

Georgy County Borough Council  
Financial Accounts for the year ended  
31 March 2012

# Financial Accounts

## For the year ended

### 31 March 2012



A greener place    Man gwyrddach



**Financial Accounts for the year ended  
31 March 2012**

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Explanatory Foreword

Introduction

Caerphilly County Borough is located in the South Wales valleys covering an area of approximately 278 square kilometres stretching from Cardiff in the south of the county to the start of the Brecon Beacons in the north of the county. Caerphilly County Borough Council ("the Authority") serves a population of 173,000.

The accounts on the following pages show the financial performance for the year of all activities undertaken by the Authority. Whilst the accounts have been presented as clearly as possible, local authority accounts are technical and complex. Consequently, the purpose of this foreword is to offer a guide to the most significant matters appearing in the accounts and to provide a summary of the financial performance for the year.

**Explanatory Foreword (continued)**

**2011/2012 Revenue Expenditure**

Details of the Authority's revenue expenditure for the year are provided in the Comprehensive Income and Expenditure Statement on page 19. The account is classified according to service expenditure areas.

In 2011/2012, the Authority's expenditure and income compared to budget was:

<b>Service Area</b>	<b>Original Estimate £000</b>	<b>Revised Estimate £000</b>	<b>Outturn £000</b>	<b>(Overspend) /Underspend £000</b>
Education and Leisure	131,770	131,387	130,142	1,245
Social Services	72,762	72,772	75,060	(2,288)
Environment	53,710	56,821	52,172	4,649
Corporate Services	54,770	54,776	44,435	10,341
Direct Services	(346)	(339)	(1,157)	818
HRA	0	0	(1,960)	1,960
<b>Total Service Expenditure</b>	<b>312,666</b>	<b>315,417</b>	<b>298,692</b>	<b>16,725</b>
Funding Income	(312,666)	(312,666)	(313,922)	1,256
<b>(Surplus) / Deficit on Provision of Services</b>	<b>0</b>	<b>2,751</b>	<b>(15,230)</b>	<b>17,981</b>
In-Year Use of General Fund Reserves		(2,070)	(7,170)	5,100
In-Year Use of Earmarked Reserves		(681)	19,641	(20,322)
<b>Total Outturn</b>	<b>0</b>	<b>0</b>	<b>(2,759)</b>	<b>2,759</b>
Transfer to Earmarked Reserves				597
Transfer to General Fund Reserves				(3,356)
<b>General Fund Reserves as at 31 March 2011</b>				<b>(16,622)</b>
Budget Strategy Contribution				0
Use of Balances in Year				7,170
Service Outturn Contribution				(3,356)
<b>General Fund Reserves as at 31 March 2012</b>				<b>(12,808)</b>

**Explanatory Foreword (continued)**

Further details of the Authority's outturn performance against budget can be found in the Director of Corporate Services, Provisional Outturn Report 2011/2012 which will be presented to Cabinet on the 17 July 2012. The report may be obtained on the Authority's website.

The actual expenditure is compared in broad terms to the revised budget for the current financial year. However, the expenditure on individual Directorates does not mirror that shown in the Comprehensive Income and Expenditure Statement, because budget monitoring is carried out on a Directorate basis and re-categorised in the Comprehensive Income and Expenditure Statement to comply with recommended accounting practice. The Comprehensive Income and Expenditure Statement figures also include accounting adjustments in respect of depreciation, capital grants and contributions, IAS 19 pension costs and a number of items included within the directorates within the budget summary that are shown below the Cost of Service line within the Account.

The following table provides a reconciliation between the Surplus / Deficit on Provision of Services reported per Directorate and the Surplus / Deficit on Provision of Services reported in the Comprehensive Income and Expenditure Statement:

	<b>£000</b>
<b>(Surplus) / Deficit on Provision of Services reported by Directorate</b>	<b>(15,230)</b>
Depreciation and Impairment of Assets	100,652
Non-enhancing Expenditure	11,189
Amortisation of Intangible Assets	362
Capital Grants and Contributions Applied	(25,167)
Revenue Expenditure Funded from Capital Under Statute	1,201
Net Gain or Loss on Disposal of assets	1,273
Minimum Revenue Provision	(10,519)
Capital Grants and Contributions Unapplied	(1,589)
IAS19 Pension Adjustment	2,161
Accumulated Absence Adjustment	(11)
<b>Total Adjustments</b>	<b>79,552</b>
<b>(Surplus) / Deficit on Provision of Services per Comprehensive Income &amp; Expenditure Account</b>	<b>64,322</b>

**Funding Income**

The following table details the main sources of income received by the Authority to fund service expenditure in 2011/2012:

	<b>2011/2012</b>			
	<b>Original Estimate</b>	<b>Revised Estimate</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Funding Income</b>				
Council Tax (Net of Police Authority and Community Council Precepts)	52,058	52,058	53,314	(1,256)
Revenue Support Grant	210,977	210,977	210,977	0
Non Domestic Rates	40,046	40,046	40,046	0
Outcome Agreement Grant	1,873	1,873	1,873	0
Private Finance Initiative Grant	7,712	7,712	7,712	0
<b>Total Funding Income</b>	<b>312,666</b>	<b>312,666</b>	<b>313,922</b>	<b>(1,256)</b>

**Explanatory Foreword (continued)**

**Housing Revenue Account**

Details of the Housing Revenue Account are set out on pages 120 to 125. For 2011/2012, actual outturn compared to budget was as follows:

	2011/2012		
	Original	Actual	Variance
	Estimate	Outturn	
£000	£000	£000	
Expenditure	33,056	70,115	(37,059)
Income	(33,056)	(49,757)	16,701
	0	20,358	(20,358)
Net additional amounts required by statute to be debited or credited to the HRA Balance for the year	0	(19,270)	19,270
Deficit for the year	0	1,088	(1,088)
Transfer from/(to) Other Service Earmarked Reserves	0	(3,048)	3,048
HRA Outturn per Foreword (page 3)	0	(1,960)	1,960

**Direct Labour and Direct Service Organisations (DLOs and DSOs)**

During the year, the Authority operated 2 Direct Labour Organisations (DLOs) and 3 Direct Service Organisations (DSOs) at arms length from the Service Departments in competition with companies in the private sector, which provide similar services. Whilst their accounts do not form a separate statement within these accounts, they form part of the Authority's Balance Sheet and Comprehensive Income and Expenditure Statement, and their performance is disclosed in note 8, in accordance with CIPFA's Service Reporting Code of Practice (SeRCOP).

**Provisions**

Movements upon provisions are detailed in note 31, page 96 together with explanations of what each provision is for.

	1 April 2011	Movement	31 March 2012
	£000	£000	£000
Short term provisions	(2,185)	181	(2,004)
Long term provisions	(8,789)	127	(8,662)
	(10,974)	308	(10,666)

**Reserves**

The amounts shown as non-usable reserves relate to capital and pension reserves, which do not constitute 'usable resources'. The movements are detailed in note 21, page 83, whilst details of the restatement to the opening balance are shown in Note 54.

	Restated	Movement	31 March 2012
	1 April 2011		
	£000	£000	£000
Reserves - Usable	(85,830)	(5,229)	(91,059)
- Unusable	(563,189)	105,194	(457,995)
	(649,019)	99,965	(549,054)

**Explanatory Foreword (continued)**

**Icelandic Banks**

The sub-prime crisis of early 2008 was followed by the banking crisis of autumn 2008. The world banking system came near to collapse and governments around the world were forced to rescue their major banks.

Unfortunately, Iceland's economy was not strong enough to provide the necessary support for its banks and subsequently, Landsbanki, Kaupthing and Glitnir collapsed. The UK subsidiaries of these banks, Heritable and Kaupthing Singer and Friedlander also went into administration.

The Authority had deposits in Heritable and Landsbanki totalling £15m at the time of collapse and these sums are subject to the ongoing administration and recovery procedures. Based on the information available at that time, the Authority considered that an impairment (the difference between the amount outstanding and the amount likely to be recovered) should be recognised in the 2008/2009 accounts, by writing off £4.565m against revenue.

The current position regarding the outstanding debt is detailed in Note 10 in the Notes to the Core Financial Statements (page 53).

**Loan Debt**

The total amount outstanding as at 31 March 2012 was £195,893m, as measured on an amortised cost basis, the majority being owed by the Authority to the Public Works Loan Board. The balance comprises loans from the money market. Analysis of the loan debt is shown in the notes accompanying the Core Financial Statements on page 53 (note 10).

The nominal value represents the principal amount outstanding at the Balance Sheet date.

	2010/2011 £000	2011/2012 £000
<b>Amortised Cost of Loans:</b>		
Loan debt repayable in one year	(2,126)	(480)
Loan debt repayable in more than one year	(193,377)	(195,413)
	<u>(195,503)</u>	<u>(195,893)</u>
<b>Nominal Value of Loans:</b>		
Loan debt repayable in one year	(2,039)	(234)
Loan debt repayable in more than one year	(190,166)	(192,193)
	<u>(192,205)</u>	<u>(192,427)</u>

**Policy on Payment of Creditors**

The Late Payment of Commercial Debts (Interest) Act 1998 requires that creditors be paid without undue delay and within a 30-day settlement period. In 2011/12, 93.39% of payments were made within 30 days (93.90% in 2010/11).

However, the Council's Improvement Plan (2009/2012), states it is the Authority's aim to pay undisputed invoices to local small and medium sized businesses within an average of 13 calendar days in order to have a positive effect on the local economy. In 2011/12, invoices were settled within an average of 13.92 days (13.94 days in 2010/11).

### Explanatory Foreword (continued)

The Welsh Government encourages local authorities to settle undisputed invoices within 10 working days. The Authority achieved this settlement period for 66.1% of invoices in 2011/12 (54.89% in 2010/11).

#### Pension Liability

Following the adoption of IAS 19 "Employee Benefits" by local authorities, the Authority is required to recognise in its accounts, its share of the net assets/liabilities of any defined benefit pension scheme.

The net pensions asset/liability to be recognised is made up of two elements:

Liabilities – the retirement benefits that have been promised under the formal terms of the pension scheme.

Assets – the Authority's attributable share of the investments held in the pension scheme to cover its liabilities, measured at fair value.

The total net liability included for 2011/2012 is some £286.283m (£232.776m in 2010/2011). Although this liability has a substantial impact upon the net worth of the Authority, statutory arrangements exist to fund the deficit to ensure that the financial position of the Authority will remain healthy. The deficit will be made good by increased contributions over the remaining working lives of employees, as assessed by the scheme actuary.

Details of this liability are shown in the notes accompanying the Core Financial Statements in note 11.

#### Local Government Reorganisation

On 1 April 1996 the Authority inherited its share of the assets and liabilities of Gwent County Council, Mid Glamorgan County Council, Islwyn Borough Council and Rhymney Valley District Council. The realisation of the current assets and liabilities of Gwent County Council was undertaken by Newport County Borough Council.

The audit of Mid Glamorgan County Council was completed on 25 November 1998. Rhondda Cynon Taff County Borough Council had the responsibility for closing these accounts and has provided the successor authorities (including Caerphilly) with an analysis of assets and liabilities to be transferred and these figures have been incorporated into the Authority's Statement of Accounts. The disaggregation of these assets and liabilities has been finalised, following a previous without prejudice distribution of outstanding balances having been made (see note 32, page 97 to the Financial Statements).

Rhondda Cynon Taff County Borough Council has now concluded this process, with the signing of a Section 56 agreement in accordance with the Local Government (Wales) Act 1994, on behalf of all successor authorities. However, the treatment of material liabilities arising since the balance sheet date ("post balance sheet events") has yet to be finalised.

The Authority has adopted a prudent approach and provided for all known liabilities and only those assets it is certain of receiving. Nevertheless certain assets transferred to the Authority could bring with them unknown liabilities, which have not been recognised and accounted for.



**Explanatory Foreword (continued)**

**2011/2012 Capital Expenditure**

Capital expenditure during the year amounted to some £49.761m (2010/2011 - £47.371m).

The major items within this figure are identified below:

	<u>£000</u>	<u>£000</u>
<b>Housing:</b>		
Repairs and Improvements	8,086	
Security Equipment	5	
Improvement Grants & Private Sites	4,309	
	<hr/>	12,400
<b>Non Housing:</b>		
Education	8,211	
Social Services	644	
Highways & Transportation and Land Reclamation	14,658	
Lifelong Learning and Leisure	2,255	
Economic Development/Tourism	1,297	
Planning	6,803	
Environmental Services	340	
Other	3,153	
	<hr/>	37,361
		<hr/> <b>49,761</b> <hr/>
Financed by:		
Grants inc MRA		31,489
Borrowing		4,671
Other		13,601
		<hr/> <b>49,761</b> <hr/>

Capital expenditure was financed by borrowing (£4.671m), grants (£31.489m) and other sources (£13.601m). The Authority has also entered into a number of finance leases to acquire computer equipment in its schools. Further details regarding these leases can be found in note 14, (page 75) to the Core Financial Statements.

## Explanatory Foreword (continued)

### Future Financial Developments

The Authority's budget for 2012/13 was approved on 23<sup>rd</sup> February 2012. The budget was prepared on the same basis as the previous year, which is to continue to make savings in advance, convert these savings to revenue contribution to capital and set a Medium Term Financial Plan (MTFP) and capital programme for 3 years.

The capital settlement received from Welsh Government for 2012/13 presented a further cut of 7.5% following on from the previous year's cut of 19.2%. The Authority has an ambitious programme in relation to spend on 21<sup>st</sup> century schools of £92m. Match funding of 50% has to be secured from the Authority's capital programme, the remaining 50% will be funded by Welsh Government. A sum of £14m has already been set aside as part of the Authority's contribution. The remaining funds will need to be identified when plans can be fully costed following a period of full consultation and a final decision by Council.

The Authority is looking to collaborate where a business case identifies financial savings and service improvements. The Education Service is part of a collaboration with the Greater Gwent area called the Education Achievement Service. Work is ongoing in respect of preparing a business case for approval by Members in respect of a Social Services collaboration with Blaenau Gwent.

The Authority balloted tenants on transferring the Authority's housing stock to a new registered social landlord in February 2012. The majority of tenants voted to retain housing stock with the Authority. Council had previously approved a business plan incorporating prudential borrowing to ensure that the Authority had a retention strategy that would achieve Welsh Housing Quality Standard (WHQS) on the Authority's housing stock by 2019/20. The estimated financial impact of these decisions has been factored into the MTFP. The business plan and the Authority's progress in achieving these targets will be closely monitored by a project board, Welsh Government and the Authority's Members.

There is still much uncertainty surrounding the impact on the Authority's services of the Welfare Reform legislation and the introduction of Local Council Tax Benefit. This will be closely monitored and the MTFP will be adjusted when decisions have been finalised by Welsh Government and Central Government.

**Explanatory Foreword (continued)**

**2011 Code of Practice on Local Authority Accounting**

The above publication, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) governs the items to be disclosed in these Financial Accounts, and makes certain changes for 2011/2012 that are applicable to the Authority:

- a) The adoption of FRS 30 "Heritage Assets" within local authority's financial statements results in comprehensive disclosure requirements (regardless of whether such assets have been brought onto the Balance Sheet). Where Heritage Assets are brought onto the Balance Sheet, local authorities are required to prepare a Balance Sheet as at 1 April 2010 and to restate the 2010/2011 Financial Statements;
- b) Related party disclosures have been amended in respect of central government departments, government agencies, NHS bodies and other local authorities, to take into account new definitions in IAS 24 "Related Party Disclosures";
- c) The introduction of new disclosures regarding exit packages in terms of disclosing the number and cost of exit packages agreed;
- d) The reinstatement of a previous SORP (Statement of Recommended Practice) requirement to disclose the nature and amount of trust funds;
- e) Additional disclosure requirements in relation to material soft loans and the nature of risks associated with financial instruments;
- f) The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme was introduced in 2010/11. However a carbon reduction commitment levy was charged for the first time in 2011/12. The Comprehensive Income and Expenditure Statement (CIES) includes a charge that has been apportioned across services as per the Local Authority Accounting Panel (LAAP) Bulletin 91.

**Statement of Responsibilities for the Statement of Accounts**

**The Authority's responsibilities**

The Authority is required:

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

**Responsibilities of the Head of Corporate Finance**

The Head of Corporate 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 of Practice').

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

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

The Head of Corporate 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.

**Certificate of the Head of Corporate Finance**

I certify that the accounts, set out on pages 14 to 125, give a true and fair view of the financial position of the Authority as at 31 March 2012 and its income and expenditure for the year then ended.



**N. Scammell**  
Head of Corporate Finance

Date 27/9/12

The accounts were approved by the Council on

Signed on behalf of Caerphilly County Borough Council:



**Councillor G. Oliver, Mayor**  
Chair of Meeting Approving the Accounts

Date 27/9/12

## Caerphilly County Borough Council

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### **Independent Auditors' Report to Members of Caerphilly County Borough Council**

I have audited the accounting statements and related notes of Caerphilly County Borough Council for the year ended 31 March 2012 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards (IFRSs).

The maintenance and integrity of the Caerphilly County Borough Council web site is the responsibility of Caerphilly County Borough Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the statement of accounts since it was initially presented on the web site.

#### **Respective responsibilities of the responsible financial officer and the independent auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, set out on page 11, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

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

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

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

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

## Caerphilly County Borough Council

### Independent Auditors' Report to Members of Caerphilly County Borough Council continued

#### Opinion on the accounting statements of Caerphilly County Borough Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Caerphilly County Borough Council as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

#### Opinion on other matters

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

#### Matters on which I report by exception

I have nothing to report in respect of the Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

#### Certificate of completion of audit

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



Anthony Barrett  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

28 September 2012

## Introduction to Accounting Statements

The Authority's accounts for the year 2011/2012 are set out in the following pages. They consist of:

- a) **The Movement in Reserves Statement (MiRS)** – showing the movement in the year on the different reserves held by the Authority. It is analysed into 'Usable Reserves' being those that can be applied to fund expenditure or reduce local taxation and '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. This differs from the statutory amounts charged to the Council Fund Balance for council tax setting purposes and Housing Revenue Account Balance for dwellings rent setting purposes. The 'Net Increase/Decrease before Transfers to Earmarked Reserves' line shows the statutory Council Fund Balance and Housing Revenue Account Balance before the Authority undertakes any discretionary transfers to or from earmarked reserves.
- b) **The Comprehensive Income and Expenditure Statement** – showing 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. The Authority raises 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.
- c) **The Balance Sheet** – which 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', being those reserves that may be used 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 are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- d) **The Cash Flow Statement** – which shows the changes in cash and cash equivalents of the Authority during the year. 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.
- e) **The Housing Revenue Account (HRA)** – this is separated into two statements. The HRA Income and Expenditure Statement which shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Authority charges rents to cover expenditure in accordance with regulations, which may be different from the accounting cost. The increase or decrease in the year, the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

The Financial Statements as a whole are IFRS compliant. Further information and support is provided in the Notes to the Core Accounts and the Auditors' Report.

**Movement in Reserves Statement**  
**For the year ended**  
**31 March 2012**



**Caerphilly County Borough Council**

**Movement in Reserves Statement**

<b>Restated</b>	Earmarked					<b>Total Usable Reserves</b>	<b>Note</b>
	<b>Council Fund Balance</b>	<b>Council Fund Reserves</b>	<b>Housing Revenue Account</b>	<b>Capital Grants Unapplied</b>	<b>Capital Receipts Reserve</b>		
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
<b>Balance at 1 April 2010</b>	<b>(12,984)</b>	<b>(35,022)</b>	<b>(6,062)</b>	<b>(8,802)</b>	<b>(2,603)</b>	<b>(65,473)</b>	
<b>Movement in reserves during 2010/2011</b>							
(Surplus)/deficit on provision of services (accounting basis)	(29,352)	0	22,137	0	0	(7,215)	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	
<b>Total Comprehensive Income and Expenditure</b>	<b>(29,352)</b>	<b>0</b>	<b>22,137</b>	<b>0</b>	<b>0</b>	<b>(7,215)</b>	
Adjustments between accounting basis and funding basis under regulations	14,436	0	(21,589)	(628)	(5,919)	(13,700)	5
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>(14,916)</b>	<b>0</b>	<b>548</b>	<b>(628)</b>	<b>(5,919)</b>	<b>(20,915)</b>	
Transfers to/(from) Earmarked Reserves	11,278	(11,024)	(254)	0	558	558	6
<b>(Increase)/Decrease in Year</b>	<b>(3,638)</b>	<b>(11,024)</b>	<b>294</b>	<b>(628)</b>	<b>(5,361)</b>	<b>(20,357)</b>	
<b>Balance at 31 March 2011</b>	<b>(16,622)</b>	<b>(46,046)</b>	<b>(5,768)</b>	<b>(9,430)</b>	<b>(7,964)</b>	<b>(85,830)</b>	

<b>Restated</b>	<b>Total Authority Reserves</b>	
	<b>Unusable Reserves</b>	<b>Total Authority Reserves</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2010</b>	<b>(501,399)</b>	<b>(566,872)</b>
<b>Movement in reserves during 2010/2011</b>		
(Surplus)/deficit on provision of services (accounting basis)	0	(7,215)
Other Comprehensive Income and Expenditure	(74,932)	(74,932)
<b>Total Comprehensive Income and Expenditure</b>	<b>(74,932)</b>	<b>(82,147)</b>
Adjustments between accounting basis and funding basis under regulations	13,700	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>(61,232)</b>	<b>(82,147)</b>
Transfers to/(from) Earmarked Reserves	(558)	0
<b>(Increase)/Decrease in Year</b>	<b>(61,790)</b>	<b>(82,147)</b>
<b>Balance at 31 March 2011</b>	<b>(563,189)</b>	<b>(649,019)</b>

Details to the restatement of the comparative figures are set out in Note 54.

## Caerphilly County Borough Council

### Movement in Reserves Statement (continued)

	Earmarked					Total Usable Reserves	Note
	Council Fund Balance	Council Fund Reserves	Housing Revenue Account	Capital Grants Unapplied	Capital Receipts Reserve		
	£000	£000	£000	£000	£000	£000	
<b>Balance at 1 April 2011</b>	<b>(16,622)</b>	<b>(46,046)</b>	<b>(5,768)</b>	<b>(9,430)</b>	<b>(7,964)</b>	<b>(85,830)</b>	
<b>Movement in reserves during 2011/2012</b>							
(Surplus)/deficit on provision of services (accounting basis)	43,964	0	20,358	0	0	64,322	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	
<b>Total Comprehensive Income and Expenditure</b>	<b>43,964</b>	<b>0</b>	<b>20,358</b>	<b>0</b>	<b>0</b>	<b>64,322</b>	
Adjustments between accounting basis and funding basis under regulations	(46,429)	0	(21,457)	(1,589)	(1,848)	(71,323)	5
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>(2,465)</b>	<b>0</b>	<b>(1,099)</b>	<b>(1,589)</b>	<b>(1,848)</b>	<b>(7,001)</b>	
Transfers to/(from) Earmarked Reserves	6,279	(8,467)	2,187	1,266	507	1,772	6
<b>(Increase)/Decrease in Year</b>	<b>3,814</b>	<b>(8,467)</b>	<b>1,088</b>	<b>(323)</b>	<b>(1,341)</b>	<b>(5,229)</b>	
<b>Balance at 31 March 2012</b>	<b>(12,808)</b>	<b>(54,513)</b>	<b>(4,680)</b>	<b>(9,753)</b>	<b>(9,305)</b>	<b>(91,059)</b>	

	Total		
	Unusable Reserves	Authority Reserves	
	£000	£000	
<b>Balance at 1 April 2011</b>	<b>(563,189)</b>	<b>(649,019)</b>	
<b>Movement in reserves during 2011/2012</b>			
(Surplus)/deficit on provision of services (accounting basis)	0	64,322	
Other Comprehensive Income and Expenditure	35,643	35,643	11,35
<b>Total Comprehensive Income and Expenditure</b>	<b>35,643</b>	<b>99,965</b>	
Adjustments between accounting basis and funding basis under regulations	71,323	0	5
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>106,966</b>	<b>99,965</b>	
Transfers to/(from) Earmarked Reserves	(1,772)	0	
<b>(Increase)/Decrease in Year</b>	<b>105,194</b>	<b>99,965</b>	
<b>Balance at 31 March 2012</b>	<b>(457,995)</b>	<b>(549,054)</b>	

**Comprehensive Income and Expenditure Statement**

2012	2011		2012	2011	
	£	£		£	£
1	2012	2011	2012	2011	2011
2	2012	2011	2012	2011	2011
3	2012	2011	2012	2011	2011
4	2012	2011	2012	2011	2011
5	2012	2011	2012	2011	2011
6	2012	2011	2012	2011	2011
7	2012	2011	2012	2011	2011
8	2012	2011	2012	2011	2011
9	2012	2011	2012	2011	2011
10	2012	2011	2012	2011	2011
11	2012	2011	2012	2011	2011
12	2012	2011	2012	2011	2011
13	2012	2011	2012	2011	2011
14	2012	2011	2012	2011	2011
15	2012	2011	2012	2011	2011
16	2012	2011	2012	2011	2011
17	2012	2011	2012	2011	2011
18	2012	2011	2012	2011	2011
19	2012	2011	2012	2011	2011
20	2012	2011	2012	2011	2011
21	2012	2011	2012	2011	2011
22	2012	2011	2012	2011	2011
23	2012	2011	2012	2011	2011
24	2012	2011	2012	2011	2011
25	2012	2011	2012	2011	2011
26	2012	2011	2012	2011	2011
27	2012	2011	2012	2011	2011
28	2012	2011	2012	2011	2011
29	2012	2011	2012	2011	2011
30	2012	2011	2012	2011	2011
31	2012	2011	2012	2011	2011
32	2012	2011	2012	2011	2011
33	2012	2011	2012	2011	2011
34	2012	2011	2012	2011	2011
35	2012	2011	2012	2011	2011
36	2012	2011	2012	2011	2011
37	2012	2011	2012	2011	2011
38	2012	2011	2012	2011	2011
39	2012	2011	2012	2011	2011
40	2012	2011	2012	2011	2011
41	2012	2011	2012	2011	2011
42	2012	2011	2012	2011	2011
43	2012	2011	2012	2011	2011
44	2012	2011	2012	2011	2011
45	2012	2011	2012	2011	2011
46	2012	2011	2012	2011	2011
47	2012	2011	2012	2011	2011
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50	2012	2011	2012	2011	2011
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62	2012	2011	2012	2011	2011
63	2012	2011	2012	2011	2011
64	2012	2011	2012	2011	2011
65	2012	2011	2012	2011	2011
66	2012	2011	2012	2011	2011
67	2012	2011	2012	2011	2011
68	2012	2011	2012	2011	2011
69	2012	2011	2012	2011	2011
70	2012	2011	2012	2011	2011
71	2012	2011	2012	2011	2011
72	2012	2011	2012	2011	2011
73	2012	2011	2012	2011	2011
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81	2012	2011	2012	2011	2011
82	2012	2011	2012	2011	2011
83	2012	2011	2012	2011	2011
84	2012	2011	2012	2011	2011
85	2012	2011	2012	2011	2011
86	2012	2011	2012	2011	2011
87	2012	2011	2012	2011	2011
88	2012	2011	2012	2011	2011
89	2012	2011	2012	2011	2011
90	2012	2011	2012	2011	2011
91	2012	2011	2012	2011	2011
92	2012	2011	2012	2011	2011
93	2012	2011	2012	2011	2011
94	2012	2011	2012	2011	2011
95	2012	2011	2012	2011	2011
96	2012	2011	2012	2011	2011
97	2012	2011	2012	2011	2011
98	2012	2011	2012	2011	2011
99	2012	2011	2012	2011	2011
100	2012	2011	2012	2011	2011

All figures are in £ unless otherwise stated.

## Caerphilly County Borough Council

### Comprehensive Income and Expenditure Statement

31 March 2011			31 March 2012				
Restated Expenditure £000	Restated Income £000	Restated Net £000		Expenditure £000	Income £000	Net £000	Note
3,702	(1,109)	2,593	Central Services to the Public	3,572	(996)	2,576	
26,962	(6,336)	20,626	Cultural and Related Services	37,251	(5,752)	31,499	
29,077	(9,053)	20,024	Environmental and Regulatory Services	28,535	(8,751)	19,784	
17,190	(10,526)	6,664	Planning Services	15,208	(6,534)	8,674	
223,974	(53,915)	170,059	Education and Children's Services	228,608	(48,917)	179,691	
35,848	(7,229)	28,619	Highways and Transport Services	31,388	(6,830)	24,558	
68,591	(40,305)	28,286	Local Authority Housing (HRA)	67,880	(41,430)	26,450	
83,987	(79,183)	4,804	Other Housing Services	87,293	(82,138)	5,155	
72,361	(17,175)	55,186	Adult Social Care	78,524	(16,895)	61,629	
4,460	(163)	4,297	Corporate and Democratic Core Costs	4,210	(133)	4,077	
4,447	(425)	4,022	Non Distributed Costs	7,036	(1,490)	5,546	
(38,972)	0	(38,972)	Pension Past Service Cost credited to Non Distributed Costs	0	0	0	
<b>531,627</b>	<b>(225,419)</b>	<b>306,208</b>	<b>Cost of Services</b>	<b>589,505</b>	<b>(219,866)</b>	<b>369,639</b>	
20,496	(5,919)	14,577	Other Operating Expenditure	23,455	(1,848)	21,607	7
78,723	(51,134)	27,589	Financing and Investment Income and Expenditure	60,156	(34,947)	25,209	8
0	(355,589)	(355,589)	Taxation and Non-Specific Grant Income	0	(352,133)	(352,133)	9
		<b>(7,215)</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>64,322</b>	
		(28,263)	(Surplus)/Deficit on revaluation of non-current assets			(15,703)	35
		0	(Surplus)/Deficit on revaluation of available for sale financial assets			0	
		(46,669)	Actuarial (gains)/losses on pensions assets/liabilities			51,346	11
		<b>(74,932)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>35,643</b>	
		<b>(82,147)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>99,965</b>	

Details of the restatement to the comparative figures are set out in Note 54.



## Caerphilly County Borough Council

### Balance Sheet

Restated 31 March 2010 £000	Restated 31 March 2011 £000		31 March 2012 £000	Note
1,100,826	1,081,615	Property, Plant & Equipment	1,026,822	22
9,563	9,680	Heritage Assets	8,680	23
6,696	3,398	Long Term Investments	2,168	10
586	548	Long Term Debtors	409	26
<b>1,117,671</b>	<b>1,095,241</b>	<b>Long Term Assets</b>	<b>1,038,079</b>	
51,275	69,827	Short Term Investments	62,455	10
898	948	Inventories	933	27
26,246	31,316	Short Term Debtors	41,366	28
408	5,043	Cash and Cash Equivalents	5,736	29
<b>78,827</b>	<b>107,134</b>	<b>Current Assets</b>	<b>110,490</b>	
(3,290)	(2,126)	Short Term Borrowing	(480)	10
(61,367)	(64,157)	Short Term Creditors	(60,616)	30
(1,234)	(2,185)	Short Term Provisions	(2,004)	31
<b>(65,891)</b>	<b>(68,468)</b>	<b>Current Liabilities</b>	<b>(63,100)</b>	
(9,511)	(8,789)	Long Term Provisions	(8,662)	31
(192,734)	(193,377)	Long Term Borrowing	(195,413)	10
(360,720)	(281,305)	Other Long Term Liabilities	(331,166)	10
(770)	(1,417)	Capital Grants Receipts in Advance	(1,174)	9
<b>(563,735)</b>	<b>(484,888)</b>	<b>Long Term Liabilities</b>	<b>(536,415)</b>	
<b>566,872</b>	<b>649,019</b>	<b>Net Assets</b>	<b>549,054</b>	
(65,473)	(85,830)	Usable Reserves	(91,059)	21
(501,399)	(563,189)	Unusable Reserves	(457,995)	21
<b>(566,872)</b>	<b>(649,019)</b>	<b>Total Reserves</b>	<b>(549,054)</b>	

The notes on pages 25 to 125 form part of the statement of accounts.  
Details of the restatement to the comparative figures are set out in Note 54.



**Cash Flow Statement**

<b>Restated 2010/2011 £000</b>		<b>2011/2012 £000</b>	<b>Note</b>
7,215	Net surplus or (deficit) on provision of services	(64,322)	
43,243	Adjust net surplus or deficit on the provision of services for non cash movement	84,788	48
(32,998)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(25,484)	48
<b>17,460</b>	<b>Net cash flows from Operating Activities</b>	<b>(5,018)</b>	<b>49</b>
(9,366)	Investing Activities	13,949	50
(3,459)	Financing Activities	(8,238)	51
<b>4,635</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>693</b>	
408	Cash and cash equivalents at the beginning of the reporting period	5,043	
<b>5,043</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>5,736</b>	<b>29</b>

Details of the restatement to the comparative figures are set out in Note 54.





## Notes to the Core Financial Statements

### 1. Accounting Policies

#### i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/2012 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) (Amendment) Regulations 2010 required in accordance with proper practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 (the Code), and the Service Reporting Code of Practice 2011/2012 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 carried at amortised cost. Accounting policies have been consistently applied from one year to the next, unless stated otherwise.

#### ii. 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.

#### iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 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.

#### iv. Items of a Material Nature

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

**Notes to the Core Financial Statements (continued)**

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

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

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

**vi. Charges to Revenue for Non-Current Assets**

Services, support charges and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

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

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

**vii. 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 and non-monetary benefits 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 Council Fund in the financial year in which the holiday absence occurs.

## Notes to the Core Financial Statements (continued)

### Termination Benefits

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

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

### Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- The Local Government Pension Scheme, administered by Torfaen County Borough Council.

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

However, the arrangements for the Teachers' Scheme mean that liabilities for these benefits cannot be identified to the Authority. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education Service revenue account 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 Greater Gwent (Torfaen) Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- The discount rate to be applied to scheme liabilities is specified by CIPFA in the Code. In 2011/2012 this was calculated as a weighted average of "spot yields" on the iBoxx Sterling AA Rated Corporate Bond rate, which was 4.9% (5.5% in 2010/2011).
- The assets of the Torfaen pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value.
- The change in the net pensions liability is analysed into seven components:
  - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked

**Notes to the Core Financial Statements (continued)**

- Past service cost – the increase in liabilities arising from current year decisions where effects relate to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to Surplus / Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement
- Gains/losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- 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 – credited or debited to the Comprehensive Income and Expenditure Statement
- Contributions paid to the Torfaen Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities: not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the Council Fund balance to be charged with the amount payable by the Authority to the Pension Fund 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 debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Council Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

**Discretionary Benefits**

The 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.

**viii. Events after the Balance Sheet Date**

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

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

**Notes to the Core Financial Statements (continued)**

**ix. Financial Instruments**

**Financial Liabilities**

Financial liabilities are initially measured at fair value and carried in the Balance Sheet at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective interest rate (EIR) for the instrument. For most of the borrowings that the Authority has, this means that the amount included in the Balance Sheet is the outstanding principal repayable (plus accrued interest, split between that element which is short term, due within one year and that which is long term, due over one year).

Gains and losses on the repurchase or early settlement of borrowings are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, the impact on the Council Fund balance is spread over future years over either:

- the longer of the term of the new loan or repaid loan for premia; and
- the lesser of 10 years or term of repaid loan for discounts.

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

**Financial Assets**

Financial Assets are classified into two categories:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available-for-Sale Assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

**Loans and Receivables** - Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. This results in the amounts included in the Balance Sheet being the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement will be the amount receivable for the year under the agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Comprehensive Income and Expenditure Statement.

## Notes to the Core Financial Statements (continued)

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payment, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available for sale Reserve. Where Fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### x. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants and contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution are satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Council Fund balance via the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**Notes to the Core Financial Statements (continued)**

**xii. Intangible Assets**

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

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

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

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

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

**xiii. Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO (first in first out) costing formula.



## Notes to the Core Financial Statements (continued)

### xiv. 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 venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property plant and equipment that are jointly controlled by the Authority and other venturers with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The 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.

### xv. Leases

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

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

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

#### The Authority as Lessee

##### Finance Leases

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

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).

### Notes to the Core Financial Statements (continued)

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 to 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

##### 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.

##### Finance Leases

The Authority has not granted any finance leases of property, plant and equipment to other parties.

#### xvi. Overheads and Support Services

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 2011/2012* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

## Notes to the Core Financial Statements (continued)

### xvii. 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.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Borrowing costs incurred whilst assets are under construction are not capitalised.

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- council dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Adopted roads built by developers have been donated to the Authority. Donated assets are required to be recognised at fair value. Infrastructure assets are required to be measured at historical cost initially and subsequently at depreciated historical cost rather than fair value. As adopted roads are infrastructure assets, the Authority has treated these assets as having a historical cost of £nil and consequently are included in the accounts at £nil.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.

### Notes to the Core Financial Statements (continued)

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

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

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

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

#### Impairment

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

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

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

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

#### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (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 a straight line basis as follows:

- council dwellings – 15 to 40 years
- other land and buildings – 15 to 40 years
- vehicles, plant, furniture and equipment – up to 7 years
- infrastructure assets – 10 to 40 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

**Notes to the Core Financial Statements (continued)**

Depreciation charges are made to the service revenue accounts and DSO/DLO and other trading accounts and have been based on the amount at which an asset is included in the balance sheet, whether net current replacement cost or historical cost.

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

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets are classed as "Held for Sale" where the sale is expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan indicate that significant changes to the plan or withdrawal of the plan are unlikely. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any 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. A proportion of receipts relating to housing disposals (75% for dwellings, buildings and developed land, net of statutory deductions and allowances) is set aside for the redemption of debt. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Council Fund Balance in the Movement in Reserves Statement.

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

**Notes to the Core Financial Statements (continued)**

**xviii. Heritage Assets**

The Authority's Heritage Assets consist of Civic Regalia and Land and Buildings, namely Babel Chapel, Elliott Colliery Winding House, Handball Court Nelson and Llancaiach Fawr Living History Museum. Such assets are held and classed as Heritage Assets as they increase the knowledge, understanding and appreciation of the Authority's history and local area. Further information can be found in Note 23.

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. No depreciation is charged on these assets as the Authority considers them as having an infinite lives. The Authority has excluded Heritage Assets it considers immaterial from the Balance Sheet where their cost is not readily available and the benefit of valuing the asset is counterweighed by the cost of obtaining the valuation.

**xix. Private Finance Initiatives (PFI)**

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

The recognition of these non-current assets is balanced by the recognition of liabilities for amounts due to the scheme operators to pay for the assets.

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge of 6.81% for the road and 10.54% for the schools on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement;
- Principal element – i.e. payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator;
- Lifecycle replacement costs – recognised as non-current assets on the Balance Sheet.

Government grants received for PFI schemes, in excess of the current levels of expenditure (particularly in the early years of these contracts) are carried forward as earmarked reserves to fund future contract expenditure when payments will exceed available revenue support (see Notes 12 and 47 for the PFI Equalisation Reserves).

**xx. Provisions and Reserves, Contingent Assets and Contingent Liabilities**

**Provisions**

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

## Notes to the Core Financial Statements (continued)

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation. Further information on Provisions can be found in Note 31.

### Reserves

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

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in Note 21.

### Contingent Assets

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

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

### Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts – Note 32.

**Notes to the Core Financial Statements (continued)**

**xxi. Revenue Expenditure Funded from Capital under Statute**

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

**xxii. Interest Charges**

Interest chargeable on debt is accounted for in the year to which it relates, not in the year it is paid. The Authority borrows funds in line with its capital investment and cash flow requirements. Funds are borrowed from both the Public Works Loan Board and from money markets. Loans can be fixed or variable interest debt. Decisions on whether to take fixed or variable interest debt depend upon the current portfolio, market conditions, forecasts and limits set in the annual Treasury Management Strategy Report.

Borrowing decisions also have to be considered in terms of their overall prudence and affordability, in accordance with the requirements of CIPFA's "The Prudential Code for Capital Finance in Local Authorities", and be contained within limits approved by Council in setting the Authority's "Prudential Indicators", in accordance with the Code.

**xxiii. Debt Redemption**

The Authority's Treasury Management Strategy permits the early repayment of borrowing. This may be undertaken if market conditions are favourable and there are no risks to cash flow. Such transactions may be carried out in order to reduce interest payable, to adjust the maturity profile or to restructure the ratio of fixed to variable interest bearing debt.

**xxiv. Related Party Transactions**

The Authority is required to disclose separately, the value of transactions and year-end balances with its related parties, unless they are already the subjects of other disclosure requirements (see note 19 to the Financial Statements). In respect of a local authority its related parties include central government, other local authorities, precepting and levying bodies, other public bodies, its subsidiary companies, Pension Fund, bodies where Members and Senior Officers hold positions of influence and with whom the Authority has transacted.

**xxv. Value Added Tax**

VAT payable has been excluded as an expense as it is recoverable from Her Majesty's Revenue and Customs. VAT receivable has been excluded from income.



## Notes to the Core Financial Statements (continued)

### xxvi. Recognition of Revenue from Non-Exchange Transactions

Assets and revenue arising from non exchange transactions are recognised in accordance with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, except where interpreted or adapted to fit the public sector are detailed in the Code and/or IPSAS 23, "Revenue from Non- Exchange Transactions (Taxes and Transfers)."

#### Taxation transactions

Assets and revenue arising from taxation transactions are recognised in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset.

#### Non-taxation transactions

Assets and revenue arising from transfer transactions are recognised in the period in which the transfer arrangement becomes binding. Services in-kind are not recognised.

Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the authority recognises a liability until the condition is fulfilled.

#### Basis of Measurement of Major Classes of Revenue from Non-Exchange Transactions

Taxation revenue is measured at the nominal value of cash, and cash equivalents,

Assets and revenue recognised as a consequence of a transfer are measured at the fair value of the assets recognised as at the date of recognition:

- Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset; and
- Non-monetary assets are measured at their fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognised when a binding transfer arrangement is in place but cash or other assets have not been received.

### xxvii. Accounting for the costs of the Carbon Reduction Commitment Scheme

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted as energy is used, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at 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.

## Notes to the Core Financial Statements (continued)

### 2. 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:

- The Authority had £15m deposited across two Icelandic Banks, Heritable Bank LT and Landsbanki Islands hf, with varying maturity dates and interest rates. In October 2008 these institutions went into administration. The Authority considered it appropriate to recognise an impairment of £4.565m in 2008/09 in respect of these deposits. This original impairment has been revised to £3.425m in 2011-12. Further information is disclosed in Note 10 to the accounts.
- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority is deemed to control the services provided under the outsourcing agreement for two Schools and a Road and also to control the residual value of the assets at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the Schools (valued at £33.060m) and Road (valued at £31.280m) are recognised as Property, Plant and Equipment on the Authority's Balance Sheet.
- The Authority has £1.127bn recognised as Property, Plant and Equipment on its Balance Sheet as at 31 March 2012. Note 22 to the accounts details the revaluations to land, property, plant and equipment during the accounting period to ensure that Property, Plant and Equipment is included in the accounts at fair value. The Authority undertakes formal valuations of its Property, Plant and Equipment by way of a five year rolling program and undertakes sufficient work, in respect of the assets not subject to a formal valuation in any one year, to ensure the value of its Property, Plant and Equipment as stated in the Balance Sheet is not materially different from its fair value. The valuations are undertaken by the Authority's in-house Corporate Property Department on an annual basis in line with the rolling program. The valuation team undertaking the annual revaluation work are members of the Royal Institute of Chartered Surveyors (RICS). Non-property assets have not been revalued as the Authority has judged that the carrying value of these assets is approximate to fair value, given their relatively short useful economic lives and the relative value of these assets.

### 3. Assumptions about the future/other sources of estimation or uncertainty

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

Notes to the Core Financial Statements (continued)

The items in the Authority's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent upon assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. As the Authority's assets have large variations in useful lives, it is impossible to estimate the effect on the annual depreciation charge for every year that useful lives had to be reduced.
Provisions	The Authority has made various provisions, both short term and long term totalling £10.666m - see note 31.	If the Authority has over provided for the potential liabilities the over provision will be released increasing the available funds in working balances. If the Authority has underprovided for the potential liabilities the under provision will be a charge to the Authority's Comprehensive Income and Expenditure Statement, with a reduction in working balances.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £11.937m. However, the assumptions interact in complex ways. During 2011/2012, the Authority's Actuaries advised that the net pensions liability had increased by £53.507m. This is as a result of estimates being corrected as a result of experience, and a decrease in assets of £26.239m.

## Notes to the Core Financial Statements (continued)

### 4. Accounting Standards issued but not yet adopted

For 2011/2012, the only change in accounting standards that have been issued but not yet adopted relates to amendments to IFRS 7 "Financial Instruments: Disclosures" and is required to be implemented from 1 April 2012. The amendments are intended to assist users of financial statements to improve their understanding of transfer transactions of financial assets and to evaluate the risks of such assets on the Authority's financial position.

As such transfers of assets are rare within local authorities, it is unlikely that full adoption of the standard will have a material impact upon the financial position of the Authority.

### 5. 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.

The following sets out a description of the reserves that the adjustments are made against:

#### Council Fund Balance

The Council Fund is the statutory fund into which all the receipts of the Authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the Council Fund Balance, which is not necessarily in accordance with proper accounting practice. The Council Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year.

#### Housing Revenue Account

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Authority's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

#### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

#### Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Notes to the Core Financial Statements (continued)

	Usable Reserves				Movement in Unusable Reserves £000
	Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Restated 2010/2011</b>					
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>					
Charges for depreciation and impairment of non-current assets	(51,885)	(33,327)	0	0	85,212
Amortisation of intangible assets	(345)	0	0	0	345
Capital grants and contributions applied	19,437	7,400	0	0	(26,837)
Revenue expenditure funded from capital under statute	(1,942)	0	0	0	1,942
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,491	1,042	(5,919)	0	386
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	9,586	1,009	0	0	(10,595)
Capital expenditure charged against the Council Fund and HRA balances	3,656	2,284	0	0	(5,940)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	628	0	0	(628)	0

Notes to the Core Financial Statements (continued)

	Usable Reserves				Movement in Unusable Reserves £000
	Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Restated 2010/2011</b>					
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(216)	(58)	0	0	274
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	7,579	(534)	0	0	(7,045)
Employer's pensions contributions and direct payments to pensioners payable in the year	23,456	608	0	0	(24,064)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(9)	(13)	0	0	22
<b>Total Adjustments</b>	<b>14,436</b>	<b>(21,589)</b>	<b>(5,919)</b>	<b>(628)</b>	<b>13,700</b>

Details of the restatement to the comparative figures are set out in Note 54.

Notes to the Core Financial Statements (continued)

2011/2012	Usable Reserves				Movement in Unusable Reserves £000
	Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>					
Charges for depreciation and impairment of non-current assets	(80,359)	(31,482)	0	0	111,841
Amortisation of intangible assets	(362)	0	0	0	362
Capital grants and contributions applied	17,643	7,524	0	0	(25,167)
Revenue expenditure funded from capital under statute	(3,520)	0	0	0	3,520
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	(2,174)	902	(1,848)	0	3,120
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	9,542	976	0	0	(10,518)
Capital expenditure charged against the Council Fund and HRA balances	13,691	567	0	0	(14,258)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,589	0	0	(1,589)	0

Notes to the Core Financial Statements (continued)

2011/2012	Usable Reserves				Movement in Unusable Reserves £000
	Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(216)	(57)	0	0	273
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(24,840)	(446)	0	0	25,286
Employer's pensions contributions and direct payments to pensioners payable in the year	22,555	570	0	0	(23,125)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	22	(11)	0	0	(11)
<b>Total Adjustments</b>	<b>(46,429)</b>	<b>(21,457)</b>	<b>(1,848)</b>	<b>(1,589)</b>	<b>71,323</b>



Notes to the Core Financial Statements (continued)

6. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the Council Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Council Fund and HRA expenditure in 2011/2012.

	Balance at 1 April 2010 £000	Transfers from 2010/2011 £000	Transfers to 2010/2011 £000	Balance at 31 March 2011 £000	Transfers from 2011/2012 £000	Transfers to 2011/2012 £000	Balance at 31 March 2012 £000
<b>Council Fund:</b>							
Balances held by schools under a scheme of delegation (note 45)	(6,840)	1,229	(1,191)	(6,802)	3,047	(496)	(4,251)
Capital Earmarked Reserves (note 42)	(3,817)	1,606	(10,804)	(13,015)	5,276	(10,844)	(18,583)
Direct Services Earmarked Reserves (note 41)	(1,511)	1,028	(123)	(606)	443	(98)	(261)
Service over/underspend Reserves (note 43)	(4,333)	6,662	(7,888)	(5,559)	4,171	(4,629)	(6,017)
Insurance Earmarked Reserves (note 44)	(2,785)	1,246	(1,427)	(2,966)	270	(2,318)	(5,014)
Other Earmarked Reserves (note 47)	(15,736)	557	(1,920)	(17,098)	490	(3,779)	(20,387)
<b>Total</b>	<b>(35,022)</b>	<b>12,328</b>	<b>(23,353)</b>	<b>(46,046)</b>	<b>13,697</b>	<b>(22,164)</b>	<b>(54,513)</b>
<b>Housing Revenue Account:</b>							
HRA Fund Balance	(6,062)	2,689	(2,395)	(5,768)	1,433	(345)	(4,680)

7. Other Operating Expenditure

Other operating expenditure is made up as follows:

	2010/2011 £000	2011/2012 £000
Community Council Precepts	541	550
Gwent Police Authority Precept	10,507	10,906
Levies	9,062	8,878
(Gains)/losses on the disposal of non-current assets	(5,533)	1,273
<b>Total</b>	<b>14,577</b>	<b>21,607</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

<u>Levies</u>	2010/2011 £000	2011/2012 £000
South Wales Fire Authority	8,672	8,503
Gwent Coroners' Service	146	153
Glamorgan Archives' Service	101	93
Gwent Archives' Service	143	129
<b>Total Levies</b>	<b>9,062</b>	<b>8,878</b>

<u>Precepts</u>	2010/2011 £000	2011/2012 £000
<b>Community Councils</b>		
Aber Valley Community Council	30	30
Argoed Community Council	9	9
Bargoed Town Council	60	59
Bedwas, Trethomas and Machen Community Council	53	56
Blackwood Community Council	34	35
Caerphilly Town Council	73	77
Darren Valley Community Council	12	12
Gelligaer Community Council	70	72
Llanbradach Community Council	28	26
Maesycwmmmer Community Council	14	14
Nelson Community Council	23	23
New Tredegar Community Council	17	17
Penyrheol, Trecenydd and Energlyn Community Council	55	55
Rhymney Community Council	35	35
Rudry Community Council	8	10
Van Community Council	20	20
	<b>541</b>	<b>550</b>
<b>Gwent Police Authority</b>	<b>10,507</b>	<b>10,906</b>
<b>Total Precepts upon the Authority</b>	<b>11,048</b>	<b>11,456</b>

#### 8. Financing and Investment Income and Expenditure

Financing and investment income and expenditure is made up as follows:

	Restated 2010/2011 £000	2011/2012 £000
Interest payable and similar charges	13,303	12,954
Pensions interest costs and expected return on pensions assets	13,386	7,951
Interest receivable and similar income	(1,046)	(682)
(Gains)/losses on direct labour/service organisations trading	(1,037)	431
(Gains)/losses on other trading accounts	2,983	4,555
<b>Total</b>	<b>27,589</b>	<b>25,209</b>

Notes to the Core Financial Statements (continued)

	2010/2011 Restated (Surplus)/Deficit £000	Income £000	2011/2012 Expenditure £000	(Surplus)/ Deficit £000
Highway Maintenance	(839)	(7,242)	7,104	(138)
Public Cleaning & Refuse Collection	269	0	0	0
Building Cleaning	(185)	(3,146)	2,965	(181)
Vehicle Maintenance	(56)	(1,172)	1,053	(119)
Grounds Maintenance	(46)	0	0	0
Building Services	(186)	(15,321)	16,246	925
Fleet Management	6	(4,569)	4,513	(56)
<b>Total (gains)/losses on direct service/labour organisations trading</b>	<b>(1,037)</b>	<b>(31,450)</b>	<b>31,881</b>	<b>431</b>

	2010/2011 Restated (Surplus)/Deficit £000	Income £000	2011/2012 Expenditure £000	(Surplus)/ Deficit £000
Industrial Estates	3,072	(2,212)	6,873	4,661
Housing Agency	(89)	(598)	492	(106)
<b>Total (gains)/losses on other trading accounts</b>	<b>2,983</b>	<b>(2,810)</b>	<b>7,365</b>	<b>4,555</b>

Details of the restatement to the comparative figures are set out in Note 54.

9. Taxation and non-specific grant income

	2010/2011 £000	2011/2012 £000
Council tax income	(64,146)	(64,770)
Non domestic rates	(47,584)	(40,046)
Non-ringfenced government grants	(216,394)	(220,561)
Capital grants and contributions	(27,465)	(26,756)
<b>Total</b>	<b>(355,589)</b>	<b>(352,133)</b>

Council Tax Income

Council tax derives from charges raised according to the value of residential properties, which from 1st April 2005, have been classified into nine valuation bands, using 1 April 2003 values for this specific purpose. Charges are calculated by taking the amount of income required by the Authority, Gwent Police Authority and Community Councils for the forthcoming year and dividing this amount by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion to convert the number to a band D equivalent. The basic amount for a band D property, £897.84 in 2011/2012 (£897.84 in 2010/2011) is multiplied by the proportion specified for the particular band, adjusted for discount, to give the individual amount due. The total amount due for 2011/2012 was £64.986m (£64.343m in 2010/2011).

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

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

BAND	A	B	C	D	E	F	G	H	I
Multiplier	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	21/9
Chargeable Dwellings	8,435	18,089	14,195	8,124	6,615	2,944	1,093	173	106

<i>Analysis of the net proceeds from council tax:</i>	2010/2011 £000	2011/2012 £000
<b>Council tax collectable</b>		
Caerphilly County Borough Council	(53,295)	(53,530)
Gwent Police Authority - see note 5	(10,507)	(10,906)
Community Councils - see note 5	(541)	(550)
<b>Total amount due</b>	<b>(64,343)</b>	<b>(64,986)</b>
Less: Bad Debt Provision	197	216
<b>Net proceeds from council tax</b>	<b>(64,146)</b>	<b>(64,770)</b>

#### National Non Domestic Rates (NNDR) Income

NNDR is organised on a national basis. The Welsh Government specifies an amount for the rate (42.8p in 2011/2012, 40.9p in 2010/2011) and subject to the effects of transitory arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Authority is responsible for collecting rates due from ratepayers in its area but pays the proceeds into the NNDR pool administered by the Welsh Government.

The Welsh Government redistributes the sums payable to local authorities on the basis of a fixed amount per head of population. The Authority's redistribution for 2011/2012 was £40.046m in total (£47.584m in 2010/2011).

The anticipated NNDR proceeds of £31.5m for 2011/2012 (£29.5m in 2010/2011) was based on an average rateable value of £88.36m for the year (£88.1m for 2010/2011).

<i>Analysis of the net proceeds from Non-Domestic Rates:</i>	2010/2011 £000	2011/2012 £000
Anticipated proceeds	<b>(29,521)</b>	<b>(31,483)</b>
Less: Discretionary relief	226	310
Cost of collection	316	345
Bad and doubtful debts	546	478
<b>Contribution to NNDR Pool</b>	<b>(28,433)</b>	<b>(30,350)</b>
Redistributed amount due from NNDR Pool	(47,584)	(40,046)
<b>Amount received from NNDR Pool</b>	<b>(47,584)</b>	<b>(40,046)</b>

Notes to the Core Financial Statements (continued)

Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/2012:

	2010/2011 £000	2011/2012 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	(206,600)	(210,977)
Outcome Agreement Grant	(1,881)	(1,873)
Private Finance Initiative Grant	(7,913)	(7,711)
<b>Total</b>	<b>(216,394)</b>	<b>(220,561)</b>

The Authority received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that could require that the monies be returned to the giver. The balances at the year-end are as follows:

	31 March 2011 £000	31 March 2012 £000
<b>Capital Grants Receipts in Advance</b>		
Opening balance	(770)	(1,417)
Planning grants	(179)	29
Highways and Transportation grants	(289)	214
Social Services	(179)	0
	<b>(1,417)</b>	<b>(1,174)</b>

Notes to the Core Financial Statements (continued)

10. Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
<b>Investments</b>				
Loans and receivables	3,398	2,168	69,827	62,455
<b>Total investments</b>	<b>3,398</b>	<b>2,168</b>	<b>69,827</b>	<b>62,455</b>
<b>Debtors</b>				
Loans and receivables	548	409	31,316	41,366
<b>Total debtors</b>	<b>548</b>	<b>409</b>	<b>31,316</b>	<b>41,366</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(193,377)	(195,413)	(2,126)	(480)
<b>Total borrowings</b>	<b>(193,377)</b>	<b>(195,413)</b>	<b>(2,126)</b>	<b>(480)</b>
<b>Other long term liabilities</b>				
PFI and finance lease liabilities	(47,942)	(44,393)	(2,065)	(1,974)
Deferred Liabilities	(587)	(490)	0	0
<b>Total other long term liabilities</b>	<b>(48,529)</b>	<b>(44,883)</b>	<b>(2,065)</b>	<b>(1,974)</b>
<b>Creditors</b>				
Financial liabilities carried at contract amount	0	0	(62,092)	(58,642)
<b>Total creditors</b>	<b>0</b>	<b>0</b>	<b>(62,092)</b>	<b>(58,642)</b>

**Notes to the Core Financial Statements (continued)**

**Income, Expenses, Gains and Losses**

<b>31 March 2011</b>	<b>Financial Liabilities</b>	<b>Financial Assets</b>	
	<b>Liabilities measured at amortised cost £000</b>	<b>Loans and receivables £000</b>	<b>Total £000</b>
Interest expense	13,303	0	13,303
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>13,303</b>	<b>0</b>	<b>13,303</b>
Interest income	0	(584)	(584)
Interest income accrued on impaired financial assets	0	(462)	(462)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(1,046)</b>	<b>(1,046)</b>
<b>Net (gain)/loss for the year</b>	<b>13,303</b>	<b>(1,046)</b>	<b>12,257</b>

<b>31 March 2012</b>	<b>Financial Liabilities</b>	<b>Financial Assets</b>	
	<b>Liabilities measured at amortised cost £000</b>	<b>Loans and receivables £000</b>	<b>Total £000</b>
Interest expense	12,954	0	12,954
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>12,954</b>	<b>0</b>	<b>12,954</b>
Interest income	0	(682)	(682)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(682)</b>	<b>(682)</b>
<b>Net (gain)/loss for the year</b>	<b>12,954</b>	<b>(682)</b>	<b>12,272</b>

**Fair Values of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. The fair value of a financial instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments/receipts in the future in today's terms. For "other" loans the discount rate used in the NPV calculation is equal to the current rate in relation to the same instrument from a comparable lender, and is the rate applicable in the market on the date of valuation (31 March) for an instrument with the same duration.

**Notes to the Core Financial Statements (continued)**

In previous years the Council showed the Fair Value for Public Works Loan Board (PWLB) debt based on the PWLB New Loan rates of interest and provided by the Council's Treasury Management Advisors. Although the PWLB provided a Fair Value figure itself, this was based on the PWLB Premature Repayment rates of interest and was provided as a total figure which could not be confirmed.

However, for 2011/2012, the PWLB have supplied the information on a loan-by-loan basis which can now be confirmed. The Code of Practice does not prescribe which method is to be applied, but since the Premature Repayment rates of interest must be used in any rescheduling exercise or, in the case of Housing stock transfers where PWLB debt relating to the HRA is repaid prematurely, Fair Value based on these rates of interest would appear to be the most appropriate. Therefore, for 2011/2012 the Fair Value for PWLB loan debt has been arrived at using the PWLB's own method of calculation.

The assumptions used to determine the fair values of assets and liabilities are as follows:

- The fair values for financial liabilities (PWLB debt and market debt) have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each Balance Sheet date, and include accrued interest. The fair values for non-PWLB debt have also been calculated using the same procedures and interest rates and this provides a suitable approximation for fair value for these instruments.
- Estimated ranges of discount rates for liabilities at 31 March 2012 were of 1.34% to 4.40% for loans from the PWLB and the Market, and applied with reference to the number of years outstanding to the maturity date. For assets, the carrying amount is assumed to be the approximate to fair value, and the contractual interest rate is taken to be the discount rate, which ranged between 0.60% and 0.25%. Accrued interest has been included to the nominal amount in order to determine the fair value.
- No early repayment or impairment is recognised (other than deposits held with Icelandic Banks).
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

At 31 March 2012 only deposits held with the failed Icelandic Banks were classified as long-term investments in accordance with the latest repayment schedule. The carrying amount is assumed to be the approximate value for fair value.



**Notes to the Core Financial Statements (continued)**

The fair values calculated are as follows:

	<u>31 March 2011</u>		<u>31 March 2012</u>	
	Carrying	Fair Value	Carrying	Fair Value
	Amount		Amount	
	£000	£000	£000	£000
Financial liabilities	(259,660)	(296,188)	(256,509)	(284,665)
Long term creditors	(48,529)	(48,529)	(44,883)	(44,883)
	<u>(308,189)</u>	<u>(344,717)</u>	<u>(301,392)</u>	<u>(329,548)</u>

Analysis of Liabilities by maturity	31 March	31 March
	2011	2012
	£000	£000
Maturing within 1 year	(70,868)	(64,692)
Maturing in 1 - 2 years	(3,087)	(15,442)
Maturing in 2 - 5 years	(18,949)	(21,717)
Maturing in 5 - 10 years	(19,643)	(20,139)
Maturing in 10 - 15 years	(18,492)	(22,683)
Maturing in 15 - 20 years	(33,214)	(21,143)
Maturing in 20 - 25 years	(10,396)	(2,494)
Maturing in 25 - 30 years	(14,965)	(14,965)
Maturing in 30 - 35 years	(23,945)	(23,944)
Maturing in 35 - 40 years	(9,977)	(9,977)
Maturing in 40 - 45 years	(50,196)	(50,196)
Maturing in 45 - 50 years	(14,000)	(14,000)
Maturing in over 50 years	(20,457)	(20,000)
	<u>(308,189)</u>	<u>(301,392)</u>

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value. The fair value of the financial liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders above current market rates.

	<u>31 March 2011</u>		<u>31 March 2012</u>	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
	£000	£000	£000	£000
Loans and receivables	104,541	104,541	111,725	111,782
Long term debtors	548	548	409	409
	<u>105,089</u>	<u>105,089</u>	<u>112,134</u>	<u>112,191</u>

As at 31 March 2012, long term investments consisted of outstanding Icelandic deposits upon which the Authority will be receiving dividends. Assets included deposits valued at nominal amounts plus accrued interest. The Authority had no Asset and Liabilities at Fair Value through Profit and Loss at 31 March 2012.

## Notes to the Core Financial Statements (continued)

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

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

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

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by Council in the annual treasury management strategy, and compliance with the CIPFA Prudential Code of Practice, the CIPFA Treasury Management Code of Practice, and Investment Guidance that is issued under the Local Government Act 2003. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash (short-term and long-term). These are required to be reported and approved at or before the Authority's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy and Investment Strategy that outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported annually to Members.

The 2011/12 Annual Treasury Management Strategy and Investment Strategy (including Prudential Indicators) were approved by Council on 24 February 2011 and are available on the Authority website.

### Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. Deposits are not made with banks and financial institutions unless they meet the minimum credit ratings as prescribed in the Annual Strategy.

Due to the continued uncertainty following the collapse of the financial markets in October 2008, and the subsequent potential loss of sums invested in Icelandic banks (see below re Impairment of Investments) the strategy employed for 2011/2012 followed that of 2010/2011, which restricted the placing of funds to the Debt Management Account Facility (DMADF) with the Debt Management Office (DMO) (the UK Government) and other local authorities. Small sums were also held in two bank call accounts with immediate access.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority.

Details of the Investment Strategy can be found on the Council's website. The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of Short Term of F1, Long Term AA (Fitch or equivalent rating), and Sovereign rating of AAA
- Debt Management Office (Debt Management Account Deposit Facility) (DMADF)
- Debt Management Office – Treasury Bills
- Local Authorities
- AAA rated Money Market Funds

Notes to the Core Financial Statements (continued)

The Authority's maximum exposure to credit risk in relation to its investments in financial institutions will vary according to credit ratings assigned by the three main credit rating agencies and cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

The following analysis summarises the Authority's potential maximum exposure to credit risk on financial assets, based on experience of default and un-collectability over the last five financial years, adjusted to reflect current market conditions.

	31 March 2011	31 March 2012			Estimated maximum exposure to default £000
	Estimated maximum exposure to default £000	Amount at 31 March 2012 £000	Historical experience of default %	Historic experience adjusted for market conditions at 31 March 2012 %	
Counterparties rated:		A	B	C	(A x C)
AAA	0	59,991	0.00%	0.00%	0
AA	0	5,000	0.03%	0.03%	2
A	0	736	0.08%	0.08%	1
Non-investment grade	4,042	4,632	n/a	n/a	3,425
Debtors - past due but not impaired	24	3,686	0.72%	0.72%	27
<b>Total</b>	<b>4,066</b>	<b>74,045</b>			<b>3,455</b>

The non-investment grade counterparty in the above table is a reference to the failed Icelandic banks, which have undergone accounting treatment in accordance with the latest information available to the Authority as at 31 March 2012, and a further separate disclosure note has been made further on in the Statement of Accounts.

The Authority's deposits are placed either directly with the counterparty or indirectly with the counterparty via London money market brokers. At 31 March 2012, with the exception of the deposit held with Icelandic banks, the Authority's long-term and short-term investments, and cash and cash equivalents were deposited with UK counterparties in accordance with the approved treasury management strategy.

No credit limits were exceeded during the year and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Authority does not generally allow credit for customers and the amount past due (but not impaired) as at the year-end can be analysed by age as follows:

	31 March 2011 £000	31 March 2012 £000
Three to six months	478	968
Six months to one year	726	752
More than one year	1,513	1,966
	<b>2,717</b>	<b>3,686</b>

**Notes to the Core Financial Statements (continued)**

**Liquidity risk**

As the Authority has ready access to borrowings from the Public Works Loans Board (PWLB), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure the maturity profile is as smooth as possible through a combination of careful planning of new loans taken out and (where economically advantageous to do so) making early repayments.

**Market risk**

**Interest rate risk**

The Authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority.

For illustration, a rise in interest rates would have the following effects:

- For borrowings at variable rates the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- For borrowings at fixed rates the fair value of the borrowings will fall;
- For investments at variable rates the interest income credited to the Surplus or Deficit on the Provision of Services will rise;
- For investments at fixed rates the fair value of the assets will fall.

Borrowings are not carried at fair value (but are carried on the Balance Sheet at amortised cost) so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services.

However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the Council Fund Balance pound for pound. Movements in fair value of available-for-sale investments will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. Its policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans when interest rate levels are favourable. However, as at 31 March 2012, the Authority had no variable rate loans or investments. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates for the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

**Notes to the Core Financial Statements (continued)**

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out should be fixed or variable. The decision to place deposits only with the DMADF and other local authorities resulted in low returns of interest receivable for 2011/2012. According to the assessment strategy, if interest rates had been 1% higher at 31 March 2012, with all other variables held constant, the financial effect would be:

	<u>£000</u>
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	0
Increase in government grant receivable for financing costs	0
Impact on Surplus or Deficit on the Provision of Services	0
Share of overall impact debited to the HRA	0
Increase in fair value of fixed rate investment assets	36
Impact on Other Comprehensive Income and Expenditure	<u>36</u>
Decrease in fair value of fixed rate borrowings liabilities (no impact on Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	<u>28,042</u>

The impact of a 1% fall in interest rates would result in a similar variance, but with the movements reversed. The calculation is based on the PWLB discount rate used in the original fair value calculation, plus or minus 1%. There is a nil effect on variable rate investments and borrowings as the Authority had no such variable rate instruments during the year.

**Foreign exchange risk**

During 2011/2012 the Authority received monies denominated in foreign currencies relating to the settlement of deposits held with Landsbanki. Payments were received in a basket of currencies including Euros, US Dollar and Icelandic Krona (ISK). The Authority was able to minimise foreign exchange rate risk relating the Euros and the US Dollar by way of immediate conversion at the point of receiving the foreign currencies, however some loss was realised due to exchange rate movement between April 2009 (the valuation date) and February 2012 (date of the Authority receiving the foreign currencies). The Authority also has foreign exchange exposure resulting from an element of the settlement received from Landsbanki that is being held in ISK in an Escrow account. The Authority is unable to exchange this holding into Sterling due to the current foreign exchange restrictions placed on the trading of ISK by Icelandic Authorities, who have not disclosed a time frame to lift the currency sanctions. The monies held in the Escrow account and future foreign exchange dividends released by Landsbanki are subject to further exchange rate risk. The valuation of the ISK at 31 March 2012 is:

Opening Balance on Escrow account £000	Gain/(loss) on Escrow account foreign exchange valuation as at 31 March 2012 £000	Escrow account valuation as at 31 March 2012 £000
39	(3)	36

Notes to the Core Financial Statements (continued)

Impairment of Investments

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Authority had £15m deposited across two of these institutions, Heritable Bank LT and Landsbanki Islands hf, with varying maturity dates and interest rates.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. The Authority considered it appropriate to recognise an impairment of £4.565m in the 2008/2009 accounts. As at 31 March 2011, the impairment was valued at £4.042m. The Authority has continued to receive dividend payments from Heritable and progress has been made with respect to monies outstanding with Landsbanki. In December 2011, the Icelandic Supreme Court's decision to grant UK local authorities priority creditor status resulted in the Winding Up Board making a first distribution to priority creditors in a basket of currencies (Sterling, Euros, US Dollar and Icelandic Kroner) in February 2012.

As a result, the Authority considers it prudent that an adjustment to the impairment brought forward can be made in respect of both banks. Therefore, as at 31 March 2012, the impairment was recognised at £3.425m, a change of £617k from 2010/2011.

Heritable Bank

Heritable bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. The latest creditor progress report issued by the administrators Ernst and Young, dated February 2012 failed to provide a revised estimate of recovery rates. Therefore in accordance with the latest CIPFA LAAP bulletin recoverable amounts have been based on a total recovery of 88%. Four dividend payments were made in 2011/2012 equating to 17.81p in the £ (£1.798m). It is anticipated that a final sale of assets will take place after the books have been run down to April 2013, but that dividends will be made on a more frequent basis than originally anticipated. The Authority has already received the following dividends:

• July 2009	16.13%	• January 2011	4.72%
• December 2009	12.66%	• April 2011	6.25%
• March 2010	6.19%	• July 2011	4.05%
• July 2010	6.27%	• October 2011	4.50%
• October 2010	4.14%	• January 2012	4.50%

Future dividends are anticipated to be received as follows:

• April 2012	3.79%	• January 2013	3.50%
• July 2012	3.50%	• April 2013	5.81%
• October 2012	3.50%		

The Authority has received its April 2012 dividend in accordance with the above profile. Recoveries are expressed as a percentage, representing monies outstanding as at 31 March 2012 of the Authority's claim in the administration, which includes interest accrued up to 6 October 2008. The foregoing percentages are subject to change as the administration progresses.

Notes to the Core Financial Statements (continued)

**Landsbanki**

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. The Icelandic District Court's decision to award local authorities priority creditor status in 2011 was later challenged by other creditors in the Icelandic Supreme Court. In December 2011, the Supreme Court supported the District Court's decision and the first dividend payment was distributed in February 2012, albeit in a basket of currencies (Sterling, US Dollar, Euros and Icelandic Kroner).

The Icelandic Kroner (£39,000 Sterling equivalent) has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls imposed by Icelandic Authorities and as a result is subject to exchange rate risk, over which the Authority has no control.

Previously the Authority had reported a recovery rate of 83%, however, the latest guidance confirms a recovery rate of 100%. Therefore the revised recovery rates have been reflected in the accounting treatment for 2011/2012 and the estimated future payouts are as follows:

• Received as at 31.03.12	30%	• December 2015	7%
• May 2012	12%	• December 2016	7%
• December 2012	7%	• December 2017	7%
• December 2013	7%	• December 2018	7%
• December 2014	7%	• December 2019	9%

The Authority has received its May 2012 dividend in accordance with the above profile.

Recovery is subject to the following uncertainties and risks:

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Authority's claim, which may be denominated wholly or partly in currencies other than Sterling.

Notes to the Core Financial Statements (continued)

Recoveries are expressed as a percentage of the Authority's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009 (or maturity date if earlier).

Bank	Date Invested	Maturity Date	Amount Invested £000	Impairment as at 31 March 2011 £000	Notional Recoverable Amount as at 31 March 2011 £000	Impairment as at 31 March 2012 £000	Change in Impairment £000	Notional Recoverable Amount as at 31 March 2012 £000
Heritable Bank LT	11/07/2008	10/10/2008	3,000	711	2,418	706	(5)	2,423
Heritable Bank LT	14/07/2008	13/10/2008	1,500	355	1,208	353	(2)	1,210
Heritable Bank LT	21/08/2008	19/11/2008	1,500	351	1,203	349	(2)	1,205
Heritable Bank LT	26/08/2008	24/11/2008	1,000	234	801	233	(1)	802
Heritable Bank LT	02/09/2008	01/12/2008	2,000	467	1,600	465	(2)	1,602
Heritable Bank LT	09/09/2008	08/12/2008	1,000	232	800	232	0	800
Landsbanki Islands	15/07/2008	13/10/2008	1,000	343	699	221	(122)	821
Landsbanki Islands	20/08/2008	19/11/2008	3,000	1,014	2,093	651	(363)	2,456
Landsbanki Islands	15/09/2008	12/12/2008	1,000	335	697	215	(120)	817
		<b>Totals</b>	<b>15,000</b>	<b>4,042</b>	<b>11,519</b>	<b>3,425</b>	<b>(617)</b>	<b>12,136</b>

Add:

Interest due to date of collapse 278

Original amount outstanding **15,278**

Additional notional interest assumed to 31 March 2009 283

Additional notional interest to end of recovery period 2,122

Loss of capital and accrued interest:

Capital 1,015

Interest 5

**Impairment** **3,425**

The notional recoverable amounts of the investments included in the Balance Sheet have been calculated using the present value of the expected repayments, discounted using the investment's original interest rate. The expected and actual repayments have been estimated as follows, based on statements made by the administrators:



Notes to the Core Financial Statements (continued)

Year End	Heritable Bank LT	Landsbanki Islands	Total
	£000	£000	£000
31 March 2010	3,532	0	3,532
31 March 2011	1,527	0	1,527
31 March 2012	1,799	1,478	3,277
31 March 2013	1,443	976	2,419
31 March 2014	587	355	942
31 March 2015	0	355	355
31 March 2016	0	355	355
31 March 2017	0	355	355
31 March 2018	0	355	355
31 March 2019	0	355	355
31 March 2020	0	488	488
<b>Totals</b>	<b>8,888</b>	<b>5,072</b>	<b>13,960</b>

Interest from the investments credited to the Comprehensive Income and Expenditure Statement is as follows:

Bank	Credited 2010/11	Received 2010/11	Credited 2011/12	Received 2011/12
	£	£	£	£
Heritable Bank LT	255,189	14,685	151,878	14,663
Landsbanki Islands	221,488	0	217,872	20,993

## 11. Retirement Benefits

### Defined Benefit Scheme

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits and participates in two different pension schemes – the Local Government Pension Scheme and the Teachers' Pension Scheme.

The Local Government Pension Scheme, the Greater Gwent (Torfaen) Pension Scheme, is administered by Torfaen County Borough Council and is a funded defined benefit final salary scheme. The Authority and employees pay contributions into a fund calculated at a level intended to balance the pensions liabilities with investment assets.

The Teachers' Pension Scheme is a defined benefit scheme, which is administered by the Department for Education. The scheme is unfunded and as it is not possible for the Authority to identify its share of the underlying liabilities of the scheme attributable to its own employees, it is being accounted for as a defined contribution scheme, i.e. the cost charged to Cost of Services in the year is the cost of the employer contributions to the scheme. A "notional fund" is used as the basis for calculating the employers' contribution rate paid by each local education authority.

### Greater Gwent (Torfaen) Pension Scheme

In 2011/2012, the Authority paid an employer's contribution of £18.69m, representing 19.5% of the pensionable pay of employees who are members of the scheme into the Greater Gwent (Torfaen) Pension Fund (£20.432m representing 21.0% in 2010/2011), which provides members with defined benefits related to pay and service. Contribution rates are set by the Superannuation Regulations to meet 100% of the overall liabilities of the Fund over a period of time, with necessary contribution increases being phased in.

## Notes to the Core Financial Statements (continued)

An additional payment of £900k was made as a contribution to the deficit. In addition, the Authority is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2011/2012 these amounted to £2.914m, representing 3.05% of pensionable pay (£2.240m representing 2.30% in 2010/2011).

### Teachers' Pension Scheme

In 2011/2012, the Authority paid £7.967m to Capita Teachers' Pensions in respect of teachers' pensions, which represents 14.1% of teachers' pensionable pay (£8.021m and 14.1% for 2010/2011). In addition, the Authority is responsible for all pension payments relating to added years that have been awarded, together with the related increases. In 2011/2012, these amounted to £1.779m, representing approximately 3.15% of pensionable pay (£1.607m and 2.80% for 2010/2011).

### Former Authorities' Liability

The former authorities' liability exists in respect of previous years decisions to fund the pension benefits of employees of the former Glamorgan County Council, Mid Glamorgan County Council and Rhymney Valley District Council whose pension benefits are currently funded by the Rhondda Cynon Taf County Borough Council Pension Fund. This has been included within the Authority's accounts as part of the required IAS 19 accounting disclosures. Actuarial assumptions are based upon the Rhondda Cynon Taf County Borough Council Pension Fund.

Further information and the report is available on request from the Director of Finance, Rhondda Cynon Taf County Borough Council, The Pavilions, Cambrian Park, Clydach Vale, Tonypanyd CF40 2XX.

### Unfunded Teachers Pensions Liability

This liability exists in respect of unfunded Teachers' Discretionary Benefits paid to the former Authority employees by the Greater Gwent (Torfaen) Pension Fund. This has been included within the Authority's accounts as part of the required IAS 19 accounting disclosures. Actuarial assumptions are based upon the Greater Gwent (Torfaen) Pension Fund.

### Transactions Relating to Post-employment Benefits

We recognise 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 Council Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Council Fund Balance via the Movement in Reserves Statement during the year:

Notes to the Core Financial Statements (continued)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/2011 £000	2011/2012 £000	2010/2011 £000	2011/2012 £000
<b>Comprehensive Income and Expenditure Statement:</b>				
<i>Cost of Services</i>				
• current service cost	17,985	15,389	0	0
• past service costs	(36,456)	316	(1,989)	60
• settlements and curtailments	28	75	0	1,495
<i>Financing and Investment Income and Expenditure</i>				
• interest cost	36,097	33,429	1,534	1,471
• expected return on scheme assets	(24,244)	(26,949)	0	0
<i>Total Post Employment Benefit charged to the Surplus or Deficit on Provision of Services</i>	<b>(6,590)</b>	<b>22,260</b>	<b>(455)</b>	<b>3,026</b>
<i>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</i>				
• actuarial gains and losses	(47,644)	50,024	975	1,322
<i>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</i>	<b>(54,234)</b>	<b>72,284</b>	<b>520</b>	<b>4,348</b>
<b>Movement in Reserves Statement:</b>				
• reversal of net charges made to the Surplus or Deficit on Provision of Services for post employment benefits in accordance with the Code	6,590	(22,260)	455	(3,026)
<i>Actual Amount Charged Against the Council Fund Balance for Pensions in the Year:</i>				
• employers' contributions payable to the scheme	22,069	20,892	1,995	2,233
• retirement benefits payable to pensioners	0	0	0	0

Further information can be found in the Greater Gwent (Torfaen) Pension Fund's Annual Report, which is available upon request from the Director of Finance, County Borough of Torfaen, Civic Centre, Pontypool, NP4 6YB.

Notes to the Core Financial Statements (continued)

Actuarial Gains and (Losses) relating to Pensions

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £91.316m (£39.98m to 31 March 2011).

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities:

	2010/2011			Total £000
	Greater Gwent Scheme £000	Former Authorities Liability £000	Unfunded Teachers' Pension £000	
Opening balance at 1 April	641,916	9,000	20,568	671,484
Current service cost	17,985	0	0	17,985
Interest cost	36,097	440	1,094	37,631
Contributions by scheme participants	6,259	0	0	6,259
Actuarial (gains) / losses	(40,281)	430	546	(39,305)
Benefits paid	(18,891)	(640)	(1,355)	(20,886)
Past service costs	(36,456)	(840)	(1,149)	(38,445)
Curtailments	28	0	0	28
Settlements	0	0	0	0
<b>Closing balance at 31 March</b>	<b>606,657</b>	<b>8,390</b>	<b>19,704</b>	<b>634,751</b>

	2011/2012			Total £000
	Greater Gwent Scheme £000	Former Authorities Liability £000	Unfunded Teachers' Pension £000	
Opening balance at 1 April	606,657	8,390	19,704	634,751
Current service cost	15,389	0	0	15,389
Interest cost	33,429	450	1,021	34,900
Contributions by scheme participants	6,143	0	0	6,143
Actuarial (gains) / losses	23,785	660	662	25,107
Benefits paid	(19,244)	(650)	(1,583)	(21,477)
Past service costs	316	60	0	376
Curtailments	75	0	1,495	1,570
Settlements	0	0	0	0
<b>Closing balance at 31 March</b>	<b>666,550</b>	<b>8,910</b>	<b>21,299</b>	<b>696,759</b>

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the Fund discounted to their present value.

Notes to the Core Financial Statements (continued)

Reconciliation of fair value of the scheme assets:

	Greater Gwent Scheme		Former Authorities Liability		Unfunded Teachers' Pension	
	2010/2011 £000	2011/2012 £000	2010/2011 £000	2011/2012 £000	2010/2011 £000	2011/2012 £000
Opening balance at 1 April	360,931	401,975	0	0	0	0
Expected rate of return	24,244	26,949	0	0	0	0
Actuarial gains / (losses)	7,363	(26,239)	0	0	0	0
Employer contributions	22,069	20,892	640	650	1,355	1,583
Contributions by scheme participants	6,259	6,143	0	0	0	0
Benefits paid	(18,891)	(19,244)	(640)	(650)	(1,355)	(1,583)
Settlements	0	0	0	0	0	0
Closing balance at 31 March	401,975	410,476	0	0	0	0

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £701k (return of £31.607m in 2010/2011).

Scheme History:

	2007/2008 £000	2008/2009 £000	2009/2010 £000	2010/2011 £000	2011/2012 £000
<b>Present value of liabilities:</b>					
• Local Government Pension Scheme	(526,591)	(445,362)	(641,916)	(606,657)	(666,550)
• Former Authorities' Liability	(8,040)	(7,570)	(9,000)	(8,390)	(8,910)
• Teachers' Unfunded Discretionary Pension	(19,872)	(17,134)	(20,568)	(19,704)	(21,299)
<b>Fair value of assets:</b>					
• Local Government Pension Scheme	304,221	245,085	360,931	401,975	410,476
• Former Authorities' Liability	0	0	0	0	0
• Teachers' Unfunded Discretionary Pension	0	0	0	0	0
<b>Surplus/(deficit) in the scheme:</b>					
• Local Government Pension Scheme	(222,370)	(200,277)	(280,985)	(204,682)	(256,074)
• Former Authorities' Liability	(8,040)	(7,570)	(9,000)	(8,390)	(8,910)
• Teachers' Unfunded Discretionary Pension	(19,872)	(17,134)	(20,568)	(19,704)	(21,299)
<b>Total</b>	<b>(250,282)</b>	<b>(224,981)</b>	<b>(310,553)</b>	<b>(232,776)</b>	<b>(286,283)</b>

The liabilities show the underlying commitments that the Authority has to pay future retirement benefits. In addition, the Authority has liabilities for discretionary pension payments outside the main schemes. The total liability of £286.283m has a substantial impact on the net worth of the Authority, but statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

**Notes to the Core Financial Statements (continued)**

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. The total contribution that the Authority expects to make to the Local Government Pension Scheme in the year to 31 March 2013 is £19.94m.

**Basis for Estimating Scheme Assets and Liabilities**

The calculation of these assets, liabilities and costs requires the actuary to make a number of assumptions relating to returns on investments, future inflation, pay and pension levels and rates of mortality. In previous years the actuaries based the discount rate on the yield on the iBoxx Sterling AA corporate bond over 15 years index. For the year ended 31 March 2012, the discount rate has been calculated as a weighted average of "spot yields" on AA rated corporate bonds. These weightings reflect more accurately the duration of the pension liabilities of the typical LGPS employer.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

The actuaries assumed that 50% of employees retiring after 6 April 2012 would take advantage of this change to the pension scheme. The actuaries have advised that this has resulted in the pension liabilities being greater than if a higher take up of lump sums had occurred. The actuary has confirmed that each 5% increase (decrease) in the assumed commutation take-up rate would typically reduce (increase) the value of the liabilities by between 0.1% and 0.25%

**Notes to the Core Financial Statements (continued)**

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Former Authorities' Liability		Teachers' Pension Scheme	
	2010/2011	2011/2012	2010/2011	2011/2012	2010/2011	2011/2012
<u>Long-term expected rate of return on scheme assets:</u>						
Equity investments	7.5%	7.0%	n/a	n/a	7.5%	7.0%
Government Bonds	4.4%	3.1%	n/a	n/a	4.4%	3.1%
Other Bonds	5.1%	4.1%	n/a	n/a	5.1%	4.1%
Property	6.5%	6.0%	n/a	n/a	6.5%	6.0%
Cash/Liquidity	0.5%	0.5%	n/a	n/a	0.5%	0.5%
Other	7.5%	7.0%	n/a	n/a	7.5%	7.0%
<u>Mortality assumptions:</u>						
Longevity at 65 for current pensioners:						
- Men	21.2	21.3	23.1	23.2	21.2	21.3
- Women	23.4	23.4	24.4	24.5	23.4	23.4
Longevity at 65 for future pensioners:						
- Men	22.3	22.4	n/a	n/a	n/a	n/a
- Women	25.6	25.7	n/a	n/a	n/a	n/a
Rate of inflation	3.0%	2.5%	2.7%	2.4%	2.8%	2.3%
Rate of increase in salaries	4.4%	4.0%	n/a	n/a	4.4%	4.0%
Rate of increase in pensions	3.0%	2.5%	2.7%	2.4%	2.8%	2.3%
Rate for discounting scheme liabilities	5.5%	4.9%	5.5%	4.6%	5.4%	4.6%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%	n/a	n/a	n/a	n/a

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2011	31 March 2012
Equity investments	81.1%	75.1%
Government Bonds	7.6%	9.2%
Other Bonds	7.3%	8.2%
Property	2.1%	2.3%
Cash/Liquidity	1.8%	1.6%
Other	0.1%	3.6%
	<u>100.0%</u>	<u>100.0%</u>

**History of experience gains and losses**

The actuarial gains identified as movements on the Pensions Reserve in 2011/2012 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

Notes to the Core Financial Statements (continued)

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
	%	%	%	%	%
<b>Local Government Pension Scheme:</b>					
Differences between the expected and actual return on assets	(11.7)	(37.4)	(23.5)	(1.8)	(6.4)
Experience gains and losses on liabilities	0.2	0	0	2.7	0.0
<b>Former Authorities' Liability:</b>					
Differences between the expected and actual return on assets	0	0	0	0	0
Experience gains and losses on liabilities	(3.4)	(5.3)	2.3	0.4	(2.2)
<b>Teachers' Unfunded Discretionary Pension:</b>					
Differences between the expected and actual return on assets	0	0	0	0	0
Experience gains and losses on liabilities	(5.0)	0	0	5.8	0

**12. Private Finance Initiative (PFI) Transactions**

The Authority entered into two contracts under Private Finance Initiative arrangements, one with the Machrie Consortium for the provision of two replacement schools (Ysgol Gyfun Cwm Rhymni and Lewis School Pengam), and one with S.E.W. Ltd for the provision of a road (Sirhowy Enterprise Way).

Under both of these contracts, the relevant consortium has the responsibility for the design, build, finance and operation of the assets for a period of 30 years, commencing in September 2002 for the schools and December 2005 for the road. With regard to the schools, this includes the provision of all ancillary services, although the Authority retains responsibility for educational, pastoral and financial arrangements.

The Authority leases each school site to the Consortium and, upon expiry of the contract term (September 2032), has the option of re-tendering the provision of services. If the option is not taken, the assets will transfer to the Authority.

The Authority continues to own the land on which the road is built and, in consideration of a payment of £1, permits access to the land to S.E.W. Ltd, for the purposes of building and operating the road, for the lifetime of the contract. At the expiry of the contract term, the Authority has the option of extending the contract. If this option is not taken, the asset reverts to the ownership of the Authority.

The assets identified in the PFI contracts have been recognised in 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 22.



Notes to the Core Financial Statements (continued)

	31 March 2011			31 March 2012		
	Road £000	Schools £000	Total £000	Road £000	Schools £000	Total £000
<b>Gross PFI Liabilities are due:</b>						
- not later than 1 year	3,747	1,768	5,515	3,645	1,593	5,238
- later than 1 year and not later than 5 years	14,154	7,098	21,252	13,826	7,186	21,012
- later than 5 years	36,251	28,700	64,951	32,934	27,019	59,953
<b>Total Gross Liabilities</b>	<b>54,152</b>	<b>37,566</b>	<b>91,718</b>	<b>50,405</b>	<b>35,798</b>	<b>86,203</b>
<b>Net PFI Liabilities are due:</b>						
- not later than 1 year	1,420	411	1,831	1,420	274	1,694
- later than 1 year and not later than 5 years	5,984	1,951	7,935	6,092	2,213	8,305
- later than 5 years	21,840	15,896	37,736	20,180	15,492	35,672
<b>Total Net Liabilities</b>	<b>29,244</b>	<b>18,258</b>	<b>47,502</b>	<b>27,692</b>	<b>17,979</b>	<b>45,671</b>
<b>Finance charges allocated to future periods</b>	<b>(24,908)</b>	<b>(19,308)</b>	<b>(44,216)</b>	<b>(22,713)</b>	<b>(17,819)</b>	<b>(40,532)</b>
<b>Reconciliation between Net Book Values of PFI Assets held under PFI schemes:</b>						
Net Liability (as above)	29,244	18,258	47,502	27,692	17,979	45,671
Revaluations and impairments	0	21,560	21,560	0	18,017	18,017
Repayments/ Amortisation of capital sum	7,521	3,162	10,683	9,072	3,232	12,304
Accumulated Depreciation	(3,646)	(6,168)	(9,814)	(5,484)	(6,168)	(11,652)
<b>Net Book value of PFI Assets</b>	<b>33,119</b>	<b>36,812</b>	<b>69,931</b>	<b>31,280</b>	<b>33,060</b>	<b>64,340</b>

The Authority receives funding from the Welsh Government, via specific grant payments, to meet the costs of the unitary charge payments. However, the scheduling of the funding is such that it differs annually during the period of the PFI contract, from that applying to the payments to the consortia.

Whilst the funding profile of the road scheme generally follows that of the unitary charge payments, that of the schools scheme differs markedly, with the funding reducing annually over the period of the contract, whilst unitary charge payments increase annually over the same period. The result of the variance in these funding and expenditure profiles means that the funding received by the Authority in the early years of the contracts will exceed that required to meet the unitary charge, whilst subsequently, until the expiry of the contract term, the opposite will be true. As a result, the Authority has agreed that the initial funding "surpluses" will be set aside, to provide for the subsequent funding shortfalls, and is holding such funds as an earmarked reserve to meet future PFI liabilities (see note 47).

**Notes to the Core Financial Statements (continued)**

The balance held on this reserve and the movements during the financial year are as detailed below:

	2010/2011 £000	2011/2012 £000
Balance brought forward	(11,080)	(11,581)
<b>Amounts set aside in year:</b>		
Schools	(204)	(445)
Road	(297)	(215)
	<b>(11,581)</b>	<b>(12,241)</b>

**Future commitments for PFI Schemes**

The Authority is committed to making the following payments for PFI obligations:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
<b>Road</b>				
Payable in 2012/2013	1,389	1,420	2,225	5,034
Payable within 2 to 5 years	6,347	6,092	7,734	20,173
Payable within 6 to 10 years	9,869	6,545	7,058	23,472
Payable within 11 to 15 years	10,312	7,272	4,297	21,881
Payable within 16 to 20 years	11,173	5,900	1,338	18,411
Payable within 21 to 25 years	3,304	463	61	3,828
	<b>42,394</b>	<b>27,692</b>	<b>22,713</b>	<b>92,799</b>

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
<b>School</b>				
Payable in 2012/2013	2,312	274	1,319	3,905
Payable within 2 to 5 years	9,257	2,213	4,973	16,443
Payable within 6 to 10 years	14,368	2,784	5,408	22,560
Payable within 11 to 15 years	16,482	4,497	4,082	25,061
Payable within 16 to 20 years	18,422	7,485	1,984	27,891
Payable within 21 to 25 years	1,668	726	53	2,447
	<b>62,509</b>	<b>17,979</b>	<b>17,819</b>	<b>98,307</b>

**13. Operating Leases**

**Authority as Lessee**

The Authority uses computer equipment, vehicles and plant and general office equipment financed under the terms of various operating leases.

Operating lease rentals in respect of the above, paid to lessors in 2011/2012 totalled £179,065 (£294,409 in 2010/2011) which have been charged to the relevant service area in the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements (continued)

The Authority also leases various buildings for the provision of services and for administrative purposes, which have been accounted for as operating leases. The rentals payable to lessors under such leases amounted to £987,819 in 2011/2012, (£756,810 in 2010/2011) which have been charged to the relevant service area in the Comprehensive Income and Expenditure Statement.

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

	2010/2011	2011/2012		Total £000
	Total £000	Land & Buildings £000	Vehicles, Plant & Equipment £000	
Not later than one year	790	867	142	1,009
Later than one year and not later than five years	2,199	2,760	164	2,924
Later than five years	1,649	5,637	0	5,637
	<b>4,638</b>	<b>9,264</b>	<b>306</b>	<b>9,570</b>

The Authority has sub-let some of the accommodation held under these operating leases. At 31 March 2012, the minimum payments expected to be received under non-cancellable sub leases were as follows:

	2010/2011	2011/2012	
	Total £000	Other Land & Buildings £000	Total £000
Not later than one year	0	11	11
Later than one year and not later than five years	0	20	20
Later than five years	0	0	0
	<b>0</b>	<b>31</b>	<b>31</b>

Authority as Lessor

The Authority has granted leases of land and buildings to various entities for periods of between 1 year and 30 years for the provision of community services, such as facilities, tourism services and community centres and for economic development purpose to provide suitable affordable accommodation for local businesses. Such arrangements have been accounted for as operating leases for which the assets have a gross value of £36,219,334 as at 31 March 2012 and have been subject to accumulated depreciation of £2,224,566. (Gross value at 31 March 2011 £38,646,941 with accumulated depreciation of £2,036,490).

In addition the Authority has also granted peppercorn leases (rentals of £1 per annum) of community halls, playing fields, pavilions etc. to voluntary organisations, community groups and other similar bodies for periods of between 1 year and 199 years. Such arrangements have been accounted for as operating leases. The gross book values of the assets concerned amount to £56,401,640 and are subject to accumulated depreciation of £4,476,593 (Gross book value of £45,645,131 at 31 March 2011 with accumulated depreciation of £3,748,458).

**Notes to the Core Financial Statements (continued)**

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

	2010/2011	2011/2012		Total £000
	Total £000	Industrial Units £000	Other Land & Buildings £000	
Not later than one year	941	798	98	896
Later than one year and not later than five years	1,868	1,348	298	1,646
Later than five years	543	133	385	518
	<b>3,352</b>	<b>2,279</b>	<b>781</b>	<b>3,060</b>

**14. Finance Leases**

**Authority as a Lessee**

The Authority has acquired computer and other equipment under finance leases. The rentals payable under these arrangements in 2011/2012 were £356,919 (£360,046 in 2010/2011), charged to the Comprehensive Income and Expenditure Statement as £54,850 as finance costs (debited to interest payable). The write down of obligations to the lessor amounted to £302,069.

The following values of assets are held under finance leases by the Authority, which are accounted for as part of Property, Plant and Equipment at the following net amounts:

	31 March 2011 £000	31 March 2012 £000
Vehicles, Plant, Furniture & Equipment	674	696
	<b>674</b>	<b>696</b>

The Authority is committed to making payments under these finance 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 whilst the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2011 £000	31 March 2012 £000
Finance lease liabilities (net present value of minimum lease payments)		
• Current	283	320
• Non-current	510	472
Finance costs payable in future years	(119)	(96)
<b>Minimum lease payments</b>	<b>674</b>	<b>696</b>

**Notes to the Core Financial Statements (continued)**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	2010/2011 £000	2011/2012 £000	2010/2011 £000	2011/2012 £000
Not later than one year	283	320	234	280
Later than one year and not later than five years	510	510	440	416
Later than five years	0	0	0	0
	<b>793</b>	<b>830</b>	<b>674</b>	<b>696</b>

The Authority does not have any finance leases that include rentals contingent on events taking place after the lease was entered into, such as secondary rentals.

**15. Members' Allowances**

The total value of Members' Allowances payments in 2011/2012 was £1,204,480 (£1,236,902 in 2010/2011). More detailed information on Members' Allowances can be obtained from the Head of People Management, Penallta House, Tredomen Park, Ystrad Mynach, Hengoed, CF82 7PG.

**16. Officers' Emoluments**

The number of employees (excluding those employees who are listed separately overleaf) whose remuneration, excluding employer's pension contributions, was £60,000 or more in bands of £5,000, during the year ended 31 March 2012 were:

2010/2011 Remuneration Band	Number of employees			Left in year
	School based	Non-School based	Total	
£60,000 - £64,999	9	9	18	0
£65,000 - £69,999	16	5	21	1
£70,000 - £74,999	5	6	11	0
£75,000 - £79,999	4	3	7	0
£80,000 - £84,999	1	1	2	0
£85,000 - £89,999	1	0	1	0
£90,000 - £94,999	0	0	0	0
£95,000 - £99,999	1	0	1	0
	<b>37</b>	<b>24</b>	<b>61</b>	<b>1</b>

*The leaver in the year was Non-School-based*

**Caerphilly County Borough Council**

**Notes to the Core Financial Statements (continued)**

2011/2012 Remuneration Band	Number of employees		Total	Left in year
	School based	Non-School based		
£60,000 - £64,999	14	5	19	1
£65,000 - £69,999	6	4	10	0
£70,000 - £74,999	5	7	12	0
£75,000 - £79,999	4	3	7	0
£80,000 - £84,999	2	1	3	0
£85,000 - £89,999	1	0	1	0
£90,000 - £94,999	0	0	0	0
£95,000 - £99,999	0	0	0	0
£100,000 - £104,999	1	0	1	0
	<b>33</b>	<b>20</b>	<b>53</b>	<b>1</b>

*The leaver in the year was Non-School-based.*

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band £	
	2010 / 2011	2011 / 2012	2010 / 2011	2011 / 2012	2010 / 2011	2011 / 2012	2010 / 2011	2011 / 2012
£0 - £20,000	1	5	14	26	15	31	69,795	155,233
£20,001 - £40,000	0	0	5	3	5	3	142,734	87,400
£40,001 - £60,000	0	1	3	2	3	3	161,537	144,889
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	1	0	1	0	83,099
£100,001 - £150,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1</b>	<b>6</b>	<b>22</b>	<b>32</b>	<b>23</b>	<b>38</b>	<b>374,066</b>	<b>470,621</b>

**Other Departures include:**

Redundancy payments at the end of Fixed Term Contracts  
Cases passed by Pensions Committee

	2010 / 2011	2011 / 2012
Redundancy payments at the end of Fixed Term Contracts	10	17
Cases passed by Pensions Committee	12	15
	<b>22</b>	<b>32</b>

Notes to the Core Financial Statements (continued)

The Authority terminated the contracts of a number of employees in 2011/2012, incurring liabilities of £470,621 (£374,066 in 2010/2011). Of this total £83,099 was paid to an officer within Lifelong Learning and Leisure and the remaining compensation is payable to employees from Public Services, Public Protection, Corporate Finance, Housing, Lifelong Learning and Leisure, Human Resources, Learning Education and Inclusion, Policy and Performance, IT Communications and Planning and Regeneration for loss of office and enhanced pension benefits as disclosed above. £81,426 was payable to employees from Learning Education and Inclusion, Schools, Public Services, Lifelong learning and Leisure and Public Protection who were made redundant as part of the Authority's rationalisation of these services and the end of fixed term contracts.

In accordance with the Accounts and Audit (Wales) (Amendment) Regulations 2010, the following tables show the remuneration and components of remuneration for statutory chief officers and designated heads of paid service that have responsibility for the management of the Authority and have the ability to control the major activities of the Authority – particularly in relation to activities involving expenditure of money.

2010/2011			Total Remuneration excluding Employer's Pension Contributions	Employer's Pension Contributions at 21%	Total Remuneration including Employer's Pension Contributions
Post	Salary £	Expenses £	£	£	£
Chief Executive *a	103,531	572	104,103	13,823	117,926
Chief Executive *b	59,838	670	60,508	12,566	73,074
Deputy Chief Executive *c	58,627	586	59,213	12,312	71,525
Director of Corporate Services *c	50,341	625	50,966	10,572	61,538
Director of the Environment *b	51,924	737	52,661	10,904	63,565
Director of Social Services	97,631	2,387	100,018	20,502	120,520
Director of Education	97,631	1,118	98,749	20,502	119,251
S151 Officer	71,496	1,130	72,626	15,014	87,640
	591,019	7,825	598,844	116,195	715,039

\*a The Chief Executive retired on 30 September 2010. His full annualised salary was £131,645. In addition, he received Returning Officer expenses of £5,585 in respect of Parliamentary Elections, which have been excluded from the above figures as they were paid by Central Government.

\*b The Director of the Environment post was removed from the Authority's structure when the Director of the Environment took over the role of Chief Executive. The full annualised salary of the Director of the Environment was £100,682, whilst the full annualised salary of the new Chief Executive was £123,665. In addition, the new Chief Executive received Returning Officer expenses of £6,099 during the year in respect of the Welsh Referendum, which have been excluded from the above figures as they were paid by the Welsh Government.

\*c The Director of Corporate Services post was removed from the Authority's structure when the Director of Corporate Services took over the role of Deputy Chief Executive. The full annualised salary of the Director of Corporate Services was £100,682, whilst the full annualised salary of the Deputy Chief Executive was £118,840. In addition, the Deputy Chief Executive received Returning Officer expenses of £1,000 in respect of the Welsh Referendum, which have been excluded from the above figures as they were paid by the Welsh Government.

Notes to the Core Financial Statements (continued)

2011/2012			Total Remuneration excluding Employer's Pension Contributions	Employer's Pension Contributions at 21%	Total Remuneration including Employer's Pension Contributions
Post	Salary £	Expenses £	£	£	£
Chief Executive *d	123,665	1,514	125,179	24,115	149,294
Deputy Chief Executive *e	118,480	1,156	119,636	23,104	142,740
Director of Social Services	105,367	1,743	107,110	19,935	127,045
Director of Education	100,682	1,408	102,088	19,633	121,721
S151 Officer *f	71,496	1,420	72,916	13,942	86,858
	519,690	7,239	526,929	100,729	627,658

\*d The Chief Executive received Returning Officer expenses during the year to 31 March 2012 of £9,460 in respect of Welsh Government elections and £6,089 in respect of elections for the Alternative Voting System. These are excluded from the above figures as they were paid by the Welsh Government and Central Government respectively.

\*e The Deputy Chief Executive received Returning Officer expenses during the year to 31 March 2012 of £1,000 in respect of Welsh Government elections and £1,000 in respect of elections for the Alternative Voting System. These are excluded from the above figures as they were paid by the Welsh Government and Central Government respectively.

\*f The S151 Officer received Returning Officer expenses during the year to 31 March 2012 of £150 in respect of Welsh Government elections and £150 in respect of elections for the Alternative Voting System. These are excluded from the above figures as they were paid by the Welsh Government and Central Government respectively.

17. External Audit Costs

In 2011/2012 Caerphilly County Borough Council incurred the following fees relating to external audit and inspection.

	2010/2011 £000	2011/2012 £000
Fees payable to the Wales Audit Office with regard to external audit services carried out by the appointed auditor	220	229
Fees payable to the Wales Audit Office in respect of statutory inspection	155	155
Fees payable to the Wales Audit Office for the certification of grant claims and returns	73	96
Fees payable to the Wales Audit Office in respect of the National Fraud Initiative	4	0
Fees payable to the Wales Audit Office in respect of other services	23	8
	<b>475</b>	<b>488</b>

The fees paid for "other services" were for advice received from the Wales Audit Office in respect of the Authority's dealings with the Voluntary Sector.



Notes to the Core Financial Statements (continued)

18. Pooled Budgets / Lead Commissioning Arrangements

In accordance with the provisions of the National Health Service (Wales) Act 2006, and the flexibilities arrangements permitted under that legislation, the Authority is involved with Aneurin Bevan Health Board (ABHB) in respect of the following projects.

<u>Lead Commissioning Arrangements</u>	2010/2011	2011/2012			Authority's Contribution £000
	Authority's Contribution £000	Total Funding £000	Other (ABHB) Contribution £000	Other LAs/WG Contribution £000	
Cancercareline	19	31	12	0	19
Age Concern	47	152	105	0	47
Care and Repair	12	33	21	0	12
Gwent Frailty	0	10,454	3,353	4,980	2,121
	<b>78</b>	<b>10,670</b>	<b>3,491</b>	<b>4,980</b>	<b>2,199</b>

**Cancercareline** - provides support to those affected by cancer, whether patients, families or carers.

**Age Concern** - provides timely support and safe discharge from acute services for older people, back into the community.

**Care and Repair** - provides a housing advice and agency service for elderly people with physical disabilities. The project fits adaptations and aids to daily living, deals with applications for grants, loans and welfare benefits, and arranges temporary accommodation.

**Gwent Frailty Programme** – provides a range of services to avoid hospital admissions, facilitate early discharge and to help individuals remain independent.

**Pooled budgets:**

Gwent Wide Integrated Community Equipment Service Project – see Note 53 – Jointly Controlled Operations.

19. Related Party Transactions

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

*During the year, transactions with and year-end balances of related parties arose as follows:*

**Welsh Government**

Welsh Government has significant influence over the general operations of the Authority in respect of providing the statutory framework within which the Authority operates, providing the majority of funding in the form of revenue and capital grants, revenue support grant and NNDR. Further details regarding grant income received and due can be found on pages 93 and 94, whilst details of revenue support grant received and NNDR Pool transactions are summarised in Note 9.

**Precepts and Levies**

Note 7 provides details of precepts collected on behalf of other organisations and amounts levied on the Authority by Joint Committees.

**Notes to the Core Financial Statements (continued)**

**Members**

Members of the council have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2011/2012 is shown in Note 15. During the year all "declaration of interest" returns were received showing that there were no other material related party transactions identified involving these individuals.

**Chief Officers**

Details of chief officers emoluments are provided in Note 16. Again, all "declaration of interest" returns were received from directors which did not identify any other material related party transactions.

**Other Public Bodies (subject to common control by central government)**

The Authority has pooled budget arrangements with the Aneurin Bevan Health Board in respect of the Gwent Frailty Project. Details can be found in Note 18.

**Pension Contributions**

Employer's contributions are made to the Teachers' Pension Agency and the Greater Gwent (Torfaen) Pension Fund in respect of the Authority's employees. Further details of amounts involved are shown on pages 64 to 71.

**Other Entities Controlled or Significantly Influenced by the Authority:**

**Groundwork Trust Caerphilly**

The Authority is represented on the Board of the Trust. During the course of 2011/2012, the Authority made payments to the Trust of £729,507 (£675,492 in 2010/2011) and received income from the Trust of £734,877 (£80,719 in 2010/2011). At the year-end, the Authority owed £5,150 to Groundwork (£11,000 at 31 March 2011) whilst nothing was owed from Groundwork to the Authority (£480 at 31 March 2011).

**Education Support and Inspection Service (ESIS)**

ESIS is a Joint Committee providing advisory and inspection services to the Local Education Authority and its schools. The Authority provides the administrative support to the Joint Committee, and funds its activities in conjunction with Bridgend, Merthyr Tydfil and Rhondda Cynon Taff County Borough Councils. At 31 March 2012, £1,569,908 was held on behalf of ESIS in the Authority's bank account (£1,465,369 at 31 March 2011). During the course of 2011/2012, the Authority made payments to the Joint Committee of £1,362,122 (£1,284,149 in 2010/2011) and received payments from the Joint Committee of £21,961 (£2,840 in 2010/2011), whilst as at 31 March 2012 balances of some £139 were due from the Authority to ESIS (£234 at 31 March 2011).

**Aneurin Bevan Health Board**

The Authority is represented on the Board of this organisation. During the course of 2011/2012, the Authority made payments to the Board of some £3,286,521 (£1,248,105 in 2010/2011) and received income of £5,028,139 from the Board (Including Section 28a grant income of £3,069,828 ) (£4,961,868 and £2,859,159 respectively in 2010/2011) and NNDR income of £809,300, was collected from the Board (£764,133 in 2010/2011). At 31 March 2012, £1,678,965 was due from the Authority to the Health Board (£395,718 at 31 March 2011) and £350,603 was due from the Health Board to the Authority (£367,802 at 31 March 2011).

**Notes to the Core Financial Statements (continued)**

**20. Minimum Revenue Provision (MRP) Adjustment**

The Local Government Act 2003 requires the Authority to set aside a Minimum Revenue Provision for the redemption of debt in line with the regulations set out in the Local Authorities (Capital and Finance and Accounting) (Wales) Regulations 2003, as amended.

With effect from 2007/08, the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 revised the basis of charge in respect of Council Fund borrowing. The Regulations provide for a range of options as the basis of charge for MRP, within which authorities are permitted to adopt those most appropriate to their circumstances. However, in doing so, authorities must also take account of the requirement of the Regulations that MRP must be calculated in a prudent manner, ensuring that debt is charged to revenue over a period reasonably commensurate with that over which capital assets, to which the borrowing relates, provides benefit.

For Supported Borrowing (i.e. where provision for the associated capital financing costs is included in the revenue support grant settlement received from the Welsh Government), MRP has been calculated at 4% of the non-housing Capital Financing Requirement (CFR) balance at the commencement of the financial year and 2% for the HRA CFR balance. In doing so, MRP on any particular borrowing commences to be charged the year following that in which the borrowing has been incurred.

For Unsupported Borrowing (i.e. borrowing permitted in accordance with the Prudential Code for Capital Finance in Local Authorities, but for which no provision is made in the revenue settlement), MRP has been calculated on the basis of equal instalments over the life of the asset for which the borrowing has been undertaken. In these circumstances, the MRP commences to be charged from the year following that in which the asset to which the borrowing relates becomes operational.

Actual provisions made during each year match the calculated amounts.

The amount shown in the note of reconciling items for the Movement in Reserves Statement as "Minimum revenue provision for capital financing" represents the accounting entry necessary to ensure that there is no overall increase or decrease in the Council Tax arising from depreciation charges, impairment losses or amortisations.

Notes to the Core Financial Statements (continued)

21. Movements on Reserves

Movements in the Authority's Usable Reserves are detailed below, in the Movement in Reserves Statement and also in Notes 41 - 47, whilst details of the movements in Unusable Reserves are shown below and in Notes 34 - 39. Some reserves are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans.

Usable Reserves

Reserve	Balance 1 April 2010 £000	Net Movement in year £000	Balance 31 March 2011 £000	Net Movement in year £000	Balance 31 March 2012 £000
Council Fund	(12,984)	(3,638)	(16,622)	3,814	(12,808)
Housing Revenue Account (note 8 HRA)	(6,062)	294	(5,768)	1,088	(4,680)
Direct Service Earmarked Reserves (note 41)	(1,511)	905	(606)	345	(261)
Capital Earmarked Reserves (note 42)	(3,817)	(9,198)	(13,015)	(5,568)	(18,583)
Service Over/Underspend Reserves (note 43)	(4,333)	(1,226)	(5,559)	(458)	(6,017)
Schools Earmarked Reserves (note 45)	(6,840)	38	(6,802)	2,551	(4,251)
Insurance Earmarked Reserves (note 44)	(2,785)	(181)	(2,966)	(2,048)	(5,014)
Other Earmarked Reserves (note 47)	(15,736)	(1,362)	(17,098)	(3,289)	(20,387)
Usable Capital Receipts	(2,603)	(5,361)	(7,964)	(1,341)	(9,305)
Capital Grants Unapplied	(8,802)	(628)	(9,430)	(323)	(9,753)
<b>Total Usable Reserves</b>	<b>(65,473)</b>	<b>(20,357)</b>	<b>(85,830)</b>	<b>(5,229)</b>	<b>(91,059)</b>

Notes to the Core Financial Statements (continued)

Unusable Reserves

2010/2011	Restated Balance 1 April 2010 £000	Restated Net Movement in year £000	Restated Balance 31 March 2011 £000	Purpose of Reserve	Further details of movements
Financial Instruments Adjustment Account	(2,256)	274	(1,982)	Amounts required by statute to be set aside in respect of discounts and premia on the rescheduling of the Authority's debts.	Note 34
Revaluation Reserve	(340,324)	(20,129)	(360,453)	Store of gains on revaluation of fixed assets not yet realised through sales.	Note 35
Capital Adjustment Account (CAA)	(474,445)	35,738	(438,707)	Store of capital resources set aside to meet past expenditure	Note 36
Deferred Capital Receipts	(145)	83	(62)	Proceeds to be received over future accounting periods arising principally from the sale of council dwellings	Note 37
Pensions Reserve	310,553	(77,777)	232,776	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 38
Accumulated Absences Account	5,218	22	5,240	Account to absorb differences arising on the Council Fund balance from accruing for compensated absences earned but not taken in the year.	Note 39
<b>Total Unusable Reserves</b>	<b>(501,399)</b>	<b>(61,789)</b>	<b>(563,188)</b>		

Details of the restatement to the comparative figures are set out in Note 54.

Notes to the Core Financial Statements (continued)

<u>2011/2012</u>	<u>Restated Balance 1 April 2011 £000</u>	<u>Net Movement in year £000</u>	<u>Balance 31 March 2012 £000</u>	<u>Purpose of Reserve</u>	<u>Further details of movements</u>
Financial Instruments Adjustment Account	(1,982)	273	(1,709)	Amounts required by statute to be set aside in respect of discounts and premia on the rescheduling of the Authority's debts.	Note 34
Revaluation Reserve	(360,453)	(803)	(361,256)	Store of gains on revaluation of fixed assets not yet realised through sales.	Note 35
Capital Adjustment Account (CAA)	(438,707)	52,210	(386,497)	Store of capital resources set aside to meet past expenditure	Note 36
Deferred Capital Receipts	(62)	17	(45)	Proceeds to be received over future accounting periods arising principally from the sale of council dwellings	Note 37
Pensions Reserve	232,776	53,507	286,283	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 38
Accumulated Absences Account	5,240	(11)	5,229	Account to absorb differences arising on the Council Fund balance from accruing for compensated absences earned but not taken in the year.	Note 39
<b>Total Unusable Reserves</b>	<b>(563,188)</b>	<b>105,193</b>	<b>(457,995)</b>		

Details of the restatement to the comparative figures are set out in Note 54.

Notes to the Core Financial Statements (continued)

22. Property, Plant and Equipment

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
Restated	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation:</b>									
At 1 April 2010	104,335	808,195	27,385	229,487	1,172	8,232	46,154	1,224,960	79,745
Additions	9,684	9,440	3,521	5,468	0	0	10,336	38,449	
Revaluation									
Increases/(decreases) to Revaluation Reserve	0	(43,846)	244	(9,030)	432	17,407	0	(34,793)	0
Derecognitions - Disposals	0	(390)	0	0	0	0	0	(390)	0
Impairments	(33,411)	0	0	0	0	0	0	(33,411)	0
Other movements in cost or valuations	0	7,547	0	248	0	0	(7,795)	0	0
<b>At 31 March 2011</b>	<b>80,608</b>	<b>780,946</b>	<b>31,150</b>	<b>226,173</b>	<b>1,604</b>	<b>25,639</b>	<b>48,695</b>	<b>1,194,815</b>	<b>79,745</b>
<b>Accumulated Depreciation and impairment:</b>									
At 1 April 2010	0	(58,565)	(18,877)	(46,681)	(7)	(4)	0	(124,134)	(9,104)
Depreciation Charge	(2,981)	(24,267)	(2,611)	(8,326)	0	(4)	0	(38,189)	(710)
Depreciation written out to Surplus / Deficit on the Provision of Services	2,981	4	0	0	0	0	0	2,985	0
Impairment losses / reversals to Revaluation Reserve	0	46,180	(207)	157	0	8	0	46,138	0
<b>At 31 March 2011</b>	<b>0</b>	<b>(36,648)</b>	<b>(21,695)</b>	<b>(54,850)</b>	<b>(7)</b>	<b>0</b>	<b>0</b>	<b>(113,200)</b>	<b>(9,814)</b>
<b>Net Book Value at 31 March 2011</b>	<b>80,608</b>	<b>744,298</b>	<b>9,455</b>	<b>171,323</b>	<b>1,597</b>	<b>25,639</b>	<b>48,695</b>	<b>1,081,615</b>	<b>69,931</b>
Net Book Value at 31 March 2010	104,335	749,630	8,508	182,806	1,165	8,228	46,154	1,100,826	70,641

Details of the restatement to the comparative figures are set out in Note 54.

**Caerphilly County Borough Council**

**Notes to the Core Financial Statements (continued)**

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets Included in Property, Plant & Equipment £000
<b>Cost or valuation:</b>									
At 1 April 2011	80,608	780,946	31,150	226,173	1,604	25,639	48,695	1,194,815	79,745
Additions	8,090	17,764	1,893	5,405	0	0	10,701	43,853	388
Revaluation									
Increases/(decreases) to Surplus/Deficit on Provision of Services	0	(22,019)	742	91	665	4,292	0	(16,229)	(3,760)
Derecognitions -									
Disposals	(50)	(3,309)	0	0	0	(90)	0	(3,449)	0
Impairments	(31,451)	(47,418)	0	0	(14)	(4,495)	0	(83,378)	0
Other movements in cost or valuations	0	9,128	0	37,266	0	0	(46,394)	0	(388)
<b>At 31 March 2012</b>	<b>57,197</b>	<b>735,092</b>	<b>33,785</b>	<b>268,935</b>	<b>2,255</b>	<b>25,346</b>	<b>13,002</b>	<b>1,135,612</b>	<b>75,985</b>
<b>Accumulated Depreciation and impairment:</b>									
At 1 April 2011	0	(36,648)	(21,695)	(54,850)	(7)	0	0	(113,200)	(9,814)
Depreciation Charge	(2,371)	(21,088)	(2,531)	(8,496)	(6)	0	0	(34,492)	(1,831)
Depreciation written out to Surplus / Deficit on the Provision of Services	2,371	8,793	0	0	0	0	0	11,164	0
Impairment losses / reversals to Revaluation Reserve	0	27,210	14	0	6	0	0	27,230	0
Derecognitions -									
Disposals	0	508	0	0	0	0	0	508	0
<b>At 31 March 2012</b>	<b>0</b>	<b>(21,225)</b>	<b>(24,212)</b>	<b>(63,346)</b>	<b>(7)</b>	<b>0</b>	<b>0</b>	<b>(108,790)</b>	<b>(11,645)</b>
<b>Net Book Value at 31 March 2012</b>	<b>57,197</b>	<b>713,867</b>	<b>9,573</b>	<b>205,589</b>	<b>2,248</b>	<b>25,346</b>	<b>13,002</b>	<b>1,026,822</b>	<b>64,340</b>

**Assets under Construction**

Assets under construction is analysed as follows:

	31 March 2011	31 March 2012
Highway Infrastructure	£37.332m	£10.907m
Primary Schools	£6.877m	£1.820m
Secondary Schools	nil	£0.275m
Land formation for economic development	£4.486m	nil
	<b>£48.695m</b>	<b>£13.002m</b>



Notes to the Core Financial Statements (continued)

Assets due for closure

As at 31 March 2012, the Authority had taken the decision to close the following assets, which have a combined net book value of £683,548:

- Trigfan Area Housing Office
- Rhymney Direct Care Centre
- Oaklands Day Centre
- Risca Cash Office
- Aberbargoed Library

Capital Commitments

At 31 March 2012, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/2012 and subsequent years budgeted to cost £27.274m. Similar commitments at 31 March 2011 were £18.834m. The major commitments are:

		2010/2011 £000	2011/2012 £000
<b>Highways and Transportation:</b>	Bargoed Retail Plateau	163	0
	Bargoed By Pass	1,624	759
	Ystrad Fawr Highway Improvements	8,504	2,534
	South East Wales Transport Alliance	2,344	1,986
	St Cenydd Safe Routes to Schools	962	0
	Blackwood Comprehensive SRTS	0	240
	Sirhowy Enterprise Way	820	640
	Regional Transport Consortia	710	270
<b>Education:</b>	St James Primary School	500	200
	Aberbargoed Primary School	150	0
	Cwm lfor Primary School	3,057	1,627
	Hendre Infants School	0	400
	Rhiw Syr Dafydd Primary School	0	150
	Ysgol lfor Bach	0	230
	Pantside Primary School	0	100
	St Martins Comprehensive School	0	125
	St Cenydd Comprehensive School	0	100
St llans Comprehensive School	0	4,000	
<b>Urban Renewal:</b>	Bargoed Retail Plateau	0	3,172
	Newbridge Regeneration	0	6,792
	Bargoed Regeneration	0	3,493
<b>Economic Development:</b>	Cwmcarn	0	456
		<b>18,834</b>	<b>27,274</b>

Revaluations

The Authority carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Assets included in the Balance Sheet at fair value at 31 March 2012 have also been revalued in the current year to ensure that their carrying amount is not materially different from their fair value at the year end. 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. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or the latest list prices adjusted for the condition of the asset.

Notes to the Core Financial Statements (continued)

23. Heritage Assets

<u>Reconciliation of the carrying Value of Heritage Assets held by the Authority</u>	Other Land and Buildings £000	Civic Regalia £000	Total Heritage Assets £000
<b>Cost or Valuation</b>			
1 April 2010	9,496	67	9,563
Revaluations	117	0	117
<b>31 March 2011</b>	<b>9,613</b>	<b>67</b>	<b>9,680</b>
<b>Cost or Valuation</b>			
1 April 2011	9,613	67	9,680
Disposals	(180)	0	(180)
Revaluations	446	150	596
Impairment Losses/(reversals) recognised in the Revaluation Reserve	(1,416)	0	(1,416)
<b>31 March 2012</b>	<b>8,463</b>	<b>217</b>	<b>8,680</b>

The Authority has not provided a five year summary of transactions in respect of Heritage Assets as it is not practicable to do so.

**Other Land and Buildings**

The collection of Heritage Assets includes a semi fortified manor house, mining museum, ancient chapel and a handball court. An iron industry museum was previously included, but was sold in October 2011. Details of valuations, additions and disposals of Land and Buildings Heritage Assets are recorded on the Authority's Fixed Asset Register, whilst details of Civic Regalia is kept on a separate register by the Mayors assistant. Members of the public can gain access to the museums and other buildings on a daily basis.

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. The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage 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 note 1 - summary of significant accounting policies. The trustees of the Authority's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see note 1 - summary of significant accounting policies).

**Babell Chapel**

This asset is a small Welsh Calvinistic Methodist Chapel built in 1827 and houses the grave of the 19<sup>th</sup> Century Welsh Language poet, Islwyn. The asset was valued at 31 March 2012 using the existing use value. The Internal Valuers carried out this valuation.

**Notes to the Core Financial Statements (continued)**

**Drenewydd Iron Industry Museum**

This asset, in Butetown, Rhymney is a Grade II listed property built in the 1830s. It offered visitors a glimpse of what it would have been like to live in a 19<sup>th</sup> Century "Ironworking Household". The Authority sold the asset in October 2011.

**Elliot Colliery Winding House**

This asset is an historical mining museum. It was valued at 31 March 2012 using depreciated replacement cost. The additions during the year related to remedial works. The Authority's Museum also holds a collection of historical items which are not recognised on the Balance Sheet as cost information is not readily available and the Authority believes that the benefits of obtaining the valuation for these items would not justify the cost. Nearly all the items in the collection are believed to have a value of less than £50 and as far as the Authority is aware no individual item is worth more than £500.

**Llancaiach Fawr**

Llancaiach Fawr is a fortified Manor House. This was valued at 31 March 2012 using existing use value. The Manor House also holds a small collection of items which are not recognised on the Balance Sheet as cost information is not readily available and the Authority believes that the benefits of obtaining the valuation for these items would not justify the cost. Nearly all the items in the collection are believed to have a value of less than £50 and as far as the Authority is aware no individual item is worth more than £500.

**Handball Court, Nelson**

This is a traditional Handball Court that is the last remaining in Wales. This has been valued on a depreciated replacement cost basis.

**Civic Regalia**

The Authority has a collection of civic chains relating to Caerphilly County Borough Council and a number of former authorities. These chains were valued by Thomas Fattorini Limited, a firm of specialist jewellers, in 1999 at £66,848. The collection was valued by Thomas Fattorini Limited in 2012 at £216,550.

The Authority also holds a number of Civic gifts. It is considered that none of these gifts are of significant value warranting disclosure within the Authority's accounts and recognised upon the balance sheet.

**24. Heritage Assets: Change in Accounting Policy**

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our summary of accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

**Heritage Assets**

For 2011/2012 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as Land and Buildings in the Property, Plant and Equipment classification in the Balance Sheet. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the summary of accounting policies (note 1).

In applying the new accounting policy, the Authority has identified that the assets that were previously held as land and buildings within property, plant and equipment at £9.563m, should now be recognised as heritage assets and measured at £8.463m Net Book Value in respect of Land and Buildings and £217k Net Book Value in respect of Civic Regalia. Details of movements are shown in Note 23 above whilst details of prior year adjustments are shown in Note 54.

Notes to the Core Financial Statements (continued)

25. Capital Expenditure and Capital Financing

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

	31 March	
	Restated	
	2011 £000	2012 £000
Opening Capital Financing Requirement	295,435	292,133
<b>Capital Investment:</b>		
Operational Assets	38,424	43,854
Invest to Save	219	2,320
Intangible Assets	345	362
Revenue Expenditure funded from Capital Under Statute	10,478	6,256
<b>Sources of Finance:</b>		
Grants and other contributions	(35,592)	(31,488)
Capital Expenditure Funded from Revenue	(5,940)	(14,259)
Capital Receipts Set Aside	(641)	(523)
Minimum Revenue Provision	(11,017)	(10,976)
Commutation Adjustment	422	457
<b>Closing Capital Financing Requirement</b>	<b>292,133</b>	<b>288,136</b>

Details of the restatement to the comparative figures are set out in Note 54.

Notes to the Core Financial Statements (continued)

26. Long Term Debtors

	31 March 2011 £000	31 March 2012 £000
Car Loans	216	169
Housing - Right to Buy	46	31
Housing Advances	88	74
Transferred Debt - Former Authorities	174	120
Other	24	15
	<u>548</u>	<u>409</u>

27. Inventories

	<u>Consumable Stores</u>		<u>Maintenance Materials</u>		<u>Client Services Work in Progress</u>		<u>Total</u>	
	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000
Balance held at start of year	271	305	573	549	54	94	898	948
Purchases	3,868	3,948	2,107	2,044	87	67	6,062	6,059
Recognised as an expense in the year	(3,831)	(3,965)	(2,122)	(2,023)	(47)	(85)	(6,000)	(6,073)
Written off balances	(3)	(1)	(9)	0	0	0	(12)	(1)
Reversals of write-offs in previous years	0	0	0	0	0	0	0	0
Balance held at end of year	<u>305</u>	<u>287</u>	<u>549</u>	<u>570</u>	<u>94</u>	<u>76</u>	<u>948</u>	<u>933</u>

**Caerphilly County Borough Council**

**Notes to the Core Financial Statements (continued)**

**28. Debtors**

	31 March 2011			31 March 2012		
	Gross £000	Provision £000	Net £000	Gross £000	Provision £000	Net £000
<b>Debtors</b>						
Central Government Bodies	15,815	0	15,815	26,139	0	26,139
Other Local Authorities	2,539	0	2,539	2,451	0	2,451
NHS Bodies	314	0	314	362	0	362
Other Entities and Individuals	16,717	(4,069)	12,648	16,747	(4,333)	12,414
	<b>35,385</b>	<b>(4,069)</b>	<b>31,316</b>	<b>45,699</b>	<b>(4,333)</b>	<b>41,366</b>

*Debtors can be further analysed as follows:*

	31 March 2011			31 March 2012		
	Gross £000	Provision £000	Net £000	Gross £000	Provision £000	Net £000
<b>Trade Customers:</b>						
Council tenants	1,204	(696)	508	1,196	(918)	278
Reserved debtors	3,382	(274)	3,108	3,688	(170)	3,518
Sundry debtors	6,784	(575)	6,209	6,481	(567)	5,914
Tax Payers - Council Tax	4,336	(1,471)	2,865	4,048	(1,415)	2,633
Housing Benefit Sundry Debtors	1,435	(1,053)	382	1,592	(1,263)	329
<b>Receivables from Related Parties:</b>						
Grants	3,082	0	3,082	9,243	0	9,243
Other Local Authorities	2,539	0	2,539	2,451	0	2,451
Other Public Bodies	9,364	0	9,364	10,579	0	10,579
<b>Prepayments:</b>	751	0	751	1,189	0	1,189
<b>Other Amounts:</b>						
HM Revenue & Customs - Tax	87	0	87	92	0	92
HM Revenue & Customs - VAT	2,235	0	2,235	4,994	0	4,994
Car Loans	162	0	162	122	0	122
Housing Advances	8	0	8	9	0	9
Housing Right to Buy	16	0	16	15	0	15
	<b>35,385</b>	<b>(4,069)</b>	<b>31,316</b>	<b>45,699</b>	<b>(4,333)</b>	<b>41,366</b>

Notes to the Core Financial Statements (continued)

Central Government Bodies include Government Grants Debtors, which comprise:	31 March 2011 £000	31 March 2012 £000
Education Support Grants	721	187
Laptops for Schools Grant	19	0
Foundation Phase Grant	0	4,881
School Effectiveness Grant	0	1,568
Basic Skills Grant	266	64
School Milk Subsidy	131	119
Primary School Free Breakfast Initiative	277	286
Sports Development Grant	11	0
A4L Grant	0	75
Domestic Violence Grant	0	14
Community Safety / Crime Reduction	34	0
Substance Misuse Grant	534	927
European Regional Development Fund	24	24
Local Regeneration Fund	54	79
European Social Fund	636	996
Town Centre and Environmental Grants	171	23
Invasive Species Grant	100	0
Department for Economy & Transport	8	0
Fairer Charging Grant - Social Services	23	0
Housing Subsidy Grant	73	0
	<b>3,082</b>	<b>9,243</b>

29. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

	31 March 2011 £000	31 March 2012 £000
Cash in hand	92	89
Cash at Bank	6,186	5,753
Bank overdraft	(1,235)	(106)
<b>Total cash and cash equivalents</b>	<b>5,043</b>	<b>5,736</b>

Notes to the Core Financial Statements (continued)

30. Creditors

Creditors	31 March	31 March
	2011	2012
	£000	£000
Central Government Bodies	(5,837)	(5,319)
Other Local Authorities	(6,604)	(5,226)
Bodies External to Central Government	(1,745)	(4,282)
NHS Bodies	(867)	(1,612)
Public Corporations and Trading Funds	(176)	(9)
Other Entities and Individuals	(48,928)	(44,168)
<b>Total Creditors excluding loans</b>	<b>(64,157)</b>	<b>(60,616)</b>
Loans repayable within one year	(2,116)	(470)
Local bonds repayable within one year	(10)	(10)
<b>Total Creditors</b>	<b>(66,283)</b>	<b>(61,096)</b>

Central Government Bodies include Government Grant Creditors comprising:	31 March	31 March
	2011	2012
	£000	£000
Housing Subsidies	(111)	(24)
Basic Skills Agency	(110)	(103)
Assembly Learning Grant - Student Awards	(138)	(135)
Early Years Development	(73)	(73)
Behaviour Management Training	(15)	(19)
Autistic Spectrum Disorder	(60)	(60)
School Based Counselling	(216)	(151)
School Effectiveness	(25)	0
School Special Grant	(8)	(8)
School Meals Subsidy	(27)	(27)
RAISE Grant	(96)	(95)
Community Focus Grant	(14)	(14)
Learning and Play Grant	(25)	(29)
Post 16 year olds	(223)	(51)
Foundation Phase Pilot	(28)	(28)
Student Awards	(238)	(238)
Cymorth	(20)	0
Specialist Equipment for Learners Grant	(10)	(10)
Social Services Joint Working Grant	(13)	0
Social Services Court Fees Grant	(34)	(34)
Social Services Short Breaks Grant	(34)	(34)
Social Services IT Consortium Grant	(6)	0
Independence & Wellbeing Grant	(18)	0
Special Educational Needs Grants	0	(51)
Other	(21)	(19)
	<b>(1,563)</b>	<b>(1,203)</b>

Included in "Other Local Authorities" is £4,556 due to Isle of Anglesey County Council in respect of the dissolution of the former Residuary Body for Wales. This body formerly existed to realise the value of certain local authority assets following local government reorganisation in 1996. The balance will be paid out within the next financial year, all other balances having been distributed in accordance with an agreed basis of allocation, to the other Welsh local authorities.



Notes to the Core Financial Statements (continued)

31. Movements in Provisions

<u>Short Term Provisions</u>	Social Services Provision £000	Corporate Provision £000	Insurance Provision £000	Total £000
Balance at 1 April 2011	(584)	(304)	(1,297)	(2,185)
Transfer to/from long term provisions in 2011/2012	17	0	(162)	(145)
Additional provisions made in 2011/2012	0	(300)	(316)	(616)
Amounts used in 2011/2012	10	0	216	226
Unused amounts reversed in 2011/2012	26	304	386	716
<b>Balance at 31 March 2012</b>	<b>(531)</b>	<b>(300)</b>	<b>(1,173)</b>	<b>(2,004)</b>

<u>Long Term Provisions</u>	Social Services Provision £000	Corporate Provision £000	Insurance Provision £000	Total £000
Balance at 1 April 2011	(103)	(4,794)	(3,892)	(8,789)
Additional provisions made in 2011/2012	0	(271)	(947)	(1,218)
Unused amounts reversed in 2011/2012	42	0	1,158	1,200
Transfer to short term provisions/creditors in 2011/2012	(17)	0	162	145
<b>Balance at 31 March 2012</b>	<b>(78)</b>	<b>(5,065)</b>	<b>(3,519)</b>	<b>(8,662)</b>

**Insurance provision** - exists to cover assessed outstanding self-insured liabilities in respect of existing claims. A separate insurance earmarked reserve also exists, to meet potential insurance liabilities, as detailed on page 104. The provision is released annually as required to cover insurance liability claims.

**Corporate provision** – exists to cover the Authority's potential liabilities in respect of Equal Pay and Job Evaluation back pay settlements. It is anticipated that these liabilities will be settled in future years. Part of the provision also relates to the former Mid Glamorgan County Council as outlined in Note 32. Any release is subject to finalisation of the outstanding liabilities by the lead authority, Rhondda Cynon Taf County Borough Council.

The Authority made a decision to withdraw from the ESIS Consortium with effect from 31 August 2012. The Authority has made provision within the accounts for its contribution to the anticipated lease rental liability until 30 June 2014, together with any future dilapidations costs arising once the building is vacated in 2014.

Included within the short term Corporate Provision is a provision in respect of the Carbon Reduction Commitment (CRC). The 2011/2012 financial year is the first for which there is an obligation to purchase and surrender CRC allowances for carbon dioxide emissions. A provision of £238,748 has been set up to ensure that costs are recognised in the year in which the energy has been used.

**Social Services provision** – includes provision for S117 Mental Health Act 1983 liabilities in relation to mental health service clients charged in error. At this time, the Authority is unable to anticipate the likely date of release for this provision, as any release is reliant upon clients submitting claims. The short-term element of the provision relates to re-instatement work at the former Hawtin Park offices.

**Notes to the Core Financial Statements (continued)**

**32. Contingent Liabilities**

**Former Authorities**

As explained on page 7, the previously outstanding disaggregation position in respect of the former Mid Glamorgan County Council has now been resolved and an agreed rate of contribution has been agreed between each of the successor Authorities.

The Authority has a potential liability of £0.120m in respect of schemes undertaken by the former Mid Glamorgan County Council. The Authority made provision for £0.043m in respect of settled schemes in its 2011/2012 accounts. The settlements of such liabilities remain pending. Any currently unknown liabilities that may subsequently arise, due to the action of the former Rhymney Valley District Council and Islwyn Borough Council, as well as the Mid Glamorgan and Gwent County Councils, may also have to be met by the Authority, either in whole or in part.

**Equal Pay**

The Authority had received a large number of equal pay claims. The Authority made offers to various individuals in settlement of the potential equal pay liability in the financial year 2010/2011. The offers were accepted in the majority of cases, which has reduced any potential equal pay liability for future years. It is impossible to quantify what, if any, the potential equal pay liability is likely to be in future years. It is anticipated that the remaining provision represents a prudent approach based on information available to date.

As a result of retrospective legislation, compensation payments made since 1 April 2008 could now be classified as pensionable. Having taken independent legal advice the Authority does not believe that there will be any further pension liability. Consequently, given the uncertainty, the Authority has not made a provision in respect of pension contributions for compensation payments. Our estimate of the level of pension contribution is approximately £3.05m.

**Landfill Allowance Scheme (Wales)**

As a result of legislative changes in the Landfill Allowance Scheme (Wales), the Authority may be liable for penalties in respect of the scheme. The exact liability is not quantifiable at present.

**Municipal Mutual Insurance Limited (MMI)**

During 1992/93 Municipal Mutual Insurance Ltd, the insurers of both Rhymney Valley District Council and Islwyn Borough Council ceased accepting new business. As a result the Council may have to meet any unsettled claims formerly covered by MMI. The maximum potential liability, which the Council could face, is £3.171m. However both former councils entered into a Scheme of Arrangement through which all outstanding claims should be settled.

The Supreme Court in the employers Liability Policy Trigger Litigation relating to mesothelioma claims handed down a judgement on the 28 March 2012. The Supreme Court found against the company. The judges ruled that the insurer who was on the risk at the time of the employee's exposure to asbestos was liable to pay compensation for the employee's mesothelioma. The judgement has significant implications not only for the Company and its members but also for the scheme creditors who are party to the contingent Scheme of Arrangement. The MMI Board of Directors is now seeking legal, financial and actuarial advice from its professional advisors in order to determine the full implications of the judgement and the most appropriate way forward for the Company. There is currently no indication that this judgement will trigger the Scheme of Arrangement.

The Authority has therefore treated this potential liability as a contingent liability.

Notes to the Core Financial Statements (continued)

33. Other Funds

The Authority holds a number of accounts on a trustee basis, on behalf of clients, which are not consolidated in the balance sheet.

The total value of these accounts as at 31st March 2012 was:

£162,761 - relating to Education Trust Funds that are administered by the Head of Corporate Finance, (£161,657 in 2010/2011). The Education trust funds are held to provide prizes and awards to pupils in the Authority's schools. Of these funds, £172 is vested in shareholdings and £162,589 is held in bank deposits (£2,772 and £158,885 respectively in 2010/2011). There are no other underlying assets or liabilities. The Trust Funds received £1,250 in dividends and interest on the funds during the year (£1,259 in 2010/2011) and incurred expenditure of £150 (£100 in 2010/2011).

In addition, the Director of Social Services administers funds on behalf of clients in residential homes. These accounts do not have official trustee status. The total value of these accounts as at 31 March 2012 was £3,649,256 (£3,319,356 as at 31 March 2011).

34. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account is required to balance the differences between gains and losses such as discounts or premia on the early repayment of debt recognised under the Code requirements and those that are required to be met under statute from the Council Fund or Housing Revenue Account. The balance is reduced to nil over the life of the loans.

	2010/2011 £000	2011/2012 £000
Balance as at 1 April	(2,256)	(1,982)
Discounts on early repayment of loans	0	0
Amortised to revenue in the year	284	283
Effective interest rate adjustment	(10)	(10)
<b>Balance at 31 March</b>	<b>(1,982)</b>	<b>(1,709)</b>

Notes to the Core Financial Statements (continued)

35. Revaluation Reserve

The Revaluation Reserve replaced the Fixed Asset Restatement Account (FARA) on 1 April 2007 and was included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2012 therefore only shows revaluation gains accumulated since 1 April 2007.

	Restated	2011/2012	
	2010/2011	£000	£000
	£000	£000	£000
Balance as at 1 April	(340,324)		(360,453)
Downward revaluation of assets and impairment losses not charged to the Surplus and Deficit on the Provision of Services	478	22,794	
Surplus on Revaluation of Assets	(28,741)	(38,497)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(28,263)		(15,703)
Difference between fair value depreciation and historical cost depreciation	7,965	9,503	
Accumulated gains on assets sold or scrapped	169	5,397	
Amount written off to the Capital Adjustment Account	8,134		14,900
<b>Balance as at 31 March</b>	<b>(360,453)</b>		<b>(361,256)</b>

Details of the restatement to the comparative figures are set out in Note 54.

**Notes to the Core Financial Statements (continued)**

**36. Capital Adjustment Account**

The Capital Adjustment Account was implemented on 1 April 2007 from the closing balances on both the FARA and the Capital Financing Account, (as mentioned in note 35 above). The account contains the amounts that are required by statute to be set aside from capital receipts for the repayment of external loans, the amount of revenue and capital receipts used to finance capital expenditure and compensatory adjustments from the above-mentioned Revaluation Reserve to convert current value depreciation/impairment loss debits to historical cost.

	Restated		2011/2012	
	2010/2011	2011/2012	£000	£000
	£000	£000	£000	£000
<b>Balance as at 1 April</b>		<b>(474,445)</b>		<b>(438,707)</b>
Set Aside - Capital Receipts		(578)		(511)
Set Aside - Deferred Capital Receipts		(63)		(12)
<b>Funding:</b>				
Revenue funding applied	(5,940)		(14,259)	
Capital grants and contributions applied	(26,838)		(26,433)	
<b>Total Funding</b>		<b>(32,778)</b>		<b>(40,692)</b>
MRP	(11,017)		(10,976)	
Commutation Adjustment	422		457	
		(10,595)		(10,519)
<b>Depreciation:</b>				
In year charge	38,189		34,492	
Attributable to revaluations	(7,965)		(9,503)	
Written back on revaluations	(49,442)		(38,362)	
Written back on disposals	(4)		(508)	
		(19,222)		(13,881)
Amortisation of non-enhancing expenditure		15,388		11,189
<b>Asset Revaluations / Impairments:</b>				
Price adjustments	81,079		100,803	
		81,079		100,803
Disposals - Council Fund	221		1,900	
Disposals - HRA	0		50	
		221		1,950
Revenue Expenditure funded from Capital	10,478		6,256	
Funding of revenue expenditure funded from capital	(8,755)		(5,055)	
		1,723		1,201
Invest to save		219		2,320
Amortisation of Intangible Assets		345		362
<b>Total capital costs</b>		<b>69,157</b>		<b>93,425</b>
<b>Balance as at 31 March</b>		<b><u>(438,707)</u></b>		<b><u>(386,497)</u></b>

Details of the restatement to the comparative figures are set out in Note 54.

Notes to the Core Financial Statements (continued)

37. Deferred Capital Receipts

Deferred capital receipts are amounts derived from the sale of assets, which will be received in instalments over agreed periods of time. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve. Such receipts arise principally from mortgages on the sale of council houses, which form the main part of housing right to buy/advances under long-term debtors (note 26, page 92 and note 40 below).

	2010/2011 £000	2011/2012 £000
<b>Balance at 1 April</b>	(145)	(62)
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
Transfer to the Capital Receipts Reserve upon receipt of cash	83	17
<b>Balance at 31 March</b>	<b>(62)</b>	<b>(45)</b>

38. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2010/2011 £000	2011/2012 £000
<b>Balance as at 1 April</b>	310,553	232,776
Actuarial gains or losses on pensions assets and liabilities	(46,668)	51,346
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	(7,045)	25,286
Employer's pension contributions and direct payments to pensioners payable in the year	(24,064)	(23,125)
<b>Balance at 31 March</b>	<b>232,776</b>	<b>286,283</b>

Notes to the Core Financial Statements (continued)

39. Accumulated Absences Account

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

	2010/2011 £000	2011/2012 £000	£000
Balance at 1 April	5,218		5,240
Settlement or cancellation of accrual made at the end of the preceding year	(5,218)	(5,240)	
Amounts accrued at the end of the current year	5,240	5,229	
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	22		(11)
<b>Balance at 31 March</b>	<b>5,240</b>		<b>5,229</b>

40. Deferred Liabilities

	31 March 2011 £000	31 March 2012 £000
Finance Leases	(440)	(416)
PFI Liabilities - Road	(29,243)	(26,272)
PFI Liabilities - Schools	(18,259)	(17,705)
Leisure Commuted Sums	(374)	(344)
Former Gwent County Council Debt	(213)	(146)
<b>Balance carried forward at 31 March</b>	<b>(48,529)</b>	<b>(44,883)</b>

Finance Leases – see note 14, page 75.

PFI Liabilities – for both Road and School see note 12, page 71.

Leisure Commuted Sums are monies derived from contributions from developers for which the Authority has an obligation to ensure the provision and annual maintenance of leisure amenities (e.g. open spaces and play facilities) on newly constructed housing estates etc.

The former Gwent County Council Debt relates to debt held by that authority that was unable to be disaggregated on reorganisation. Newport City Council manages this debt, with repayments being made to them by the Authority annually.

**Notes to the Core Financial Statements (continued)**

**41. Movements in Direct Services Organisation Reserves**

<b>Reserve:</b>	<b>Balance at 1 April 2011 £000</b>	<b>Appropriations From Reserves £000</b>	<b>Appropriations To Reserves £000</b>	<b>Balance at 31 March 2012 £000</b>
Highways Maintenance	(488)	388	(98)	(198)
Housing and Building Services	(118)	55	0	(63)
	<b>(606)</b>	<b>443</b>	<b>(98)</b>	<b>(261)</b>

These reserves represent the cumulative surplus carried forward by the Authority's trading organisations. The reserves are used to fund future expenditure, and its use is under the control of individual direct service organisations.

**42. Movements in Capital Earmarked Reserves**

<b>Reserve:</b>	<b>Balance at 1 April 2011 £000</b>	<b>Appropriations From Reserves £000</b>	<b>Appropriations To Reserves £000</b>	<b>Balance at 31 March 2012 £000</b>
Housing Earmarked Capital	0	0	(2,537)	(2,537)
Corporate	(6,406)	4,722	(2,118)	(3,802)
Private Housing	(153)	167	(21)	(7)
Leisure	(745)	122	(42)	(665)
Education	(3,900)	0	(4,964)	(8,864)
Highways and Transportation	(1,334)	247	0	(1,087)
Property	0	0	(1,111)	(1,111)
Public Services	(477)	18	(51)	(510)
	<b>(13,015)</b>	<b>5,276</b>	<b>(10,844)</b>	<b>(18,583)</b>

These reserves represent amounts set aside to finance the Authority's Council Fund capital programme, the majority of which are earmarked to specific schemes.



Notes to the Core Financial Statements (continued)

43. Movements in Service Under / Overspend Earmarked Reserves

<u>Reserve:</u>	Balance at 1 April 2011 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2012 £000
Lifelong Learning and Leisure	(1,032)	204	(308)	(1,136)
Economic Development and Tourism	(205)	0	0	(205)
Education	(1,225)	1,539	(1,722)	(1,408)
Corporate Services	(701)	836	(1,111)	(976)
Policy and Central Services	(289)	0	0	(289)
Social Services	(956)	362	(197)	(791)
Directorate of the Environment	(1,151)	1,230	(1,291)	(1,212)
	<b>(5,559)</b>	<b>4,171</b>	<b>(4,629)</b>	<b>(6,017)</b>

These reserves represent the cumulative under and overspend balances carried forward by the Authority's services in accordance with its Financial Regulations. The reserves are used to fund future expenditure, and their use is under the control of the individual service areas.

44. Movements in Insurance Earmarked Reserves

<u>Reserve:</u>	Balance at 1 April 2011 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2012 £000
Insurance Reserve	(2,291)	0	(2,318)	(4,609)
Risk Management Reserve	(675)	270	0	(405)
	<b>(2,966)</b>	<b>270</b>	<b>(2,318)</b>	<b>(5,014)</b>

These reserves are established to meet assessed self-insured possible liabilities associated with potential claims, and also to fund risk management initiatives aimed at minimising the potential cost of future claims.

**Notes to the Core Financial Statements (continued)**

**45. Movement in Schools Earmarked Reserves**

<u>Reserve:</u>	Balance at 1 April 2011 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2012 £000
<b>Comprehensive Schools:</b>				
Bedwas Comprehensive School	(273)	96	0	(177)
Blackwood Comprehensive School	(233)	184	0	(49)
Cwmcarn High School	(299)	143	0	(156)
Heolddu Comprehensive School	(232)	37	0	(195)
Lewis School Pengam	(101)	82	0	(19)
Lewis Girls Comprehensive School	(304)	122	0	(182)
Newbridge Comprehensive School	(272)	112	0	(160)
Oakdale Comprehensive School	(118)	59	0	(59)
Ysgol Gylun Cwm Rhymni	(140)	17	0	(123)
Rhymney Comprehensive School	(201)	0	(9)	(210)
Risca Comprehensive School	(255)	13	0	(242)
Pontllanfraith Comprehensive School	(136)	132	0	(4)
St Cenydd Comprehensive School	(157)	180	0	23
Trinity Fields Special School	(158)	0	(191)	(349)
<b>Primary Schools:</b>				
Bedwas Infants	(103)	50	0	(53)
Pontllanfraith Primary School	(114)	75	0	(39)
Greenhill Primary	(116)	51	0	(65)
St James Primary School	(210)	176	0	(34)
White Rose Primary School	(112)	74	0	(38)
Ysgol Gynradd Gymraeg Caerffili	(148)	107	0	(41)
Rhiw Syr Dafydd Primary School	(133)	81	0	(52)
Ysgol Y Lawnt	(110)	73	0	(37)
Other Comprehensive and Primary Schools with balances under £100k each	(2,877)	1,183	(296)	(1,990)
<b>Total Schools Balances</b>	<b>(6,802)</b>	<b>3,047</b>	<b>(496)</b>	<b>(4,251)</b>

These reserves represent the cumulative balances carried forward by individual schools in accordance with the scheme of delegation. The reserves are used to fund future expenditure, and their use is under the control of the individual schools, and is not available for the Authority to use for other purposes.

**46. Movement in Other Housing Reserves**

Details of the movement upon Housing reserves are included with the Notes to the Housing Revenue Account Summary on page 125, Note 8.

Notes to the Core Financial Statements (continued)

47. Movement in Other Earmarked Reserves

Reserve:	Balance at 1 April 2011 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2012 £000
Former Authority Liabilities Reserve	(180)	0	0	(180)
Waste Management Reserve	(585)	0	0	(585)
Superannuation Reserve	(25)	0	0	(25)
PFI Equalisation Reserve (Schools)	(9,193)	0	(445)	(9,638)
PFI Equalisation Reserve (Roads)	(2,388)	0	(215)	(2,603)
PIG Initiatives Reserve	(450)	0	0	(450)
Service Initiative Reserves	(1,122)	271	(1,751)	(2,602)
Carbon Trust Fund Reserve	(369)	135	(102)	(336)
Area Forum Reserve	(81)	0	0	(81)
Community Regeneration Fund Reserve	(283)	0	(23)	(306)
Cemeteries Reserve	(48)	0	(30)	(78)
LABGI Reserve	(586)	0	0	(586)
Electoral Admin Reserve	(152)	5	(97)	(244)
PFI Schools Earmarked Reserve	(177)	0	(79)	(256)
Health & Safety Initiatives Reserve	(882)	53	0	(829)
Corporate PC Replacement Reserve	(523)	26	(339)	(836)
Other Reserves	(54)	0	(698)	(752)
	<b>(17,098)</b>	<b>490</b>	<b>(3,779)</b>	<b>(20,387)</b>

A summary of the purposes of these reserves is provided below:

**Former Authority Liabilities Reserve** existed to meet certain employee payments made to staff, formerly employed by Rhymney Valley District Council, in accordance with their conditions of employment. This element of the reserve was cleared in 2010/2011 and any future liability will be met from the service accounts of the employing department. The remainder of the reserve exists to meet liabilities arising as a result of the actions or omissions of the former authorities detailed on page 7.

**Waste Management Reserve** exists to meet any future costs incurred in respect of landfill sites.

**Superannuation Reserve** exists to meet additional pension related costs, including the effects of early retirements and increases in employer's contribution rates.

**PFI Equalisation Reserves** exist to match PFI funding and unitary charge payments over the period of the contract and is described in greater detail elsewhere (see note 12 on page 71).

**Performance Incentive Grant Initiatives Reserve** represents amounts set aside to complete specific schemes undertaken with funds allocated from the Authority's Outcome Agreement Grant allocation (formerly the Performance Incentive Grant).

**Service Initiatives Reserve** exists to fund expenditure upon service specific initiatives.

**Carbon Trust Fund Reserve** exists to provide match funding to draw down grant from the Carbon Trust, to fund major works implementing energy efficiency measures.

**Notes to the Core Financial Statements (continued)**

**Area Forum Reserve** exists to meet any costs incurred associated with environmental works undertaken by the Authority as identified by the local area partnerships.

**Community Regeneration Fund Reserve** represents unclaimed funds from the Community Regeneration Fund voluntary sector allocations

**Cemeteries Reserve** exists to meet any costs incurred with the general upkeep and maintenance of Authority owned cemeteries.

**LABGI Reserve** exists to promote economic growth within the borough and arises from funds provided under the Local Authority Business Growth Incentive grant scheme funded by the Welsh Government.

**Electoral Admin Reserve** exists to meet the implementation of the Electoral Administration Act 2006.

**PFI Schools Earmarked Reserve** exists for reinvestment into the PFI schools for additional works that are outside the scope of the PFI projects.

**Health and Safety Initiatives Reserve** exists to promote health and safety across the authority.

**Corporate PC Replacement Reserve** exists to fund the replacement of computers throughout the authority.

**Other Reserves** represents a number of smaller reserves, held for a variety of purposes. None of the reserves are individually significant enough to be separately identified.

**48. Cash Flow Statement – Adjustments to Surplus or Deficit**

	Restated 2010/2011 £000	2011/2012 £000
<b>Adjustment to surplus or deficit on provision of services for non-cash movements</b>		
Depreciation and Impairment	85,212	111,841
IAS19 Pensions Adjustment	(31,110)	2,161
Revenue Expenditure funded from Capital under Statute	1,942	3,520
Amortisation of Intangible Assets	345	362
Movements on Provisions	(3,174)	(308)
Contributions to / from Reserves	(10,456)	(19,339)
(Increase) / Decrease in Stocks	(50)	15
(Increase) / Decrease in Debtors	(5,134)	(10,175)
Increase / (Decrease) in Provision for Bad Debt	102	264
Increase / (Decrease) in Creditors	5,566	(3,553)
	<b>43,243</b>	<b>84,788</b>

Details of the restatement to the comparative figures are set out in Note 54.

**Notes to the Core Financial Statements (continued)**

	2010/2011 £000	2011/2012 £000
<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		
Capital grants credited to surplus or deficit on provision of services	(27,465)	(26,756)
Proceeds from the sale of property plant and equipment	(5,533)	1,272
	<b>(32,998)</b>	<b>(25,484)</b>

**49. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

	2010/2011 £000	2011/2012 £000
Interest received	(257)	(245)
Interest paid	11,033	10,531
	<b>10,776</b>	<b>10,286</b>

**50. Cash Flow Statement – Investing Activities**

	2010/2011 £000	2011/2012 £000
Purchase of property, plant and equipment and intangible assets	(28,024)	(34,239)
Purchase of short-term and long-term investments	(1,038,975)	(1,322,419)
Proceeds from the sale of property, plant and equipment and intangible assets	5,940	14,259
Proceeds from the sale of short-term and long-term investments	1,023,950	1,331,582
Other receipts from investing activities	27,743	24,766
	<b>(9,366)</b>	<b>13,949</b>

**51. Cash Flow Statement - Financing Activities**

	2010/2011 £000	2011/2012 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(139)	(302)
Repayments of short-term and long-term borrowing	(3,322)	(7,936)
Other payments for financing activities	2	0
	<b>(3,459)</b>	<b>(8,238)</b>

Notes to the Core Financial Statements (continued)

52. Amounts Reported For Resource Allocation Decisions

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

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- Expenditure on some support services is budgeted for centrally and not charged to directorates.

<u>Restated 2010/2011</u> <u>Service Information</u>	Education & Leisure Directorate £000	Social Services Directorate £000	Directorate of Environment £000	Corporate Services £000	Housing Revenue Account £000	Total £000
Fees, charges & other service income	(31,407)	(21,894)	(63,690)	(31,008)	(40,788)	(188,787)
Government Grants	(28,988)	(11,969)	(14,874)	(69,378)	(6)	(125,215)
<b>Total income</b>	<b>(60,395)</b>	<b>(33,863)</b>	<b>(78,564)</b>	<b>(100,386)</b>	<b>(40,794)</b>	<b>(314,002)</b>
Employee expenses	121,960	37,998	39,824	19,564	5,287	224,633
Other operating expenses	74,784	68,265	84,892	125,115	33,575	386,631
<b>Total operating expenses</b>	<b>196,744</b>	<b>106,263</b>	<b>124,716</b>	<b>144,679</b>	<b>38,862</b>	<b>611,264</b>
<b>Net Cost of Services</b>	<b>136,349</b>	<b>72,400</b>	<b>46,152</b>	<b>44,293</b>	<b>(1,932)</b>	<b>297,262</b>

Reconciliation to Surplus or Deficit on Provision of Services:

Cost of Services in Service Analysis	297,262
Taxation and Non-Specific Grant Income	(327,944)
Precepts	11,047
<b>Add amounts not reported to Management:</b>	
Depreciation, Amortisation and Impairment	85,557
Net Gain or Loss on Disposal of Assets	(5,533)
Capital Grants and Contributions	(27,645)
Minimum Revenue Provision	(10,595)
IAS 19 Pension adjustment	(31,109)
Accumulated Absence adjustment	22
Revenue Expenditure funded from Capital under Statute	1,723
<b>Surplus or Deficit on Provision of Services</b>	<b>(7,215)</b>

Notes to the Core Financial Statements (continued)

Restated Reconciliation to Subjective Analysis 2010/2011:	Service Analysis £000	Not reported to Management £000	Corporate Amounts £000	Internal Recharge £000	Support Service Recharges £000	Total £000
Fees, charges & other service income	(188,787)	(11,639)	0	24,918	27,824	(147,684)
Government Grants	(125,215)	(36,400)	(263,798)	0	0	(425,413)
Council Tax income	0	0	(64,146)	0	0	(64,146)
<b>Total income</b>	<b>(314,002)</b>	<b>(48,039)</b>	<b>(327,944)</b>	<b>24,918</b>	<b>27,824</b>	<b>(637,243)</b>
Employee expenses	224,632	0	0	0	0	224,632
Other operating expenses	386,631	60,460	11,047	(24,918)	(27,824)	405,396
<b>Total operating expenses</b>	<b>611,263</b>	<b>60,460</b>	<b>11,047</b>	<b>(24,918)</b>	<b>(27,824)</b>	<b>630,028</b>
<b>Net Cost of Services</b>	<b>297,261</b>	<b>12,421</b>	<b>(316,897)</b>	<b>0</b>	<b>0</b>	<b>(7,215)</b>

Details of the restatement to the comparative figures are set out in Note 54.

<u>2011/2012 Service Information</u>	Education & Leisure Directorate £000	Social Services Directorate £000	Directorate of Environment £000	Corporate Services £000	Housing Revenue Account £000	Total £000
Fees, charges & other service income	(31,180)	(23,043)	(47,162)	(35,029)	(41,729)	(178,143)
Government Grants	(24,494)	(8,982)	(13,715)	(73,301)	0	(120,492)
<b>Total income</b>	<b>(55,674)</b>	<b>(32,025)</b>	<b>(60,877)</b>	<b>(108,330)</b>	<b>(41,729)</b>	<b>(298,635)</b>
Employee expenses	120,754	36,667	37,053	22,367	5,025	221,866
Other operating expenses	65,062	70,418	74,839	130,398	34,744	375,461
<b>Total operating expenses</b>	<b>185,816</b>	<b>107,085</b>	<b>111,892</b>	<b>152,765</b>	<b>39,769</b>	<b>597,327</b>
<b>Net Cost of Services</b>	<b>130,142</b>	<b>75,060</b>	<b>51,015</b>	<b>44,435</b>	<b>(1,960)</b>	<b>298,692</b>

Reconciliation to Surplus or Deficit on Provision of Services:

<b>Cost of Services in Service Analysis</b>	<b>298,692</b>
Taxation and Non-Specific Grant Income	(325,377)
Precepts	11,456
<b>Add amounts not reported to Management:</b>	
Depreciation, Amortisation and Impairment	112,203
Net Gain or Loss on Disposal of Assets	1,272
Capital Grants and Contributions	(26,756)
Minimum Revenue Provision	(10,519)
IAS 19 Pension adjustment	2,161
Accumulated Absence adjustment	(11)
Revenue Expenditure funded from Capital under Statute	1,201
<b>Surplus or Deficit on Provision of Services</b>	<b>64,322</b>

**Notes to the Core Financial Statements (continued)**

Reconciliation to Subjective Analysis 2011/2012:	Service Analysis £000	Not reported to Management £000	Corporate Amounts £000	Internal Recharge £000	Support Service Recharges £000	Total £000
Fees, charges & other service income	(178,143)	(14,438)	0	25,283	31,129	(136,169)
Government Grants	(120,493)	(26,756)	(260,607)	0	0	(407,856)
Council Tax income	0	0	(64,770)	0	0	(64,770)
<b>Total income</b>	<b>(298,636)</b>	<b>(41,194)</b>	<b>(325,377)</b>	<b>25,283</b>	<b>31,129</b>	<b>(608,795)</b>
Employee expenses	221,866	(36)	0	0	0	221,830
Other operating expenses	375,462	120,781	11,456	(25,283)	(31,129)	451,287
<b>Total operating expenses</b>	<b>597,328</b>	<b>120,745</b>	<b>11,456</b>	<b>(25,283)</b>	<b>(31,129)</b>	<b>673,117</b>
<b>Net Cost of Services</b>	<b>298,692</b>	<b>79,551</b>	<b>(313,921)</b>	<b>0</b>	<b>0</b>	<b>64,322</b>

**53. Jointly Controlled Operations**

A joint arrangement is defined 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 states 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 arrangements.

A review of shared practices within the Authority identified that the following should be regarded as joint arrangements:

- Catalogue Supplies Service Joint Committee (County Borough Supplies)
- Education School Improvement Service (ESIS)
- Glamorgan Archive Joint Committee
- Greater Gwent Cremation Joint Committee
- Gwent Joint Records Committee
- Gwent Wide Integrated Community Equipment Service Project (GWICES)
- Project Gwyrdd
- South East Wales Transport Alliance (SEWTA)
- Welsh Purchasing Consortium

The Authority's share of the Income and Expenditure Account and Balance Sheet of each of the nine committees is given below:

**Catalogue Supplies Service Joint Committee**

The Catalogue Supplies Service Joint Committee (County Borough Supplies) is a joint supplies service, established in 1996, by the County Borough Councils of Bridgend, Caerphilly, Merthyr and Rhondda Cynon Taff. The organisation forms part of the purchasing and supplies structures of each respective authority, providing a local supplies facility for a comprehensive range of goods required by schools, direct services and all other authority corporate services. The Joint Service is a self-standing organisation, working in a collaborative partnership with the Procurement Units of the participating authorities.



Notes to the Core Financial Statements (continued)

<u>Catalogue Supplies Service Joint Committee</u>	2010/2011		2011/2012	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	5,817	1,114	6,219	1,191
Income	(5,814)	(1,113)	(6,376)	(1,221)
<b>(Surplus) / Deficit for the Year</b>	<b>3</b>	<b>1</b>	<b>(157)</b>	<b>(30)</b>
<b><u>Balance Sheet</u></b>				
Current assets	1,378	264	1,161	222
Current liabilities	(863)	(165)	(489)	(93)
<b>Total Assets less Liabilities</b>	<b>515</b>	<b>99</b>	<b>672</b>	<b>129</b>
Usable Reserves	(518)	(99)	(668)	(128)
Unusable Reserves	3	1	(4)	(1)
	<b>(515)</b>	<b>(99)</b>	<b>(672)</b>	<b>(129)</b>

**Education School Improvement Service**

The Education School Improvement Service (ESIS) was created on 1 April 1996 and is a joint committee comprising elected member representation from the County Boroughs of Bridgend, Caerphilly, Merthyr Tydfil and Rhondda Cynon Taf. ESIS provides training and advisory services to the local education authorities and schools in each of its joint authority areas together with undertaking inspection work on behalf of other public sector bodies.

<u>Education School Improvement Service</u>	2010/2011		2011/2012	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	3,952	1,104	5,835	1,630
Income	(6,505)	(1,817)	(6,092)	(1,702)
<b>Net Cost of Service</b>	<b>(2,553)</b>	<b>(713)</b>	<b>(257)</b>	<b>(72)</b>
Pension interest cost / expected return on assets	328	92	175	49
<b>Net Operating Cost</b>	<b>(2,225)</b>	<b>(621)</b>	<b>(82)</b>	<b>(23)</b>
Contributions	0	0	0	0
<b>(Surplus) / Deficit for the Year</b>	<b>(2,225)</b>	<b>(621)</b>	<b>(82)</b>	<b>(23)</b>
<b><u>Balance Sheet</u></b>				
Fixed assets	18	5	0	0
Current assets	2,092	584	2,095	585
Current liabilities	(460)	(128)	(290)	(81)
Pension liability	(8,411)	(2,349)	(11,415)	(3,188)
<b>Total Assets less Liabilities</b>	<b>(6,761)</b>	<b>(1,888)</b>	<b>(9,610)</b>	<b>(2,684)</b>
Capital adjustment account	(18)	(5)	0	0
Pension Reserve	8,411	2,349	11,415	3,188
Accumulated Absences Reserve	42	12	48	13
Earmarked Reserves	(11)	(3)	(11)	(3)
General Reserve	(1,663)	(464)	(1,842)	(514)
	<b>6,761</b>	<b>1,888</b>	<b>9,610</b>	<b>2,684</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

#### Glamorgan Archive Joint Committee

The Glamorgan Archives Joint Committee comprises elected member representation from the City and County Borough Councils of Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Rhondda Cynon Taf and Vale of Glamorgan. The committee manages and administers the Glamorgan Record Office, which collects, preserves and makes accessible to the public, documents relating to the area it serves and maintains the corporate memory of its constituent authorities.

<u>Glamorgan Archive Joint Committee</u>	2010/2011		2011/2012	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	1,292	142	1,097	121
Income	(1,568)	(172)	(1,480)	(163)
<b>Net Cost of Service</b>	<b>(276)</b>	<b>(30)</b>	<b>(383)</b>	<b>(42)</b>
Interest and investment income	341	37	329	36
<b>(Surplus) / Deficit for the Year</b>	<b>65</b>	<b>7</b>	<b>(54)</b>	<b>(6)</b>
<b><u>Balance Sheet</u></b>				
Long term assets	8,161	898	7,934	873
Current assets	744	82	723	80
Current liabilities	(80)	(9)	(51)	(6)
Long term liabilities	(6,401)	(704)	(6,128)	(674)
<b>Total Assets less Liabilities</b>	<b>2,424</b>	<b>267</b>	<b>2,478</b>	<b>273</b>
Usable reserves	(670)	(74)	(671)	(74)
Unusable reserve	(1,754)	(193)	(1,807)	(199)
	<b>(2,424)</b>	<b>(267)</b>	<b>(2,478)</b>	<b>(273)</b>

#### Greater Gwent Cremation Joint Committee

The Greater Gwent Cremation Committee is made up of representatives from the City and County Borough Councils of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. The Joint Committee has the responsibility for administering the business of the Gwent Crematorium, together with providing services for bereaved families within the boundaries of the above-mentioned authorities.

<u>Greater Gwent Cremation Joint Committee</u>	2010/2011		2011/2012	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	930	141	1,336	203
Income	(1,391)	(211)	(1,422)	(216)
<b>Net Cost of Service</b>	<b>(461)</b>	<b>(70)</b>	<b>(86)</b>	<b>(13)</b>
Financing and Investment Income and Expenditure	3	0	(12)	(2)
<b>Surplus/Deficit on Provision of Services</b>	<b>(458)</b>	<b>(70)</b>	<b>(98)</b>	<b>(15)</b>
Actuarial Gains/Losses on Pensions				
Assets/Liabilities	(99)	(15)	115	17
<b>Total Comprehensive Income and Expenditure</b>	<b>(557)</b>	<b>(85)</b>	<b>17</b>	<b>2</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

#### Balance Sheet

Long term assets	1,828	277	1,913	290
Current assets	1,100	167	1,286	195
Current liabilities	(43)	(7)	(65)	(10)
Long term liabilities	(377)	(57)	(644)	(98)
<b>Total Assets less Liabilities</b>	<b>2,508</b>	<b>381</b>	<b>2,490</b>	<b>377</b>
Usable Reserves	(1,057)	(160)	(1,221)	(185)
Unusable Reserves	(1,451)	(220)	(1,269)	(192)
	<b>(2,508)</b>	<b>(381)</b>	<b>(2,490)</b>	<b>(377)</b>

#### **Gwent Joint Records Committee**

The Gwent Joint Records Committee manages and administers the Gwent Records Office, which collects, preserves and makes accessible to the public, documents relating to the area it serves and maintains the corporate memory of its constituent authorities, namely the City and County Borough Councils of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen.

#### Gwent Joint Records Committee

	2010/2011		2011/2012	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	758	113	989	144
Income	(1,192)	(177)	(901)	(132)
<b>Net Cost of Service</b>	<b>(434)</b>	<b>(64)</b>	<b>88</b>	<b>12</b>
Pension interest cost / expected return on assets	0	0	(23)	(3)
<b>Net Operating Cost</b>	<b>(434)</b>	<b>(64)</b>	<b>65</b>	<b>9</b>
Contributions	0	0	0	0
<b>(Surplus) / Deficit for the Year</b>	<b>(434)</b>	<b>(64)</b>	<b>65</b>	<b>9</b>
<b><u>Balance Sheet</u></b>				
Current assets	724	108	638	93
Current liabilities	(261)	(39)	(240)	(35)
Pension liability	63	9	(116)	(17)
<b>Total Assets less Liabilities</b>	<b>526</b>	<b>78</b>	<b>282</b>	<b>41</b>
Pension Reserve	(63)	(9)	116	17
General Reserve	(463)	(69)	(398)	(58)
	<b>(526)</b>	<b>(78)</b>	<b>(282)</b>	<b>(41)</b>

#### **Gwent Wide Integrated Community Equipment Service Project**

The Gwent Wide Integrated Community Equipment Service Project (GWICES) is a partnership agreement between the five Local Authorities and Local Health Boards (Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen) for the provision of an efficient and effective integrated equipment service to the service users who are resident in the partner authorities.

#### Gwent Wide Integrated Community Equipment Service Project

	2010/2011		2011/2012	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	2,767	574	2,605	541
Income	(2,767)	(574)	(2,605)	(541)
<b>(Surplus) / Deficit for the Year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

#### Project Gwyrdd

Project Gwyrdd is a joint committee comprising the county borough councils of Caerphilly, Cardiff, Monmouthshire, Newport and the Vale of Glamorgan. It was established in 2009/2010 to deliver the best long-term, environmental, sustainable and cost-effective solution for waste after recycling and composting has been maximised.

<u>Project Gwyrdd</u>	2010/2011		2011/2012	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	952	190	1,156	231
Income	(1,047)	(209)	(879)	(176)
<b>Net Cost of Service</b>	<b>(95)</b>	<b>(19)</b>	<b>277</b>	<b>55</b>
Interest and investment income	(2)	(0)	(2)	(0)
<b>(Surplus) / Deficit for the Year</b>	<b>(97)</b>	<b>(19)</b>	<b>275</b>	<b>55</b>
Appropriation from Accumulated Absences Account	1	0	0	0
Net (Increase) / Decrease in General reserve balance	(96)	(19)	275	55
<b><u>Balance Sheet</u></b>				
Current assets	1,021	204	772	154
Current liabilities	(147)	(29)	(173)	(34)
<b>Total Assets less Liabilities</b>	<b>874</b>	<b>175</b>	<b>599</b>	<b>120</b>
Accumulated Absences Reserve	2	0	1	0
Joint Committee Reserves	(876)	(175)	(600)	(120)
<b>Net Worth</b>	<b>(874)</b>	<b>(175)</b>	<b>(599)</b>	<b>(120)</b>

#### South East Wales Transport Alliance

SEWTA (The South East Wales Transport Alliance) is a consortium established on 1 April 2003 by the ten local authorities in South East Wales to carry out their functions in respect of public transport and some other transport matters. SEWTA works in close liaison with partners representing public transport operators and users.

<u>South East Wales Transport Alliance</u>	2010/2011		2011/2012	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	4,053	405	1,900	190
Income	(4,016)	(401)	(1,887)	(189)
<b>(Surplus) / Deficit for the Year</b>	<b>37</b>	<b>4</b>	<b>13</b>	<b>1</b>
<b><u>Balance Sheet</u></b>				
Current assets	2,353	235	756	76
Current liabilities	(2,274)	(227)	(690)	(69)
<b>Total Assets less Liabilities</b>	<b>79</b>	<b>8</b>	<b>66</b>	<b>7</b>
General Reserve	(79)	(8)	(66)	(7)
	(79)	(8)	(66)	(7)

Notes to the Core Financial Statements (continued)

Welsh Purchasing Consortium

The Welsh Purchasing Consortium ("the consortium") is a partnership between sixteen County Borough and City Councils of South Wales. The Consortium exists to increase economies of scale by combining the purchasing requirements of the sixteen authorities.

	Total £000	CCBC share £000	Total £000	CCBC share £000
<b>Income &amp; Expenditure Account</b>				
Expenditure	195	12	208	13
Income	(238)	(15)	(244)	(15)
<b>Net Expenditure / (Income)</b>	<b>(43)</b>	<b>(3)</b>	<b>(36)</b>	<b>(2)</b>
<b>Appropriations from Reserves:</b>				
Accumulated absences accrual	(2)	(0)	0	0
<b>Net (Surplus) / Deficit</b>	<b>(45)</b>	<b>(3)</b>	<b>(36)</b>	<b>(2)</b>
<b>Balance Sheet</b>				
Current assets	282	18	317	20
Current Liabilities	(3)	0	(2)	0
<b>Total Assets less Liabilities</b>	<b>279</b>	<b>18</b>	<b>315</b>	<b>20</b>
General Reserve	(281)	(18)	(317)	(20)
Accumulated Absences Account	2	0	2	0
<b>Net Worth</b>	<b>(279)</b>	<b>(18)</b>	<b>(315)</b>	<b>(20)</b>

54. Prior Year Adjustments

Revaluation of Non-Current Assets

The Authority uses an electronic fixed assets register to record all assets owned by the Authority and process the required accounting entries into the accounts. Following a review of the register a number of amendments to valuations in the prior year accounts were identified. This is due to inconsistencies between the valuation information, fixed asset register and the accounts. The amendments impact the balances in respect of Non Current assets, the Revaluation Reserve, the Capital adjustment account and the Comprehensive Income and Expenditure Account.

Heritage Assets

The Code of Practice on Local Authority Accounting 2011/12 introduced a new category of non-current assets, namely Heritage Assets (see notes 23 and 24) resulting in a change in accounting policy. Such assets are required to be carried in the Balance Sheet at valuation. The Authority has had the Civic Regalia valued by External Valuers and has been included on the Balance Sheet. This adjustment has also impacted upon Property Plant and Equipment and the Capital Adjustment Account.

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

	Council Fund Balance 2010/2011 £000	Restatement due to adjustments in asset register £000	Restatement for Heritage Assets £000	Restated Council Fund Movements 2010/2011 £000
<b>Movement in Reserves extract:</b>				
<b>Movement in Reserves during 2010/2011</b>				
(Surplus)/deficit on provision of services (accounting basis)	(55,870)	26,699	0	(29,171)
Adjustments between accounting basis and funding basis under regulations	40,994	26,699	0	67,693

	Net Expenditure 2010/2011 £000	Restatement due to adjustments in asset register £000	Restatement for Heritage Assets £000	Restated Council Fund Movements 2010/2011 £000
<b>2010/2011 Comprehensive Income and Expenditure Statement extract:</b>				
Central Services to the Public	2,584	9	0	2,593
Cultural and Related Services	13,642	6,984	0	20,626
Environmental and Regulatory Services	19,979	45	0	20,024
Planning Services	6,621	43	0	6,664
Education and Children's Services	154,237	15,822	0	170,059
Highways and Transport Services	27,681	938	0	28,619
Local Authority Housing (HRA)	30,385	(2,099)	0	28,286
Other Housing Services	2,514	2,290	0	4,804
Adult Social Care	54,788	398	0	55,186
Corporate and Democratic Core Costs	4,291	6	0	4,297
Non Distributed Costs	3,811	211	0	4,022
Pension Past Service Cost credited to Non Distributed Costs	(38,972)	0	0	(38,972)
<b>Cost of Services</b>	<b>281,561</b>	<b>24,647</b>	<b>0</b>	<b>306,208</b>
Financing and Investment Income and Expenditure	25,540	2,049	0	27,589
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(33,911)</b>	<b>26,696</b>	<b>0</b>	<b>(7,215)</b>
(Surplus)/Deficit on revaluation of non- current assets	(76,498)	48,235	0	(28,263)
<b>Other Comprehensive Income and Expenditure</b>	<b>(123,168)</b>	<b>48,236</b>	<b>0</b>	<b>(74,932)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(157,079)</b>	<b>74,932</b>	<b>0</b>	<b>(82,147)</b>

Notes to the Core Financial Statements (continued)

<u>Extract from Balance Sheet as at 31 March 2010:</u>	Balance Sheet as at 31 March 2010 £000	Restatement due to adjustments in asset register £000	Restatement for Heritage Assets £000	Restated Balance Sheet as at 31 March 2010 £000
Property Plant and Equipment	1,110,322	0	(9,496)	1,100,826
Heritage Assets	0	0	9,563	9,563
Unusable Reserves	(501,332)	0	(67)	(501,399)

<u>Extract from Balance Sheet as at 31 March 2011:</u>	Restated Balance Sheet as at 31 March 2011 £000	Restatement due to adjustments in asset register £000	Restatement for Heritage Assets £000	Restated Balance Sheet as at 31 March 2011 £000
Property Plant and Equipment	1,166,160	(74,932)	(9,613)	1,081,615
Heritage Assets	0	0	9,680	9,680
Unusable Reserves	(638,054)	74,932	(67)	(563,189)

**55. Post Balance Sheet Event**

The Authority withdrew from a joint arrangement for Education Support and Advisory Services on 31 August 2012. These support services had been delivered via a joint committee by ESIS (Education Support and Inspection Services). From 1 September 2012 a similar range of services are to be provided to the Authority by the EAS (Education Achievement Service) which is a limited company wholly owned by Caerphilly CBC, Monmouthshire CBC, Torfaen CBC, Blaenau Gwent CBC and Newport CBC.

**56. Authorisation for Issue**

The Head of Corporate Finance, acting as Responsible Financial Officer, gave authorisation for the issue of these accounts on 27 September 2012. In doing so, the Financial Accounts include all material events, relating to the financial year, but occurring after the date of the balance sheet.

**Caerphilly County Borough Council**

(continued)

2011/12		2010/11		
Actual	Revised	Actual	Revised	
1,000,000	1,000,000	1,000,000	1,000,000	
1,000,000	1,000,000	1,000,000	1,000,000	
1,000,000	1,000,000	1,000,000	1,000,000	
1,000,000	1,000,000	1,000,000	1,000,000	

**Housing Revenue Account**

**for the year ended 31 March 2012**

2011/12		2010/11		
Actual	Revised	Actual	Revised	
1,000,000	1,000,000	1,000,000	1,000,000	
1,000,000	1,000,000	1,000,000	1,000,000	
1,000,000	1,000,000	1,000,000	1,000,000	
1,000,000	1,000,000	1,000,000	1,000,000	





## Caerphilly County Borough Council

### Movement on the Housing Revenue Account Statement

Restated 2010/2011 £000		2011/2012		Note
		£000	£000	
(6,062)	Balance on the HRA at the end of the previous year		(5,768)	
22,136	(Surplus) or Deficit for the year on the HRA Income and Expenditure Statement	20,358		
(21,588)	Adjustments between accounting basis and funding basis under statute	(21,457)		
548	Net (increase)/decrease before transfers to or from reserves	(1,099)		
(254)	Transfers to or (from) reserves	2,187		
294	(Increase) or decrease in year on the HRA		1,088	
<b>(5,768)</b>	<b>Balance on the HRA at the end of the current year</b>		<b>(4,680)</b>	<b>8</b>

## Caerphilly County Borough Council

### Notes to the Movement on the HRA Statement

Restated 2010/2011 £000		2011/2012		Note
		£000	£000	
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>			
(57)	Difference between amounts charged to income and expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute	(57)		
(23,643)	Depreciation and Impairment of non-current assets	(23,390)		2
(9,684)	Non-enhancing Capital Expenditure	(8,091)		2,6
1,042	Gain on sale of HRA non-current assets	902		
(534)	Net charges made for retirement benefits in accordance with IAS 19	(446)		10
7,400	Capital Grants and Contributions Applied (including Major Repairs Allowance)	7,524		
(25,476)			(23,558)	
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>			
608	Employer's contributions payable to the Greater Gwent Pension Fund and retirement benefits payable direct to pensioners	570		10
1,009	HRA Minimum Revenue Provision	975		
2,284	Capital expenditure funded by the HRA	567		6
(13)	Adjustment involving the Accumulated Absences Account	(11)		
(214)	Transfers (to) / from Reserves	2,187		
3,674			4,288	
(21,802)	<b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>		(19,270)	

**Notes to the Housing Revenue Account**

**1. Rent of Dwellings**

This is the total rent income collectable for the year after allowance is made for voids on empty properties. During the year 1.08% of lettable properties were void (an increase from 1.01% in 2010/2011). The average weekly rent at 31 March 2012 was £72.08 (£69.02 in 2010/2011), based on a 48-week collection period.

**2. Depreciation and Impairment**

	Restated 2010/2011 £000	2011/2012 £000
Operational assets comprising:		
Dwellings (refer to Note 20 Core Financial Statements)	2,981	2,371
Other Land & Buildings	27	29
Depreciation written back on revaluation of council dwellings	(3,119)	(2,371)
Asset Impairments	23,754	23,361
<b>Total HRA Depreciation and Impairment of Fixed Assets</b>	<b>23,643</b>	<b>23,390</b>
Write off of non-enhancing expenditure	9,684	8,091
<b>Total HRA depreciation, impairment and non-enhancing expenditure</b>	<b>33,327</b>	<b>31,481</b>

The asset impairments shown in the table above have arisen due to the anticipated reduction in the future rental income stream, together with an increase in anticipated future maintenance costs.

**3. Rent Arrears**

The rent arrears encompass monies owed by both current and former council tenants. During the year, total rent arrears decreased by £3,320. Total current rent arrears represents 2.06% of Gross Rent Income.

	£
Arrears at 31 March 2011	1,199,146
Bad Debt Provision 31 March 2011	(695,638)
<b>Net Arrears at 31 March 2011</b>	<b>503,508</b>
Arrears at 31 March 2012	1,195,826
Bad Debt Provision 31 March 2012	(690,004)
<b>Net Arrears at 31 March 2012</b>	<b>505,822</b>

**4. Housing Subsidy**

Housing Subsidy contributions of £6.763m were payable in 2011/2012. This compares to the previous year's subsidy of £7.144m. Approximately 75% of the Authority's tenants receive assistance to meet the cost of their rent.

**Notes to the Housing Revenue Account (continued)**

**5. Housing Stock**

The Authority was responsible for managing an average of 10,939 dwellings during 2011/2012. The type of stock managed by the Authority is made up of approximately 60% houses, 26% flats and 14% bungalows.

	2010/2011 Number	2011/2012 Number
Stock at 1 April	10,988	10,945
Acquisitions/New Build	0	4
Sales/Demolitions/Expired Leases	(43)	(17)
<b>Stock at 31 March</b>	<b>10,945</b>	<b>10,932</b>

**6. Capital Expenditure and Financing**

	2010/2011 Assets £000	2011/2012 Assets £000
<b>Capital Expenditure</b>		
Operational Assets : Houses	9,684	8,091
<b>Total Expenditure</b>	<b>9,684</b>	<b>8,091</b>
<b>Capital Financing</b>		
Major Repairs Allowance	(7,400)	(7,400)
Capital Receipts	0	0
Capital Grants	0	(124)
Revenue Reserves	(2,284)	(567)
<b>Total Income</b>	<b>(9,684)</b>	<b>(8,091)</b>

**7. Capital Receipts and Unapplied Capital Income**

	2010/2011 £000	2011/2012 £000
Balance at 1st April	(116)	(580)
Amounts received - Right to Buy	(754)	(662)
Amounts received - Other	(288)	(238)
Less Statutory Set aside for debt repayment	578	511
Less Applied to Capital Financing	0	0
<b>Balance at 31st March</b>	<b>(580)</b>	<b>(969)</b>

Notes to the Housing Revenue Account (continued)

8. Balance Carried Forward

The working balance at 31 March 2012 was £4.680m, a net decrease of £1.088m over the year.

<u>Reserves</u>	Balance at 1 April 2011 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2012 £000
Housing Fund Balances	(4,791)	1,433	(345)	(3,703)
Supporting People	(306)	0	0	(306)
Week 53 Debit	(671)	0	0	(671)
	<b>(5,768)</b>	<b>1,433</b>	<b>(345)</b>	<b>(4,680)</b>

A summary of the purposes of these reserves is provided below:

**Housing Fund Balances** – represents the general, unallocated balances associated with the Housing Revenue Account.

**Supporting People** – represents funds ring fenced for use in accordance with the Supporting People initiative.

**Week 53 Debit** – represents the additional week's rent collection during 2007/2008 that is intended to be released back to revenue over the following five years, as appropriate.

9. Major Repairs Allowance

	2010/2011 £000	2011/2012 £000
Amount Received in Year	(7,400)	(7,400)
Amounts Applied in Year	7,400	7,400
Amounts Carried Forward	<b>0</b>	<b>0</b>

10. HRA share of contributions to or from the Pension Reserve

	2010/2011 £000	2011/2012 £000
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	(534)	(446)
Employer's pension contributions and direct payments to pensioners payable in the year	608	570
<b>Total Contribution to or from the Pension Reserve</b>	<b>74</b>	<b>124</b>

## GLOSSARY OF TERMS

The Statement of Accounts contains a number of technical terms which will not be familiar to the lay person. To assist the reader of the accounts, a number of these terms have been explained using non-technical terminology.

**Accruals basis** – An accounting concept in which transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received.

**Actuary** - An actuary is a qualified person who works out insurance and pension fund valuations, taking into account relevant factors such as trends in insurance claims and life expectancy.

**Amortisation** – The reduction in value of an intangible asset (e.g. computer software) by pro-rating its cost over a period of years.

**Authority** - Caerphilly County Borough Council.

**Balance Sheet** - A statement listing all assets and liabilities of the Authority at the 31<sup>st</sup> March.

**Borrowing** - Can be short-term (less than 1 year to maturity) or long-term (more than 1 year to maturity) and represents money loaned to the Authority by third parties.

**Budget** - A budget is the spending plan for the financial year in question i.e. 2011/12.

**Capital Adjustment Account** - An account that relates to capital and non-current asset transactions. This includes the application of capital monies e.g. capital grants to finance the capital schemes of the Authority and to manage the disposal of non-current assets.

**Capital Expenditure** - Expenditure on non-current assets which will be used by the Authority over many years to provide services e.g. buildings.

**Capital Receipts** - Proceeds from the sale of non-current assets e.g. land or buildings.

**Cash Flow Statement** - A statement recording all movements in cash during the year for both revenue activities and capital activities.

**Comprehensive Income and Expenditure Statement** – A statement recording day to day spending and income e.g. salaries, wages, running costs etc. on all revenue services of the Authority.

**Contingent Asset** - This is a possible asset that arises from a past event but whose existence will only be confirmed after an uncertain future event e.g. the outcome of a court case.

**Contingent Liability** - This is a possible financial cost of a past event but which will only be confirmed by the occurrence of one or more uncertain future events e.g. the outcome of a legal case. Unlike a provision, no amounts are set aside in the accounts, only a note explaining the relevant facts.

**Creditor** - Someone who is owed money for goods or services provided to the Authority.

**Current Assets** - Assets that are short term and are considered to be liquid by nature i.e. cash, inventories, debtors.

**Current Liabilities** - Liabilities that are short term (less than one year).

**Debt Management Office (DMO)** - This is an executive agency of HM Treasury with responsibilities for debt and cash management for the UK Government, lending to local authorities (via the PWLB (see below) and managing certain public sector funds.

**Debtor** - Someone who owes money for goods or services provided by the Authority.

**Depreciation** - The notional reduction in value of assets due to their wear and tear in providing services to the Authority.

**Direct Revenue Financing** - A contribution made from the revenue accounts during the financial year to help pay for capital projects.

**Financial Instruments** - A collective name for investments, trade debtors, trade creditors and borrowings.

**Financial Year** - This is the accounting period, starting on 1 April and finishing on 31 March in the following year. For 2011/2012, it runs from 1 April 2011 to 31 March 2012.

**Finance Leases** - A method whereby capital assets are financed over a number of years by means of annual payments to a leasing company. The ownership of the asset by the Authority is deemed to have taken place at the start of the lease arrangement.

**Financial Instruments Adjustment Account** - An account which is used to manage the loan interest charged to the Council Fund in accordance with IAS 32 & 39.

**Government Grants** - Assistance by Government and inter-government agencies and similar bodies, whether local, national or international usually in the form of cash.

**GLOSSARY OF TERMS continued**

**Heritage Asset** - A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Housing Revenue Account Income and Expenditure Account** - This account contains all expenditure and income in relation to the Authority's Council Dwellings including Council Houses.

**Impairment** - Impairments occur when non-current asset values change significantly due to changes in circumstances. They can occur if there is a significant change in a non-current asset's market value or significant physical damage e.g. fire. The cost of impairment is charged to the revenue account in the year it occurs.

**Inventories** - These are raw materials and consumables that are used in carrying out services e.g. bricks, nails, food, beverages etc. The values of these items which have not been used at 31 March are shown as current assets in the balance sheet.

**Investments** - Investments can be short-term (less than 1 year to maturity) or long-term (more than 1 year to maturity) and represent surplus funds of the Authority invested with third parties.

**Levies** - Levies are charges on the Authority by other public bodies / non-billing organisations to enable them to cover their costs in the performance of their services.

**Minimum Revenue Provision (MRP)** - A minimum annual charge that has to be made to the revenue accounts to systematically reduce the principal element of loans which have been raised and used to pay for capital schemes.

**Movement in Reserves Statement** - A statement showing the in-year movement on all the different reserves held by the Authority.

**National Non Domestic Rates (NDR)** - Also known as the Business Rate, it is the charge occupiers of business premises pay to finance part of the Authority's revenue spending. The charge is based on the rateable value of the business premises.

**Non-Current Assets** - These are long term assets which are used for more than 1 year.

**Non-Current Assets: Enhancement Expenditure** - This is where capital expenditure on an asset does not alter the book value of the asset e.g. window replacement.

**Operating Leases** - A method of paying for the use of capital assets e.g. vehicles by means of annual payments to a leasing company over a number of years. The leasing company retains ownership of the asset during and at the end of the lease agreement.

**Precepts** - Precepts are levied on the Authority by non-billing organisations e.g. police, community councils to enable them to cover their costs in the performance of their services or duties.

**Pension Liability (IAS 19)** - This represents the indebtedness of the Authority in relation to the retirement benefits due to its employees, after allowing for the Authority's share of investments in the Pension Fund.

**Pension Reserve (IAS 19)** - This reserve matches the pension liability and is charged with the gain or loss which arises when the pension fund Actuary revalues the assets and liabilities within the pension fund each year. It also ensures that the charge made to the Income and Expenditure Account under IAS 19 is replaced with the pension cost required to be made for Council Tax purposes.

**Provision** - A provision is an amount set aside in the accounts for a past event which is likely to incur a financial cost some time in the future.

**Public Works Loans Board (PWLB)** - This is a Government Agency which provides longer term loans to local authorities at preferential rates of interest.

**Related Party Transactions** - These are disclosed to highlight any relationships that may exist between the Authority and third parties which may materially affect or influence the way the Authority or third parties are able to operate.

**Reserves** - Reserves are sums set aside to meet future expenditure. They may be earmarked to fund specific expenditure or be held as general reserves to fund non specific future expenditure.

**Revaluation Reserve** - This reserve is used to record gains in non-current asset values as a result of formal revaluations.

**Revenue Expenditure funded from Capital under Statute** - This represents expenditure which does not result in, or remain matched with, assets controlled by the Authority.



**GLOSSARY OF TERMS continued**

**Revenue Support Grant** - This is the principal source of finance from Central Government towards revenue expenditure incurred for non Council housing purposes.

**Trust Funds** - These are monies not belonging to the Authority that are administered by the Authority on behalf of third party individuals or organisations.

**Work in Progress** - This represents the value of work done on unfinished projects at the date of the Balance Sheet (31 March).

## Annual Governance Statement

### Scope of responsibility

The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 and the Local Government Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the code is on our website at [www.caerphilly.gov.uk](http://www.caerphilly.gov.uk) or can be obtained from the councils communication department. This statement explains how the Authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts & Audit (Wales) Regulations 2005 in relation to the publication of a statement on internal control.

### The purpose of the governance framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the authority'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.

The governance framework has been in place at the Authority for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts.

### The governance framework

The following paragraphs describe the key elements of the systems and processes that comprise the authority's governance arrangements:

#### ***Identifying & communicating the authority's vision of its purpose and intended outcomes for citizens and service users***

- The Corporate Improvement Plan sets out the Council's vision, priorities and strategic objectives. These are derived from the Caerphilly Community Strategy, which clearly articulates a shared vision for Caerphilly County Borough Council.
- Long term outcomes and interim performance targets have been established for each strategic objective.
- The Community Strategy and Corporate Improvement Plan are published widely and are also available on the Council website and intranet.

## Annual Governance Statement (Continued)

### ***Reviewing the authority's vision & its implications for the authority's governance arrangements***

- The Community Strategy and Corporate Improvement Plan are regularly reviewed and the Council's vision and strategic objectives have been refined to reflect changing aspirations, both locally and nationally.
- A performance management framework has been developed, which will form an integral part of the development of the "Single Plan". The development of the Single Plan is one of the 3 key priorities of the Caerphilly Local Service Board, and is required to be implemented by March 2013. The development of the Single Plan is ongoing, and at present the partners of the Local service Board are awaiting statutory guidance from Welsh Govt.

### ***Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources***

- Service level Improvement Plans contain key service objectives that are geared, where appropriate, towards achieving the overall strategic objectives detailed in the Council's Improvement Plan. They also contain challenging targets in respect of both national performance indicators and local performance targets.
- This system is in turn supported by individual annual staff performance and development reviews to ensure that everyone understands their individual and service unit contribution to corporate goals.
- The Council uses a performance management software system, Ffynnon, which is used to monitor not only individual performance indicators, but also their combined effect on the achievement of strategic objectives. Reports are produced to ensure that trends in performance can be identified and corrective action introduced if appropriate. This is supported by a robust data quality control system, which ensures the accuracy of the reported information.
- Performance against targets is monitored at officer and member levels, by Corporate Management Team, Directorate Management Teams, Executive Cabinet and Scrutiny Committees.

### ***Defining & documenting the roles & responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication***

- The Council's Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.
- Policy and decision-making is facilitated through the Executive Cabinet supported by a framework of Statutory and Scrutiny Committees. Biannual Performance Management Scrutiny Committees have been established for each of the Council's scrutiny themes.
- The Constitution also sets out the situations where senior officers of the Council can make decisions under delegated authority. Delegated power decisions and information items are published on the intranet.
- The Council publishes an annual improvement plan which sets out key priorities agreed by the Council, its committees and chief officers under their delegated powers.

### ***Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff***

- The Council's Constitution contains formal Codes of Conduct that articulate the standards of ethical behaviour that are expected from members and officers. These incorporate procedures for the disclosure of pecuniary interests and offers of gifts and hospitality.
- Both members and officers are made aware of the personal conduct and disclosure requirements and they are available for reference on the Council's intranet.

### ***Reviewing & updating standing orders for contracts, financial regulations, a scheme of delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls to manage risks***

**Annual Governance Statement (Continued)**

- The Monitoring Officer in conjunction with senior officers and members undertakes periodic reviews of the Councils Constitution including a review of Standing Orders for Contracts, Financial Regulations and the Scheme of Delegation.
- The standard member reporting procedure requires a consideration of risk for all significant decisions. This is also underpinned by a robust structure and system for identifying and evaluating all significant business risks at both the strategic and operational levels, the key elements of which are a Strategic Risk Register and service level risk assessments built into the business planning process.

***Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities***

- The Council has appointed an Audit Committee whose terms of reference comply with the latest CIPFA guidelines. These extend to monitoring and reviewing the adequacy of the governance framework.

***Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful***

- The Council aims to ensure compliance with established policies, procedures, laws and regulations through a variety of mechanisms, including:
  - Monitoring Officer;
  - Section 151 Officer;
  - Internal Audit;
  - External Audit;
  - Performance management framework.
- The Council has designated the Head of Legal Services as Monitoring Officer, who plays a key role in ensuring compliance. After consulting with the Deputy Chief Executive Officer, the Monitoring Officer will report to the full Council if he/she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.
- The standard committee reporting procedure and template requires the Monitoring Officer to examine reports to the Executive for compliance with legal issues. His comments are referred to the Councils Corporate Management Team for action.

***Arrangements for whistle blowing and for receiving and investigating complaints from the public***

- The Council has a Whistle Blowing Policy, which has been widely publicised via the Council web site, intranet and other channels.
- The Council also operates a formal Corporate Complaints Procedure, which has been widely publicised.

***Identifying the development need of members and senior officers in relation to their strategic roles, supported by appropriate training***

- Formal induction programmes and training & development plans are in place for both members and senior officers. Where identified by the PDR process senior officers participate in management development training.
- All senior officers participate in the corporate staff appraisal scheme.

***Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation***

- Up to date strategies are in place in respect of communications, marketing and consultation.

A corporate database of formal consultations is maintained to reduce duplication of consultation.

***Incorporating good governance arrangements in respect of partnerships and other group working as identified in the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements***

## Annual Governance Statement (Continued)

- The Council has adopted a formal Framework for Partnership Working which specifies the minimum governance requirements in respect of all the Council's partnerships and the enhanced requirements in respect of its key partnerships.

The Council had established a COMPACT which is an agreement between various organisations within the County Borough including the Voluntary Sector, Local Health Board, Police, Fire and Rescue and the Council itself setting out how they will work together and identifying protocols for such joint working.

Key partnerships are brought together biannually at the Caerphilly Standing Conference to reflect on progress and to communicate community planning progress.

### Review of effectiveness

The Authority 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 Corporate Services governance group within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review covers all significant corporate systems, processes and controls, spanning the whole range of the Authority's activities, including in particular those designed to ensure:

- The Authority's policies are put into place;
- The Authority's values are met;
- Laws and regulations are complied with;
- Required processes are adhered to;
- Performance and financial statements and other published information are accurate and reliable;
- Human, financial and other resources are managed efficiently and effectively;
- High quality services are delivered efficiently and effectively.

The following paragraphs describe the processes that have been applied in maintaining and reviewing the effectiveness of the Council's governance framework:

#### **Corporate Level Review**

A management group consisting of the following officers has been established to oversee the compilation of the Annual Governance Statement:

- Deputy Chief Executive;
- Head of Legal Services (Monitoring Officer);
- Head of Corporate Finance (Section 151 Officer);
- Head of Performance and Property.

The group have conducted a detailed corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE.

#### **Directorate Level Review**

The Council has also introduced Directorate Assurance Statements requiring Directors to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement.

## Annual Governance Statement (Continued)

### **Monitoring Officer**

As the Council's Monitoring Officer, The Head of Legal Services has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. Reviews are undertaken as and when necessary.

### **Scrutiny Committees**

The Council has Scrutiny Committees who meet in public and make recommendations on the improvement and development of policies and hold the Executive and officers exercising delegated powers to account for their decisions.

### **Audit Committee**

The Council has appointed an Audit Committee in accordance with the provisions of S 81-87 Local Government (Wales) Measure 2011 of which terms of reference comply with the latest CIPFA guidance and the requirements of the Measure. These extend to monitoring and reviewing the adequacy of the governance framework.

### **Standards Committee**

The Council has appointed a Standards Committee in accordance with the provisions of S.53-55 & S.81(5) Local government Act 2000 and associated regulations. Their terms of reference are set out in the Council's Constitution.

### **Performance Management**

The Performance Management Unit is responsible for developing and maintaining the Council's performance management framework in accordance with the Wales Programme for Improvement. It supports and challenges the Council as a whole, and the individual services, to continuously improve its services and works with the external auditors to co-ordinate inspection programmes.

### **Internal Audit**

Internal Audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Directorate. Each report includes recommendations for improvements and an agreed management action plan. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon.

The Internal Audit Annual Report contains a statement / judgement on overall levels of internal control (a view based on the relative significance of the systems reviewed during the year, in the context of the totality of the control environment).

The Internal Audit Section is subject to regular inspection by the Authority's external auditors.

### **External Audit**

In accordance with the Audit Commission's Code of Audit Practice, the Council receive regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

**Annual Governance Statement (Continued)**

**Review Outcome**

The review of the Council's governance arrangements has identified two areas where improvements could be made to strengthen the existing procedures and processes:-

- a) The formulation and implementation of a suitable system of controls and governance in relation to the collaborative arrangements that are currently being developed.
- b) The further development of the Council's business continuity arrangements.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the issues identified during the review process and we will monitor their implementation and operation as part of our next annual review.

**Signed**



**Harry Andrews**  
Leader of the Council



**Anthony O'Sullivan**  
Chief Executive

