BORROWING COSTS

There was no capitalisation of borrowing costs in 2014/15 or 2015/16.

## 39 TERMINATION BENEFITS

The Authority completed redundancies of 150 employees in 2015/16, incurring liabilities of £2.340m (151 employees at £3.351m in 2014/15). See Note 30 for the number of exit packages and total cost per band. All balances were payable to Council officers, as part of the Authority's general services rationalisation and efficiencies programme.

## 40 PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

The Scheme is 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 Authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015/16 the Authority paid £7.801m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 14.1% of pensionable pay until 1<sup>st</sup> September when the contribution rate rose to 16.4%. The figures for 2014/15 were £6.969m and 14.1%. As at the 31 March 2016 contributions of £691,673 were payable (31 March 2015: £586,700).

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for within Note 41 as "Unfunded Teachers' Discretionary Benefits".

## 41 DEFINED BENEFITS PENSIONS SCHEMES

### Participation in Pension Scheme

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Torfaen County Borough Council – this is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement (Unfunded Teachers Discretionary Benefits) – this is an unfunded defined benefit arrangement under which liabilities

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are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

## Transactions Relating to Post-employment Benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Council Fund Balance via the Movement in Reserves Statement during the year:

	<b>Local Government Pension Scheme 31-Mar-15 £'000</b>	<b>Unfunded Teachers Discretionary Benefits 31-Mar-15 £'000</b>	<b>Local Government Pension Scheme 31-Mar-16 £'000</b>	<b>Unfunded Teachers Discretionary Benefits 31-Mar-16 £'000</b>
<b><u>Comprehensive Income and Expenditure Statement</u></b>				
<i>Cost of Services:</i>				
Current service cost	12,084	-	15,187	-
Past service cost (including curtailments)	1,403	-	391	-
Effect of settlements	(1,629)	-	(1,128)	-
<i>Financing and Investment Income and Expenditure</i>				
Interest income on plan assets	(16,221)	-	(13,338)	-
Interest cost on defined benefit obligation	23,845	494	21,300	358
<b>Total Post Employment Benefit Charged to the Surplus/Deficit on Provision of Services</b>	<b>19,482</b>	<b>494</b>	<b>22,412</b>	<b>358</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>				
Remeasurement of the net defined benefit liability comprising:				
Return on assets excluding amounts included in net interest	(26,768)	-	24,408	-
Changes in financial assumptions	88,869	666	215	3
Other experience	-	-	(7,208)	2,160
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>62,101</b>	<b>666</b>	<b>17,415</b>	<b>2,163</b>
<b><u>Movement in Reserves Statement</u></b>				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services post employment benefits in accordance with the Code	19,482	494	22,412	358
<b><u>Actual amount charged against the Council Fund Balance for pensions in the year</u></b>				
Employer contributions	13,398	-	12,586	-
Contributions in respect of unfunded benefits	526	1,123	504	1,098
	<b>13,924</b>	<b>1,123</b>	<b>13,090</b>	<b>1,098</b>

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The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2016 is a loss of £19.578m (2014/15 showed a loss of £62.767m).

## Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	<b>Funded liabilities: Local Government Pension Scheme 31-Mar-15</b>	<b>Unfunded liabilities: Teachers Discretionary Benefits 31-Mar-14</b>	<b>Funded liabilities: Local Government Pension Scheme 31-Mar-15</b>	<b>Unfunded liabilities: Teachers Discretionary Benefits 31-Mar-15</b>
	£'000	£'000	£'000	£'000
Opening balance at 1 April	(545,805)	(12,053)	(644,412)	(12,090)
Current service cost	(12,084)	-	(15,187)	-
Interest cost on defined benefit obligation	(23,845)	(494)	(21,301)	(358)
Plan participants contributions	(3,982)	-	(3,912)	-
Actuarial gains and losses arising on changes in financial assumptions	(88,869)	(666)	(215)	(3)
Other experience			7,208	(2,160)
Benefits paid	21,747	1,123	18,330	1,098
Past service cost (including curtailments)	(1,403)	-	(391)	-
Effect of settlements	9,829	-	2,586	-
Additional Pension Strain not included in actuarial statement	-	-	(13)	-
<b>Closing balance at 31 March</b>	<b>(644,412)</b>	<b>(12,090)</b>	<b>(657,307)</b>	<b>(13,513)</b>

Reconciliation of fair value of the scheme assets:

<b>Local Government Pension Scheme</b>	<b>31-Mar-15</b>	<b>31-Mar-16</b>
	£'000	£'000
Opening balance at 1 April	374,007	404,955
Interest income on plan assets	16,221	13,338
Return on assets excluding amounts included in net interest	26,768	(24,408)
Employer contributions	13,924	13,090
Contributions by scheme participants	3,982	3,912
Benefits paid	(21,747)	(18,330)
Settlements	(8,200)	(1,458)
<b>Closing balance at 31 March</b>	<b>404,955</b>	<b>391,099</b>

The actual return on scheme assets in the year was £37.746m (2014/15: £42.989m).

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £279.707m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet.

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However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by maintaining contributions at an appropriate rate over the remaining working life of employees, as assessed by the scheme actuary;
- finance is only required to be raised to cover the teachers' pensions when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2017 is £12.2m. Expected contributions to the Teachers' Pension Scheme in the year to 31 March 2017 are £6.9m.

## Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Estimated duration of benefit obligation is 18 years. Both the Teachers' Discretionary Benefits and Greater Gwent (Torfaen) Pension Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Greater Gwent (Torfaen) Pension Fund being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Unfunded Teachers Discretionary Benefits	
	31-Mar-15	31-Mar-16	31-Mar-15	31-Mar-16
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men (years)	23	23	23	23
- Women (years)	25.5	25.4	25.5	25.4
Longevity at 65 for future pensioners:				
- Men (years)	25.3	25.2	N/A	N/A
- Women (years)	27.9	27.8	N/A	N/A
Other Assumptions:				
Rate of CPI Inflation	2.0%	2.2%	2.0%	2.2%
Rate of increase in salaries	3.5%	3.7%	N/A	N/A
Rate of increase in pensions	2.0%	2.2%	2.0%	2.2%
Rate for discounting scheme liabilities	3.3%	3.5%	3.3%	3.5%
Take-up of option to convert annual pension	50.0%	50.0%	N/A	N/A

The Teachers' Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme assets consist of the following categories:

	31-Mar-15	31-Mar-16
	£'000	£'000
Equities	78,561	75,465
Investment Funds	299,667	288,085
Property	10,934	11,525
Alternatives	13,566	13,159
Cash	2,227	2,865
	<b>404,955</b>	<b>391,099</b>

## 42 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- Credit risk - failure to receive amounts due to the Authority;
- Liquidity risk - insufficient funds to meet its commitments;
- Market risk - financial instability arising from changes in interest rates and stock markets.

The Authority's overall risk management programme focuses on unpredictability of financial markets and minimises any adverse effects on the resources available to fund services. Risk management is undertaken by the central treasury team, under policies approved by the Authority in its treasury management and investment strategy. Specifically it manages the risks listed as follows:

### Credit Risk

Arising from deposits with banks and financial institutions, as well as credit exposure to the Authority's customers, this risk is minimised by only making deposits with financial institutions once they meet minimum credit criteria. Details are included in the annual investment strategy. The strategy requires the Authority to invest its funds prudently and to have regard to security and liquidity of its investments before seeking the highest rate of return or yield. The Authority's objective when investing funds is to strike an appropriate balance between risk and return minimising the risk of incurring losses from default and the risk of receiving unsuitably low investment income. This Authority has no recent experience of non-payment of its investments and therefore assesses its credit risk in this area as negligible.

The Authority formally reviews its approved counterparties which are formalised in its treasury management strategy. In addition the approved counterparties credit ratings are regularly reviewed in conjunction with the treasury management advisors, Arlingclose Ltd.

Arlingclose provides the Authority with credit services which use sophisticated modelling approaches with credit ratings from the major credit rating agencies. These counterparty listings are based on credit ratings and by counterparty type (Secured and Unsecured banks, Government, Corporate and Registered Providers).

The Annual Investment Strategy documents the maximum amounts and time limits in respect of each financial institution. The credit limits were not exceeded during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Authority does not currently apply credit ratings to its council tax and trade debtors although this is always under review. Its exposure to non-payment of these debts is summarised as:

	Amount at 31 Mar 2016	Historic experience of default	Estimated Exposure to non- repayment March 2016	Estimated Exposure at 31 Mar 2015
	£'000	%	£'000	£'000
Council tax debts	5,294	1.10	58	57
Trade debtors	5,970	1.52	91	122
			<b>149</b>	<b>179</b>

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The Authority expects repayment of its general debt within 30 days. However, £3.067m of the £5.970m is past this due date. The general debt is analysed as:

	31-Mar-15	31-Mar-16
	£'000	£'000
Less than thirty days	5,063	2,903
Less than three months	978	953
Three months to one year	757	1,118
More than one year	1,198	996
	<u>7,996</u>	<u>5,970</u>

The Authority has also provided loan agreements to third party organisations who are undertaking city regeneration. The majority of these loans relate to Friars Walk retail development. The loans are subject to the usual commercial warranties to ensure security of assets. The Authority are not aware of any historical default issues. These loans are expected to be paid back in full on the agreed dates. Please see financial instrument note 15 and contingent asset disclosure note 43 for additional disclosures.

## Liquidity Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Authority has ready borrowing access to the money market and the Public Works Loans Board to cover short term unforeseeable events. However, there is a risk that the Authority may need to replenish significant borrowings at a time that interest rates are not favourable. Consequently, under its Treasury Management Strategy it sets limits on the proportion of variable rate borrowings in accordance with CIPFA's Treasury Management recommended practice, currently all of the borrowing is on fixed rate.

	31-Mar-15	31-Mar-16
<u>Loan maturity</u>	£'000	£'000
Less than one year	16,212	35,660
Between one and two years	38,381	39,975
Between two and five years	13,838	42,316
More than five years	124,608	105,330
	<u>193,039</u>	<u>223,281</u>

All trade and other payables are repayable in less than one year.

## Market Risk

### Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to changes in interest rates on its borrowings and investments. These are very complex to the extent that an increase in interest rates would have the following effects:

- Borrowing at variable rates will see an increase in the expenses interest charged to the Income and Expenditure account;
- Investments at variable rates will see an increase in the income interest shown on the Income and Expenditure account.

The impact of interest rate changes in borrowing and investment held at variable interest rates will impact on the Authority's Income and Expenditure account and therefore it's Council Fund Balances.



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The Authority has a number of strategies to manage the interest rate risk, as contained within its treasury management and investment strategy. Where it is economically sound to do so the Authority will, during falling interest rates, repay early high cost fixed rate loans to limit loss exposure.

The treasury management team actively assesses the Authority's interest rate exposure and feeds this into its medium term financial planning process. This minimises any adverse effects. The Authority does not currently have any borrowing at variable interest rates.

## Price Risk

The Authority does not generally invest in equity shares and therefore has no exposure to movement in share price.

## Foreign exchange risk

The Authority has a small Euro bank account of approximately €2,000. The exposure to losses arising from movement in exchange rates is therefore negligible.

## 43 CONTINGENT LIABILITIES

There are a number of contingent liabilities identified as at 31 March 2016:

- **MMI Insurances** - The Authority manages the residual insurance fund of the former Gwent County Council. Municipal Mutual Insurance Limited (MMI) covers some of the claims of both ex- authorities (Gwent CC and Newport Borough Council). Following a High Court case in March 2012, MMI has now confirmed that they will be unable to settle the remaining claims in total, and the Authority is now required to meet a balance of the remaining claims.

In April 2013, Ernst & Young, the Scheme Administrators advised that the levy to be paid by Members had been set at the mid-point (15%) of the potential ranges of between 9.5 % and 28%. The 15% levy at £463k (based on the Authority's current claims value of £3.085m) was paid during the financial year. In March 2016, the Scheme Administrators then recommended that the levy should be increased to 25%, meaning that Newport City Council had an additional levy of 10% requested. This equated to £347k, based on current outstanding claims, and a provision has been set up to pay this in 2016/17. A reserve was established in 2013/14 which now totals £352k to manage the risk of the levy ultimately being set at 35%. In addition, a further provision of £240k, as detailed in note 21 is available for any outstanding claims for which Newport is responsible, making the total provision £587k.

- **Insurance Claims** - The Authority manages current insurance claims made against it on an on-going basis. As at 31 March 2016 the total claims outstanding were £3.053m. Claims totalling £831k have been included as a provision in Note 21. However, the remaining claims totalling an estimated £2.22m (2014/15: £2.2m) were un-finalised with significant uncertainty remaining over their final liability, and hence are shown here as a contingent liability. A reserve of £1.925m has been established to manage this risk. There are a number of claims against the authority that are not included within the insurance cover. These relate to discrimination, employment tribunals, copyright claims and civil litigation, it is difficult to quantify the amount of these claims and the likelihood of the liability, and the Authority is disputing all of the claims.
- **City Centre Regeneration and King's Head Hotel** – On 13 December 2013 the Authority signed an agreement to loan Queensberry Newport Limited a maximum of £89.110m in order to fund the development of Friars Walk. The repayment of the loan with interest is due by December 2016 within 12 months of the practical completion and opening of the development in December 2015. The loan will be repaid by either re-financing or selling the completed development. Failure to repay the loan in full within this period would entitle the Authority to exercise "step-in" rights under its security documents to sell the development itself and to receive the rental income in the meantime.

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This leaves a risk for the Authority of the difference between the outstanding loan and the valuation of the asset received but this risk is significantly reduced as the scheme is complete and there are a number of units where the rental income is secured. Once the development is further let, then the investment value of the asset should be more than sufficient to secure the repayment of the loan and interest.

There were also loans made for the value of £1.9m in relation to King's Head Hotel, in which there is a long-term debtor within the accounts. It is expected that this loan will be repaid in full within the agreed timeframe.

- **Newport City Homes** - As part of the legal agreements associated with the transfer of the housing stock, the Authority provided a number of property-related, employment, planning, environmental and other warranties to Newport City Homes and its funders. The property-related warranties are limited to £9,000 per property, and cover 9,144 separate properties. Other warranties and indemnities would only apply after Newport City Homes has committed pre-determined levels of expenditure within its Business Plan. To date there has been no call on these warranties.
- **Financial Guarantees** – The Authority has entered into a number of agreements to act as guarantor in particular regarding the safeguarding of former employees' pension rights when their employment was transferred to third party organisations. There is no quantifiable liability to the Authority; however there remains a potential liability in future years.

## 44 CONTINGENT ASSETS

No contingent assets were identified at 31 March 2016.

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## 45 LIMITED COMPANIES

### The South East Wales Education Achievement Service Ltd

This is a company limited by guarantee, with the five Local Authorities in the Gwent area each being a member of the company.

The objects of the company are to provide services to the participating authorities in relation to their functions in the field of education and, subject to the participating authorities' unanimous prior approval, to other local authorities and other persons exercising functions in the field of education.

An extract of the key figures from the draft unaudited accounts of the company for the year-ending 31 March 2016 is reproduced below.

Draft accounts	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Profit and Loss Account</b>		
Turnover	(9,243)	(8,920)
Cost of sales	9,147	8,818
<b>Gross profit</b>	<b>(96)</b>	<b>(102)</b>
Expenses, interest and taxation	-	-
<b>Retained (profit) / loss for the year</b>	<b>(96)</b>	<b>(102)</b>
<b>Balance Sheet</b>		
Long term assets	5,189	33
Current assets	2,632	8,145
Creditors: due within 1 year	(2,536)	(2,240)
Creditors: due after 1 year	-	-
Provisions for liabilities/charges	-	(144)
Pension liability	(5,133)	(5,563)
<b>Net Assets</b>	<b>152</b>	<b>231</b>
Share capital	-	-
Profit & loss account*	152	231
<b>Shareholders' Funds</b>	<b>152</b>	<b>231</b>

Payments of £1.282m were made to the South East Wales Education Achievement Service Ltd by the Authority in 2015/16.

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## Newport Transport Ltd

This is a wholly owned "arms-length" company of the Authority set up under the Transport Act 1985 to run a passenger bus service. An extract of the key figures from the draft unaudited accounts of the company for the year-ending 31 March 2016 are reproduced below:

Draft accounts	31-Mar-15	31-Mar-16
	£'000	£'000
<b>Profit and Loss Account</b>		
Turnover	(10,592)	-
Cost of sales	9,362	-
<b>Gross profit</b>	<b>(1,230)</b>	-
Expenses, interest and taxation	1,169	-
<b>Retained (profit) / loss for the year</b>	<b>(61)</b>	-
<b>Balance Sheet</b>		
Fixed Assets	7,419	-
Current Assets	1,532	-
Creditors: due within 1 year	(2,126)	-
Creditors: due after 1 year	(2,375)	-
Provisions for liabilities/charges	(218)	-
Pension liability	(6,128)	-
<b>Net Assets</b>	<b>(1,896)</b>	-
Share Capital	251	-
Profit & loss account*	(2,147)	-
<b>Shareholders' Funds</b>	<b>(1,896)</b>	-

At the draft stage the Authority does not have the completed draft statements to include 2015/16 figures for Newport Transport in the Statement of Accounts.

Copies of the company's financial statements can be obtained from Newport Transport Ltd, 160 Corporation Road, Newport, South Wales, NP20 0WF.

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## **Newport Norse**

The Authority's first joint venture company, Newport Norse, was launched on July 1<sup>st</sup> 2014. The new JV company, which now oversees the Authority's property maintenance, estates, facilities management and capital projects design functions. Newport Norse and their subsidiary NPS Newport Limited, are Joint Venture Companies in which the Authority has a 20% share and minority representation on the Board. The Authority has a 50% "gain share" in the profits, which reduces the Authority's service charge. First year's trading (accounting period covering July 2014 to January 2015) delivered a provisional profit share of £60,450 to the Authority. The draft set of accounts are detailed below:

At the draft stage the Authority does not have the financial statements for Newport Norse to include in these Statement of Accounts.

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 46 POOLED BUDGETS

The Authority has entered into two pooled budget arrangements:

1. The Gwent Wide Integrated Community Equipment Service (GWICES) is a Section 33 Partnership Agreement between the five Local Authorities in the Gwent area and the Aneurin Bevan Local Health Board for the provision of an efficient and effective integrated community equipment service to users who are resident in the partner localities. This agreement came into effect on 1 October 2008.

The Income & Expenditure Account and Balance Sheet of this arrangement is:

	31-Mar-15	31-Mar-16
	Total	Total
	£'000	£'000
<b>Expenditure</b>		
Staff	86	87
Non-Staff	3,503	2,594
<b>Total Expenditure</b>	<b>3,589</b>	<b>2,681</b>
<b>Funding</b>		
Blaenau Gwent County Borough Council	(281)	(276)
Caerphilly County Borough Council	(548)	(505)
Monmouthshire County Borough Council	(355)	(350)
Newport City Council	(426)	(439)
Torfaen County Borough Council	(1,232)	(467)
Aneurin Bevan Health Board	(599)	(496)
Contribution to Lead Commissioner - LAs	(62)	(61)
Contribution to Lead Commissioner - LHBs	(26)	(26)
Community Resource Team (Frailty Project)	(61)	(62)
<b>Total</b>	<b>(3,590)</b>	<b>(2,682)</b>

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

2. The Gwent Frailty Programme is a Section 33 Partnership Agreement between the five Local Authorities in the Gwent area and the Aneurin Bevan Local Health Board for the delivery of a range of services to avoid hospital admissions, facilitate early discharge and help individuals remain “happily independent”. The Community Resource Teams (CRTs) provide integrated Urgent Response, Re-enablement and Falls services within each locality in line with agreed Locality Annual Commissioning Plans (LCPs). This agreement came into effect on 4 April 2011, although some expenditure was incurred to establish the scheme during the previous year.

The Income & Expenditure Account and Balance Sheet of this arrangement is:

	31-Mar-15	31-Mar-16
	Total	Total
	£'000	£'000
<b>Expenditure</b>		
Baseline Declarations	8,475	8,570
Reimbursements	3,752	4,479
Invest to Save	594	890
Central Costs	479	539
<b>Total Costs</b>	<b>13,300</b>	<b>14,478</b>
<b>Funding</b>		
Blaenau Gwent County Borough Council	(506)	(536)
Caerphilly County Borough Council	(1,922)	(2,057)
Monmouthshire County Borough Council	(1,160)	(1,173)
Newport City Council	(1,441)	(1,511)
Torfaen County Borough Council	(660)	(755)
Aneurin Bevan Health Board	(6,913)	(8,237)
Welsh Government Invest to Save	-	-
<b>Total Funding</b>	<b>(12,602)</b>	<b>(14,269)</b>
<b>Net in year (under) / over spend</b>	<b>698</b>	<b>209</b>

## 47 JOINT VENTURES

The Code defines a joint arrangement as “a contractual arrangement under which the participants engage in joint activities that do not create an entity because it would not be carrying on a trade or business of its own. A contractual arrangement where all significant matters of operating and financial policy are predetermined does not create an entity because the policies are those of its participants, not of a separate entity”.

The Code indicates that where such joint arrangements exist each participant should account directly for its share of the assets, liabilities, income, expenditure and cash flows held within or arising from the arrangement.

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

The Authority has five such joint arrangements;

- Gwent Joint Records Committee
- Greater Gwent Cremation Committee
- Project Gwyrdd
- Welsh Purchasing Consortium
- Coroners Joint Committee

## Gwent Joint Records Committee

	31-Mar-15		31-Mar-16	
	Total	NCC share	Total	NCC share
	£'000	£'000	£'000	£'000
<b>Income &amp; Expenditure Account</b>				
Expenditure	1,101	341	946	293
Income	(942)	(292)	(1,003)	(311)
<b>Net Cost of Service</b>	<b>159</b>	<b>49</b>	<b>(57)</b>	<b>(18)</b>
Pension interest cost / expected return on assets	6	2	-	-
<b>Net Operating Cost</b>	<b>165</b>	<b>51</b>	<b>(57)</b>	<b>(18)</b>
Actuarial Gains	212	66	-	-
<b>(Surplus) / Deficit for the Year</b>	<b>377</b>	<b>117</b>	<b>(57)</b>	<b>(18)</b>
<b>Balance Sheet</b>				
Current Assets	318	99	392	122
Current Liabilities	(131)	(41)	(148)	(46)
Pension Liability	(407)	(126)	-	-
<b>Total Assets less Liabilities</b>	<b>(220)</b>	<b>(68)</b>	<b>244</b>	<b>76</b>
Pension Reserve	407	126	-	-
General Reserve	(187)	(58)	(244)	(76)
<b>Total</b>	<b>220</b>	<b>68</b>	<b>(244)</b>	<b>(76)</b>

Payments of £289k were made to Gwent Joint Records Committee by the authority in 2015/16.



# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## Greater Gwent Cremation Committee

	31-Mar-15		31-Mar-16	
	Total	NCC share	Total	NCC share
	£'000	£'000	£'000	£'000
<b>Income &amp; Expenditure Account</b>				
Expenditure	864	237	797	219
Income	(1,727)	(475)	(1,722)	(473)
<b>Net Cost of Service</b>	<b>(863)</b>	<b>(238)</b>	<b>(925)</b>	<b>(254)</b>
Pension interest cost / expected return on assets	753	207	757	208
<b>Net Operating Cost</b>	<b>(110)</b>	<b>(31)</b>	<b>(168)</b>	<b>(46)</b>
Actuarial gains	105	29	39	11
<b>Total Comprehensive I&amp;E</b>	<b>(5)</b>	<b>(2)</b>	<b>(129)</b>	<b>(35)</b>
<b>Balance Sheet</b>				
Fixed Assets	2,362	649	2,260	621
Current Assets	1,044	287	1,343	369
Current Liabilities	(14)	(4)	(18)	(5)
Long Term Creditors	(744)	(204)	(744)	(204)
Pension Liability	(203)	(56)	(268)	(74)
<b>Total Assets less Liabilities</b>	<b>2,445</b>	<b>672</b>	<b>2,573</b>	<b>707</b>
Pension Reserve	203	56	268	74
Capital Adjustment Account	(327)	(90)	(277)	(76)
Revaluation Reserve	(683)	(188)	(683)	(188)
General Reserve	(1,638)	(450)	(1,881)	(517)
<b>Total</b>	<b>(2,445)</b>	<b>(672)</b>	<b>(2,573)</b>	<b>(707)</b>

Payments of £206,000 were made by Greater Gwent Cremation Committee to the Authority in 2015/16.

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## Project Gwyrdd

	31-Mar-15		31-Mar-16	
	Total	NCC share	Total	NCC share
	£'000	£'000	£'000	£'000
<b>Income &amp; Expenditure Account</b>				
Expenditure	201	40	157	31
Income	(132)	(26)	(27)	(5)
<b>Net Cost of Service</b>	<b>69</b>	<b>14</b>	<b>130</b>	<b>26</b>
Pension interest cost / expected return on assets	-	-	-	-
<b>Net Operating Cost</b>	<b>69</b>	<b>14</b>	<b>130</b>	<b>26</b>
Contributions	-	-	(244)	(49)
<b>(Surplus) / Deficit for the Year</b>	<b>69</b>	<b>14</b>	<b>(114)</b>	<b>(23)</b>
<b>Balance Sheet</b>				
Current Assets	199	40	308	62
Current Liabilities	(10)	(2)	(4)	(1)
Pension Liability	-	-	-	-
<b>Total Assets less Liabilities</b>	<b>189</b>	<b>38</b>	<b>304</b>	<b>61</b>
General Reserve	(189)	38	(304)	(61)
<b>Total</b>	<b>(189)</b>	<b>38</b>	<b>(304)</b>	<b>(61)</b>

Payments of £48,800 were made to Project Gwyrdd by the Authority in 2015/16.

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## Welsh Purchasing Consortium

	31-Mar-15		31-Mar-16	
	Total £'000	NCC share £'000	Total £'000	NCC share £'000
<b>Income &amp; Expenditure Account</b>				
Expenditure	226	12	428	23
Income	-	-	-	-
<b>Net Cost of Service</b>	<b>226</b>	<b>12</b>	<b>428</b>	<b>23</b>
Contributions	(243)	(13)	(7)	-
<b>(Surplus) / Deficit for the Year</b>	<b>(17)</b>	<b>(1)</b>	<b>421</b>	<b>23</b>
Appropriations to / from Reserve	(11)	1	3	-
<b>(Surplus) / Deficit for the Year</b>	<b>(28)</b>	<b>-</b>	<b>424</b>	<b>-</b>
<b>Balance Sheet</b>				
Current assets	437	23	155	8
Current liabilities	(17)	(1)	(155)	(8)
<b>Total Assets less Liabilities</b>	<b>420</b>	<b>22</b>	<b>-</b>	<b>-</b>
<b>Represented by:</b>				
General Reserve	(407)	(21)	-	-
Accumulated Absences Account	3	-	-	-
Earmarked Reserve	(16)	(1)	-	-
	<b>(420)</b>	<b>(22)</b>	<b>-</b>	<b>-</b>

The Authority did not make a contribution to the Welsh Purchasing Consortium in 2015/16.

## Coroners Joint Committee

	31-Mar-15	31-Mar-16
	Total £'000	Total £'000
<b>Expenditure</b>		
Employee costs	142	155
Premises	14	13
Supplies and Services	434	455
<b>Total Costs</b>	<b>590</b>	<b>623</b>
<b>Funding</b>		
Blaenau Gwent County Borough Council	(70)	(74)
Caerphilly County Borough Council	(183)	(193)
Monmouthshire County Borough Council	(93)	(98)
Newport City Council	(151)	(160)
Torfaen County Borough Council	(93)	(98)
<b>Total Contribution</b>	<b>(590)</b>	<b>(623)</b>
<b>Net in year (under) / over spend</b>	<b>-</b>	<b>-</b>

# Notes to the Statement of Accounts

Statement of Accounts 2015/16

Newport City Council

## 48 TRUST FUNDS AND THIRD PARTY ASSETS

Details of trusts are as follows:	31-Mar-15	31-Mar-16
	£	£
Miscellaneous Education Funds	32,992	48,943

The Authority passed a number of its trust fund holdings to the Community Foundation in Wales and, with the agreement of the Charities Commission, passed the management of a number of other dormant funds to schools in 2008/09. The Authority acts as sole trustee for the remaining Education trust funds.

The Authority operates 142 (2014/15: 157) appointee bank accounts holding £1,097,399 (2014/15: £1,018,925). These relate to third party monies held by the Authority on behalf of its Social Service clients. These figures have been excluded from cash and cash equivalent figures reported in the accounts.

# Glossary of Accounting Related Terminology

Statement of Accounts 2015/16

Newport City Council

## GLOSSARY OF TERMS

- **Accruals Basis**  
The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.
- **Actuarial Gains and Losses Re-measurement of Net Defined Benefit Liability**  
Actuaries assess financial and non-financial information provided by the Authority to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because events have not coincided with the actuarial assumptions made for the last valuation and the actuarial assumptions have changed.
- **Agency Services**  
These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work.
- **Appointed Auditors**  
The Audit Commission appoints external auditors to every Local Authority, from one of the major providers of registered auditors. The Welsh Audit Office is the Authority's appointed Auditor.
- **Authorised Limit**  
This represents the legislative limit on the Authority's external debt under the Local Government Act 2003.
- **Balances**  
The balances of the Authority represent the accumulated surplus of income over expenditure on any of the Funds.
- **Capital Adjustment Account**  
The Account accumulates (on the debit side) the write-down of the historical cost of Property, Plant and Equipment as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.
- **Capital Expenditure**  
This is expenditure on the acquisition of property, plant and equipment, or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.
- **Capital Financing Charges**  
This is the annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money, together with leasing rentals.
- **Capital Receipts**

# Glossary of Accounting Related Terminology

Statement of Accounts 2015/16

Newport City Council

Income received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

- **Carrying Amount**  
The Balance Sheet value recorded of either an asset or a liability.
- **Chartered Institute of Public Finance and Accountancy (CIPFA)**  
CIPFA is the leading professional accountancy body for public services.
- **Community Assets**  
This is a category of Property, Plant and Equipment that the Authority intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples include parks and historical buildings not used for operational purposes.
- **Contingency**  
This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets.
- **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 Authority's Statement of Accounts.
- **Council Tax Requirement**  
This is the estimated revenue expenditure on General Fund services that needs to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.
- **Creditors**  
Amounts owed by the Authority for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.
- **Current Service Cost**  
Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.
- **Debtors**  
These are sums of money due to the Authority that have not been received at the date of the Balance Sheet.
- **Deferred Capital Receipts**  
These represent capital income still to be received after disposals have taken place and wholly consists of principal outstanding from the sale of council houses.
- **Depreciation**  
This is the measure of the wearing out, consumption, or other reduction in the useful economic life of Property, Plant and Equipment.

# Glossary of Accounting Related Terminology

Statement of Accounts 2015/16

Newport City Council

- **Derecognition**  
Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.
- **Discounts**  
Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the requirements of the Code, gains arising from the repurchase or early settlement of borrowing have been written back to revenue. However, where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains have been recognised over the life of the replacement loan.
- **Earmarked Reserves**  
The Authority holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.
- **External Audit**  
The independent examination of the activities and accounts of Local Authorities to ensure the Statement of Accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.
- **Fair Value**  
Fair value is the price at which an asset could be exchanged in an arm's length transaction, less any grants receivable towards the purchase or use of the asset.
- **Financial Regulations**  
These are the written code of procedures approved by the Authority, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.
- **Housing Benefit**  
This is an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Authority's own tenants are known as rent rebate and that paid to private tenants as rent allowance.
- **Impairment**  
A reduction in the value of a fixed asset below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.
- **Infrastructure Assets**  
A category of Property, Plant and Equipment which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.
- **International Financial Reporting Standard (IFRS)**

# Glossary of Accounting Related Terminology

Statement of Accounts 2015/16

Newport City Council

These are the defined Accounting Standards that must be applied by all reporting entities to all Statement of Accounts in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with Statement of Accounts of the other entities.

- **Joint Venture**

A Joint Venture is an arrangement under which two or more parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties.

- **Lender Option Borrower Option (LOBO)**

A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

- **Liabilities**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

- **Materiality**

An item would be considered material to the Statement of Accounts if, through its omission or non-disclosure, the Statement of Accounts would no longer show a true and fair view.

- **Minimum Revenue Provision (MRP)**

MRP is the minimum amount which must be charged to an Authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government and Housing Act 1989. Net debt is the Authority's borrowings less cash and liquid resources.

- **Precept**

The amount levied by various Authorities that is collected by the Authority on their behalf.

- **Premiums**

These are discounts that have arisen following the early redemption of long term debt, which are written down over the lifetime of replacement loans where applicable.

- **Prior Period Adjustments**

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

- **Private Finance Initiative (PFI)**

A Central Government initiative which aims to increase the level of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage Authorities' participation.

- **Public Works Loan Board (PWLB)**

An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities

- **Related Parties**



# Glossary of Accounting Related Terminology

Statement of Accounts 2015/16

Newport City Council

Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

- **Reporting Standards**

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

- **Revaluation Reserve**

The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

- **Service Reporting Code of Practice (SERCOP)**

Prepared and published by CIPFA, the Service Reporting Code of Practice (SERCOP) is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SERCOP establishes proper practices with regard to consistent financial reporting for services in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

- **Treasury Management**

This is the process by which the Authority controls its cash flow and its borrowing and lending activities.

- **Trust Funds**

These are funds administered by the Authority on behalf of charitable organisations and/or specific organisations.

- **Unsupported (Prudential) Borrowing**

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

SERCOP	Service Reporting Code of Practice
CAA	Capital Adjustment Account
CERA	Capital Expenditure charged to Revenue Account
CFA	Capital Financing Account
CIPFA	Chartered Institute of Public Finance & Accountancy
Code	CIPFA Code of Recommended Accounting Practice
EIB	European Investment Bank
ERDF	European Regional Development Fund
GAAP	Generally Accepted Accounting Practice
GAVO	Gwent Association of Voluntary Organisations
GCC	Gwent County Council
GEST	Grants for Education Support & Training
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LMS	Local Management of Schools
MRP	Minimum Revenue Provision
NCA	Notional Credit Approval
NNDR	National Non-Domestic Rates
NPV	Net Present Value
NRV	Net Realisable Value
PFI	Private Finance Initiative
PWLB	Public Works Loan Board
RICS	Royal Institution of Chartered Surveyors
RSG	Revenue Support Grant
SEWREC	South East Wales Racial Equality Council
TTF	Treasury Task Force
WIP	Work in Progress

Further information about the Statement of Accounts is available from:

Head of Finance  
Civic Centre  
Newport  
South Wales  
NP20 4UR

This is part of the Authority's policy of providing full information about the Authority's affairs. In addition, interested members of the public have a statutory right to inspect the Statement of Accounts before the audit is completed. The availability of the Statement of Accounts for inspection is advertised in the local press, as is the notice of completion of the audit.

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# Report

## Audit Committee

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### Part 1

Date: 23 June 2016

**Subject** Internal Audit – Progress Against Unsatisfactory Audit Opinions Previously Issued [to May 2016]

**Purpose** To inform Members of the Audit Committee of the up to date position of audit reviews previously given an unsatisfactory / unsound audit opinion.

**Author** Chief Internal Auditor

**Ward** General

**Summary** The attached report identifies current progress of systems or establishments which have previously been given an unsatisfactory or unsound audit opinion. Although there will always be concerns over reviews given an unsatisfactory or unsound audit opinion, managers are allowed sufficient time to address the issues identified and improve the financial internal controls within their areas of responsibility.

In July 2015 it was reported that 5 audit reviews had been given an Unsatisfactory audit opinion during **2014/15**:

In **2015/16**, to March 2016, 34 audit opinions had been issued; 8 were *Unsatisfactory*, no *Unsound* opinions were issued.

**Proposal**

- 1) The report be noted and endorsed by the Council's Audit Committee
- 2) To consider calling in the Operational Manager responsible for the CCTV / Security (Telford Depot) along with the Head of Street Scene & City Services to respond to two consecutive Unsatisfactory Audit Opinions.

**Action by** Audit Committee

**Timetable** Immediate

## Background

1. This report aims to inform Members of the Audit Committee of the current status of audit reviews previously given an *unsatisfactory* or *unsound* audit opinion and to bring to their attention any areas which have **not** demonstrated improvements within the financial control environment.
2. Since bringing this report to the Audit Committee there have been 13 reviews which had been given two consecutive *unsatisfactory* or *unsound* audit opinions and these have previously been brought to the attention of the Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the Audit Committee. The latest referrals are shown at Appendix A.
3. It is pleasing to report that improvements were made in all 13 areas. These reviews will now be picked up as part of the audit planning cyclical review and will be audited as part of that process.
4. Follow up audit work for the 5 2014/15 Unsatisfactory reviews had been planned for 2015/16 by the audit team and was recorded in the plan; not all of these have been followed up so the follow up reviews will take place during 2016/17. Where the team come across obstacles in undertaking follow up work, for example managers stating that the issues will be addressed by the implementation of a new system, the Chief Internal Auditor will take a view as to the usefulness of a follow up review at the time and report back to the Audit Committee.
5. Definitions of the audit opinions are shown at Appendix B.

## History of unfavourable audit opinions

6. In **2014/15**, 34 audit opinions were issued; 5 of which were deemed to be *Unsatisfactory* as shown in the following table. These have not all been followed up due to insufficient resources within the audit team so we are not yet in a position to provide an update on the current audit opinion for all 5 yet.

	Revised Opinion / Date of follow up	Current Status
Amenity Funds (Adult Services) Final	2016/17	Not yet followed up
Flexible Working and Travel and Subsistence Procedures (Adult Services) Final	2016/17	Not yet followed up
CCTV / Security (Telford Depot) (Street Scene)	2015/16	Unsatisfactory Draft as at 31/03/16
Discretionary Charging (Public Protection – Environmental Health)	2015/16	Reasonable Draft as at 31/03/16
SEN Assessments and Out of County Assessments (Education Services) Final	2016/17	Follow up in progress

7. In **2015/16**, 34 audit opinions had been issued; 8 of which were deemed to be *Unsatisfactory*; a summary of the significant issues follows the table:

	Revised Opinion / Date of follow up	Current Status
Partnerships & Planning (Draft) - Re: Grants to Voluntary Sector Organisations	2016/17	
Looked After Children 16+	2016/17	
Kimberley Nursery	2016/17	
Ysgol Gymraeg Casnewydd	2016/17	
Malpas Court Primary - Special	2015/16	Good
Joint Venture – Newport Norse (Draft)	2016/17	
Highways Improvements Contracts	2016/17	
CCTV / Security Telford Depot – Follow Up	2014/15 – Unsatisfactory 2015/16 - Unsatisfactory	

- a) **Partnerships & Planning (Draft) Re: Grants to Voluntary Sector Organisations** – reported previously to Audit Committee
- b) **Looked After Children 16+** – reported previously to Audit Committee
- c) **Kimberley Nursery** – reported previously to Audit Committee
- d) **Ysgol Gymraeg Casnewydd**

The outgoing Headteacher (retiring) and incoming Headteacher (former Deputy Headteacher at the School) had concerns over the School's financial administration so requested a review by Internal Audit.

Ref.	CRITICAL
2.01	For the period January 2015 to July 2015 invoices were not authorised for payment by the Headteacher / Acting Headteacher. Some paid invoices could not be located at the School.

Ref.	SIGNIFICANT
1.05	For the period reviewed, receipts were not written / appropriate summaries kept in support of income banked into the School budget.
1.06	At the time of the review, dinner money purses held on behalf of pupils were not being held securely.
1.07	For the period reviewed, application and indemnity forms had not been completed for the hire of rooms within the School. There was no Lettings Policy / Fees & Charges structure in place which had been agreed by the Governing Body.
2.02	At the time of the review, when the South East Wales Framework was not used for the procurement of supply teachers there was no evidence of Governing Body approval to use a different supplier. Where alternative suppliers were used, there was no evidence to support that safeguarding checks had been undertaken by the Agency / School.
2.03	At the time of the review, a number of purchase orders could not be located at the School and a number of invoices had been processed through the non-order facility where a purchase order should have been raised. Where purchase orders were found these had not been authorised by the Headteacher. The filing system in place at the School was poor.
2.04	For the period reviewed, a recurring payment schedule was not maintained detailing invoices processed through the non-order facility.
2.05	For the sample examined, there was no evidence of having obtained value for money for purchases under £3,000.
2.06	It was identified that the School Support Officer (Level 4) had taken paid invoices files off-site without the permission of the Headteacher.
2.07	For the sample examined, invoices were not being date stamped upon receipt and some appeared to have been paid late i.e. in excess of 30 days from date of receipt.
2.08	For the period reviewed, invoice batch authorisation summaries had not been signed / reviewed by the Headteacher to confirm payment could be made. 2 invoice batch summaries could not be located at the School.
2.09	For the period reviewed, there was an inadequate segregation of duties within the procurement processes at the School.
2.10	At the time of the review, the Schools Petty Cash account could not be located. A reimbursement had not been made since February 2011 (5 years).



Ref.	SIGNIFICANT
3.03	For the sample examined, 2 Self Certification & Return to Work Discussion Forms could not be located at the School. From the forms available, they had not been completed in full and they had not been completed by a senior officer / manager. The management action taken in relation to the absence was not always in-line with the Management of Attendance Policy.
3.04	Employees' certificates of insurance, driving licences and MOT certificates were not always reviewed annually for all members of staff.
4.04	Monthly reconciliations of the School Private Fund (SPF) account had not been completed and there was no evidence to support that bank statements / income records had been reviewed by the Headteacher / independent person.
5.02	At the time of the review, the School's inventory record had not been updated for a number of years; consequently not all assets were recorded. There was no valuation of library books / reading schemes held.
5.03	At the time of the review, portable electrical equipment had not been security marked as belonging to the School / NCC.
5.04	At the time of the review, encrypted memory sticks had not been provided to staff. Evidence confirmed school information was being stored on an employee's personal memory stick.
5.05	At the time of the review, staff personnel and pupil files were not kept secure.

#### e) Malpas Court Primary - Special – Income Administration

The following issues were reported to the School via a memo rather than our normal reporting processes and were therefore not identified as critical or significant.

No	Weakness
1	Not all income returns had been submitted for the 2013/14 academic year as required. Some duplicate income returns had been submitted and copies of the returns held by the School sometimes differed to those held by Central Accountancy.
2	Income returns were not being correctly completed or in full. Income recorded did not always match to the income actually banked.
3	Week-ending dates and week numbers were not always recorded on income returns and when completed were often incorrect.
4	Income returns were not always certified by the Headteacher / Deputy Headteacher.
5	The review of the bank paying-in books to verify income banked took place prior to the actual banking taking place.
6	5 occasions were identified where the cash-paying in counterfoil had been ripped out of the bank paying-in book.
7	Bank paying-in counterfoils were not always used in sequence and were not always submitted to Central Accountancy to accompany the corresponding income return.
8	Miscellaneous income received by the School was not formally receipted.
9	Income was not banked on a regular nor prompt basis. Bankings on weekends and during periods when the School was closed were identified. Income collected was not always banked intact.
10	Bankings did not always take place at a location near to the School. The Headteacher confirmed she was unaware of the location used for school meal income banking.
11	School music income had not been promptly collected from parents with more than a third remaining outstanding at the end of the academic year. The School music income collection summary was not adequately detailed.
12	At the time of the review, income was not being held securely after being transported to the School office.
13	The key to the School safe was not being held securely with access restricted. The

No	Weakness
	Headteacher did not have independent access to the safe.
14	The School was raising debtor invoices which were in excess of the £100 limit set for primary schools.
15	Application and indemnity forms were not held for all School lettings.
16	The school meal registers for the 2013/14 academic year were not fully nor correctly completed with income being backdated into the registers. No reconciliation between the total income received and the total income banked took place.
17	The school meal registers were sometimes completed in pencil and correction fluid was being used to amend entries.
18	There was no evidence of a periodic overview of the school meal registers by the Headteacher.
19	There was no cash handover procedure in place between members of staff at the School.
20	At the time of the review, daily meals ordered sheets were being destroyed at the end of each week.
21	School meal arrears were not being monitored effectively and an excessive school meals arrears balance existed. The Headteacher was not made aware of the significant level of school meal arrears.
22	The 4/5 Weekly Primary School Meal Return was neither correctly completed nor completed in full. There was no evidence of an independent overview of the return prior to submission to Central Education.
23	Some pupils were identified as receiving free school meals but were not eligible. In some cases where eligibility had been confirmed, parents continued to pay for meals.
24	There was no staff school meal register in place and there were no records to support payments received in respect of adult meals provided. The current meal price being charged to staff was incorrect.

#### f) Joint Venture – Newport Norse

Ref.	CRITICAL
1.04	Although the contract had been signed, not all the columns of the Service Specification (Schedule 2 of the contract) had been populated.
2.05	At the time of the review, there was no specific list available of the works and services that are included in the 'core services' fee paid to Newport Norse, resulting in confusion over what the Authority should and should not be paying for. It was not known how and on what the core services payment was being spent by Newport Norse on behalf of the Authority.

Ref.	SIGNIFICANT
1.05	There was a contradiction within the Service Agreement with regards to whether Newport Norse should comply with NCC's Contract Standing Orders.
1.06	There was a discrepancy between the calculations of the internal profit figure in Schedule 3 of the Service Agreement, which has been used to calculate NCC's 2014/15 profit share.
1.07	At the time of the review, the actual 2014/15 profit share was significantly lower than the projected profit share and documentation to support the calculation had not

<b>Ref.</b>	<b>SIGNIFICANT</b>
	originally been provided by Newport Norse or requested by the NCC Accountancy Team.
1.08	During the course of the audit, it became evident that the client / contractor relationship was under resourced given the workload involved.
2.06	At the time of the review, there was a lack of communication to NCC Service Areas / Sections with regards to when Newport Norse should be used for works / services and when they should be invited to quote / tender for additional works. As a result, NCC officers were not always obtaining quotes from other suppliers for any additional works / services.
2.07	At the time of the review, quarterly reconciliations between the capital maintenance budget and the actual capital expenditure incurred by Newport Norse were not being conducted by NCC. Amendments when required were not being made to the invoices in the month following the quarter end to correct any over or under spend.
2.08	At the time of the review, service reviews of Newport Norse and benchmarking exercises had not been conducted.
2.09	The Newport Norse Business Plan for 2015/16 did not contain everything as specified in the contract.
2.10	At the time of the review, the performance indicators in the minutes of the Quarterly Liaison Board meeting were different to those included in the Service Agreement (specification schedule) and those provided by NCC Accountancy.
3.04	For the period reviewed, some orders for additional works had been raised with other companies within the Norse Property Services (NPS) Group rather than directly with Newport Norse.
3.05	For the sample reviewed, the invoices received from Newport Norse for additional works completed were not always adequately detailed.
3.06	For the period reviewed, invoices from Newport Norse for additional works completed were not always issued promptly to NCC.
3.07	At the time of the review, according to the Newport Norse outstanding debt report there was a large volume of unpaid invoices (i.e. owed by NCC) and the value of unpaid invoices could not be agreed.

#### **g) Highways Improvements Contracts**

<b>Ref.</b>	<b>SIGNIFICANT</b>
1.05	For the period reviewed, there was no evidence to suggest work programmes were being submitted by the Contractors and reviewed and commented on by the Project Managers for any of the contracts reviewed.
1.06	For the period reviewed, Contractor and project wide meetings were not always held and minuted.
1.07	The carriageway resurfacing contract did not provide for the recovery of additional costs (i.e. delay damages).

Ref.	SIGNIFICANT
1.08	The overall project management of the contracts was poor with conditions of contract not being followed and a general lack of paperwork to support key decisions being made.
3.01	For the period reviewed, formal project management instructions (PMIs) were not issued and signed off by the Project Managers for any of the 3 contracts reviewed.
3.02	For the sample reviewed, compensation events for the carriageway resurfacing contract were not valued in strict accordance with the contract and documentation to support these was not always available.
4.01	For the period reviewed, there was no formal request or agreement to a delay in completion of the works for the carriageway resurfacing contract.
4.02	For the period reviewed, there was no formal agreement that liquidated damages would not be applied if the Contractor did not claim an extension of time as a result of delays due to the NATO summit.
4.03	For the period reviewed, a record of the due completion date, details of any agreed delays to the completion date and the overall effect on the due completion date for each contract were not maintained.
4.04	The minutes of the Contractor and project wide meetings available did not note the overall effect on the due completion date of agreed delays in completion.

#### h) CCTV / Security Telford Depot – Follow Up

This is the second consecutive Unsatisfactory Audit opinion given for this audit review.

Ref.	SIGNIFICANT
1.07	The main entrance gates for the Depot were not always secure / locked during the early evening when staff on site was reduced.
1.12	Formal key holder lists were not held for each building on the site and the key holder list for the main gate held by the Streetscene Area Manager did not match to the actual persons issued with keys by managers based at the site.
1.13	Access to the Depots buildings via the PAC system was not being monitored. No list of those with access to the buildings via the PAC system was available.
1.14	Vehicles and portable items held at the Depot were not always kept secure.
1.15	An alarm system had not been installed in the Transport Offices / Stores building.
1.16	Overtime paid to members of staff undertaking security duties was not paid at a grade appropriate to the duties of the post.
2.07	At the time of the review, the remote access to the CCTV system and a number of the cameras were not operational.
2.08	Regular maintenance was not conducted of the CCTV system / cameras. No maintenance contract / agreement had been arranged.
2.09	The CCTV footage was of poor quality and could not be used to identify vehicles or persons on the site. The remote usage of the system no longer allows for movement of the cameras, rewinding or recording. No night-vision cameras were located within the site and the low level lighting was not always fully operational.

8. Internal Audit will continue to cover the service areas and specific sections identified in the 2016/17 operational plan and will endeavour to revisit any areas which have been given an unsatisfactory or unsound audit opinion within a twelve month timescale.
9. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and have agreed to do this by incorporating their comments within the audit reports and taking on board the agreed management actions.
10. Internal Audit are continuing to raise the awareness of financial regulations and contract standing orders within the Council by delivering seminars to all service areas; during recent years this training has been further targeted towards areas that have had unsatisfactory audit opinions.
11. Where managers are compliant with Council policies and procedures and sound financial management can be demonstrated then audit reviews should result in an improved audit opinion being given. If, as a result, improvements are made to internal controls then greater assurance can be given by Internal Audit to the Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls.

### **Financial Summary, Risks and Links to Council Policies and Priorities**

12. No direct financial implications for this report.
13. One of the key objectives of an audit report is to outline compliance against expected controls within a system, an establishment or the duration of a project or contract. The report should give management assurance that there are adequate controls in place to enable the system to run effectively, efficiently and economically. If adequate controls are not in place then there is greater exposure to the risk of fraud, theft, corruption or even waste.
14. Newport Internal Audit reports outline strengths of the system under review along with any weaknesses in internal control. The reports are discussed with operational management where the issues identified are agreed. The operational manager will then add his / her action plans to the report which will address the agreed issue and mitigate any further risk.
15. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.
16. Risk table – N/A for this report
17. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens
  - To make our city a better place to live for all our citizens
  - To be good at what we do
  - To work hard to provide what our citizens tell us they need

### **Options Considered / Available. Preferred choice and reasons**

18. Not applicable

### **Comments of Chief Financial Officer**

19. This report is compiled on behalf of the Head of Finance. Areas of unsatisfactory / unsound audit opinions are a concern but having highlighted issues, it is expected that local managers implement appropriate improvements as soon as they can. Further on-going unsatisfactory / unsound opinions are then of even more concern and the Committee will need to come to a view, having made enquiries of the Chief Internal Auditor, what, if any further action may be required. For example, they may request that the relevant Head of Service and service manager come to a future meeting to explain the lack of progress and what changes they have planned and timescales.

### **Comments of Monitoring Officer / Head of Law & Regulation**

20. There are no legal implications. The report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework.

### **Comments of Head of People and Business Change**

21. There are no direct Human Resources issues arising from this report. Internal Audit provide a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

### **Local Issues and Consultation**

22. Not applicable

**INTERNAL AUDIT SERVICES**


**Progress of reports following call-in to Audit Committee as a result of 2 consecutive unfavourable audit opinions:**

<b>Review</b>	<b>Service Area</b>	<b>Status since Head of Service and Cabinet Member attended Audit Committee</b>
Ysgol Gymraeg Casnewydd  (Nov 2011)	Education Services	Reasonable (March 2013)
Recruitment & Selection  (July 2012)	People & Transformation	Good (Feb 2014)

## INTERNAL AUDIT SERVICES – OPINIONS

- The Internal Audit team is in the process of revising the audit opinions in line with the level of assurance obtained from undertaking the audit work, that appropriate controls, governance arrangements and risk management are in place.
- The Internal Audit team has introduced a new report format during 2015/16 where the Audit Opinion has been colour coded based on a traffic light system and the report only contains key issues which need to be addressed.

### AUDIT OPINIONS 2016/17:

	<b>GOOD</b>	<b>Well controlled with no critical risks identified which require addressing; substantial level of assurance.</b>	<b>Green</b>
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red



# Report

## Audit Committee

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### Part 1

Date: 23 June 2016

**Subject** Work Programme

**Purpose** To report the details of this Committee's work programme.

**Author** Scrutiny & Overview Officer

**Ward** General

**Summary** The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Audit Committee function.

This report presents the current work programme to the Committee for information and details the items due to be considered at the Committee's next two meetings.

**Proposal** **The Committee is asked to endorse the proposed schedule for future meetings, confirm the list of people it would like to invite for each item, and indicate whether any additional information or research is required.**

**Action by** Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Head of Law and Standards
- Head of Finance
- Head of Human Resources and Policy

## Background

The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Audit Committee function.

Attached at Appendix 1 is the forward work programme for this Committee. Below are the items scheduled to be presented at the Committee's next two meetings. Committee Members are asked to endorse this schedule, confirm the list of people they would like to invite for each item, and indicate whether any additional information or research is required.

### 22 September 2016

Internal Audit Plan 2016/17 – Progress (Quarter 1)
Statement of Accounts 2015-16
Audit of Financial Statements Report 2015-16
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 1, April to June)
Corporate Risk Register Update (Considered by Cabinet in September 2016)
Report on Audit Committee Self Evaluation Exercise
Referrals to Audit Committee
Regulatory Reports Summary (every 6 months approx. March and September)

### 24 November 2016

Internal Audit Plan 2016/17 – Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Treasury Management Report
Lessons Learned 2015/16
Audit Committee Self Evaluation Exercise
Referrals to Audit Committee

## Financial Summary

Please see comments from Chief Financial Officer below.

## Risks

If proper work programming procedures are not put in place, the organisation and prioritisation of the work programme is put at risk. The work of the Audit Committee could become disjointed from the work of the rest of the Council, which could undermine the positive contribution Audit Committee makes to service improvement.

This report is presented to each Committee every month in order to mitigate that risk. The specific risks associated with individual topics on the work programme will need to be addressed as part of the Committee's investigations.

## **Comments of Chief Financial Officer**

There will be financial consequences for some of the reviews undertaken. These will be commented upon as the reports are presented. The preparing and monitoring of the work programme is done by existing staff for which budget provision is available.

## **Comments of Monitoring Officer**

I have no comments, as there are no legal implications.

## **Staffing Implications: Comments of Head of People and Business Change**

There are no staffing implications within this report. Any staffing implications of the reviews in the work programme will need to be addressed in individual reports.

## **Background Papers**

None.

**Appendix 1****(Audit Committee to meet every other month unless circumstances dictate otherwise)**

<b>26 May 2016</b>
Appointment of Chairman
Internal Audit Annual Report 2015/16
Internal Audit Annual Plan 2016/17
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, Jan to March)
Corporate Risk Register Update (considered by Cabinet in March 2016)
Treasury Management Report
Referrals to Audit Committee

<b>23 June 2016</b>
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register Update (Considered by Cabinet in June 2016)
Annual Governance Statement
Draft Financial Accounts 2015/16
Referrals to Audit Committee

<b>22 September 2016</b>
Internal Audit Plan 2016/17 – Progress (Quarter 1)
Statement of Accounts 2015-16
Audit of Financial Statements Report 2015-16
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 1, April to June)
Corporate Risk Register Update (Considered by Cabinet in September 2016)
Report on Audit Committee Self Evaluation Exercise
Referrals to Audit Committee
Regulatory Reports Summary (every 6 months approx. March and September)

<b>24 November 2016</b>
Internal Audit Plan 2016/17 – Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Treasury Management Report
Lessons Learned 2015/16
Audit Committee Self Evaluation Exercise
Referrals to Audit Committee

<b>26 January 2017</b>
Internal Audit Plan – Progress (Quarter 3)
Financial Memorandum on the 2015-16 Financial Audit
Treasury Management Report
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register (Considered by Cabinet in December 2016)
Referrals to Audit Committee

<b>30 March 2017</b>
Annual Audit outline for the 2015/16 Financial Audit
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
WAO Annual Report on Grants Works
Regulatory Reports
Annual Governance Statement (draft statement)
Corporate Risk Register (Considered by Cabinet in March)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

<b>Unallocated work (Dates to be agreed)</b>
Report on Risks associated with Hosting (IT)
Treasury Management Training
Issues Outstanding – Member Development Self Evaluation Exercise

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