Financial Accounts

For the year ended

31 March 2013

A greener place Man gwyrddach

CAERPHILLY COUNTY BOROUGH COUNCIL
CYNGOR BWRDEISTREF SIROL CAERFFILI

Financial Accounts for the year ended 31 March 2013

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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 178,800.

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)

2012/2013 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 2012/2013, the Authority's expenditure and income compared to budget was:

Service Area	Original Estimate £000	Revised Estimate £000	Outturn £000	(Overspend) /Underspend £000
Education and Leisure	126,287	125,524	122,971	2,553
Social Services	73,604	73,673	75,033	(1,360)
Environment	59,036	59,851	57,599	2,252
Corporate Services	56,263	55,875	47,661	8,214
HRA	48	48	(7,715)	7,763
Total Service Expenditure	**315,238**	**314,971**	**295,549**	**19,422**
Funding Income	(315,238)	(315,238)	(316,743)	1,505
(Surplus) / Deficit on Provision of Services	**0**	**(267)**	**(21,194)**	**20,927**
In-Year Use of General Fund Reserves		0	(3,524)	3,524
In-Year Use of Earmarked Reserves		267	17,260	(16,993)
Total Outturn	**0**	**0**	**(7,458)**	**7,458**
Transfer to Earmarked Reserves				(3,118)
Transfer to General Fund Reserves				(4,340)
General Fund Reserves as at 31 March 2012				**(12,808)**
Budget Strategy Contribution				0
Use of Balances in Year				2,876
Service Outturn Contribution				(4,340)
General Fund Reserves as at 31 March 2013				**(14,272)**

Explanatory Foreword (continued)

Further details of the Authority's outturn performance against budget can be found in the Acting Director of Corporate Services and S.151 Officer, Provisional Outturn Report 2012/2013 which will be presented to Cabinet on 16th July 2013. 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:

	£000
(Surplus) / Deficit on Provision of Services reported by Directorate	**(21,194)**
Depreciation	32,926
Impairment of Assets	(3,065)
Non-enhancing Expenditure	19,734
Amortisation of Intangible Assets	330
Capital Grants and Contributions Applied	(26,309)
Revenue Expenditure Funded from Capital Under Statute	3,816
Net Gain or Loss on Disposal of assets	(407)
Minimum Revenue Provision	(10,777)
Capital Grants and Contributions Unapplied	(2,343)
IAS 19 Pension Adjustment	3,413
Accumulated Absence Adjustment	(2,869)
Total Adjustments	14,449
(Surplus) / Deficit on Provision of Services per Comprehensive Income & Expenditure Account	**(6,745)**

Funding Income

The following table details the main sources of income received by the Authority to fund service expenditure in 2012/2013:

	2012/2013			
	Original Estimate £000	**Revised Estimate £000**	**Outturn £000**	**Variance £000**
Funding Income				
Council Tax (Net of Police Authority and Community Council Precepts)	52,212	52,212	53,717	(1,505)
Revenue Support Grant	207,273	207,273	207,273	0
Non Domestic Rates	46,362	46,362	46,362	0
Outcome Agreement Grant	1,882	1,882	1,882	0
Private Finance Initiative Grant	7,509	7,509	7,509	0
Total Funding Income	**315,238**	**315,238**	**316,743**	**(1,505)**

Explanatory Foreword (continued)

Housing Revenue Account

Details of the Housing Revenue Account are set out on pages 118 to 123. For 2012/2013, actual outturn compared to budget was as follows:

	2012/2013		
	Original Estimate £000	Actual Outturn £000	Variance £000
Expenditure	35,931	35,794	(137)
Income	(35,883)	(43,509)	(7,626)
(Surplus)/Deficit for the year on HRA Services	48	(7,715)	(7,763)
In year use of Reserves	0	6,884	6,884
HRA Outturn	**48**	**(831)**	**(879)**
(Surplus)/Deficit for the year on HRA Services			**(7,715)**
Depreciation			3,948
Impairment of Assets			(35,032)
Non-enhancing Expenditure			14,315
Capital Grants and Contributions Applied			(7,309)
Net Gain or Loss on Disposal of Assets			(785)
Minimum Revenue Provision			(946)
IAS19 Pension Adjustment			(137)
Accumulated Absence Adjustment			(44)
Support service Recharge Adjustment			359
Total Adjustments			**(25,631)**
(Surplus)/Deficit for the year on HRA Services			**(33,346)**

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 arm's 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 30, page 94 together with explanations of what each provision is for.

	1 April 2012 £000	Movement £000	31 March 2013 £000
Short term provisions	(2,004)	(1,705)	(3,709)
Long term provisions	(8,662)	1,113	(7,549)
	(10,666)	**(592)**	**(11,258)**

Explanatory Foreword (continued)

Reserves

The amounts shown as non-usable reserves relate to capital and pension reserves, which do not constitute 'usable resources'. Further details of movements are detailed in note 21, page 82.

	1 April 2012 £000	Movement £000	31 March 2013 £000
Reserves - Usable	(91,059)	(4,780)	(95,839)
- Unusable	(530,004)	151,328	(378,676)
	(621,063)	**146,548**	**(474,515)**

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 52).

Loan Debt

The total amount outstanding as at 31 March 2013 was £196.531m, 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 52 (note 10).

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

	2011/2012 £000	2012/2013 £000
Amortised Cost of Loans:		
Loan debt repayable in one year	(4,076)	(9,233)
Loan debt repayable in more than one year	(191,817)	(187,298)
	(195,893)	**(196,531)**
Nominal Value of Loans:		
Loan debt repayable in one year	(609)	(6,241)
Loan debt repayable in more than one year	(191,818)	(186,876)
	(192,427)	**(193,117)**

Explanatory Foreword (continued)

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 2012/13, 94.20% of payments were made within 30 days (93.39% in 2011/12).

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 2012/13, invoices were settled within an average of 12.78 days (13.92 days in 2011/12).

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 2012/2013 is £342.42m (£286.283m in 2011/2012). 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.

Explanatory Foreword (continued)

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 Tâf 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.

Rhondda Cynon Tâf 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 was settled in the 2013/2014 financial year.

2012/2013 Capital Expenditure

Capital expenditure during the year amounted to some £54.297m (2011/2012 - £49.761m).

The major items within this figure are identified below:

	£000	£000
Housing:		
Repairs and Improvements	14,315	
Improvement Grants & Private Sites	4,027	
		18,342
Non Housing:		
Education	10,423	
Social Services	459	
Highways & Transportation and Land Reclamation	9,144	
Lifelong Learning and Leisure	941	
Economic Development/Tourism	1,343	
Planning	6,055	
Environmental Services	2,240	
Other	5,350	
		35,955
		54,297
Financed by:	Grants inc MRA	28,488
	Borrowing	5,938
	Other	19,871
		54,297

Capital expenditure was financed by borrowing (£5.938m), grants (£28.488m) and other sources (£19.871m). 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 73) to the Core Financial Statements.

Explanatory Foreword (continued)

Future Financial Developments

The Authority's budget for 2013/14 was approved on 27 February 2013. 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. Since the budget setting process, the Welsh Government announced on 23 May 2013 that Local Authorities should not plan on receiving the indicative allocations for 2014/15 as notified in the final settlement. Hence, the Authority has revised its MTFP assumptions, which were presented at Cabinet on 18 June 2013.

The Authority is looking to continue with a further phase of 21st Century Schools Projects, to include proposals to reduce surplus places. Further funds need to be earmarked to provide match funding.

Since the publication of the previous year's foreword, the collaborations for the Education Achievement Service (EAS) involving former Gwent Authorities has been agreed by Council and established. In addition, a preferred bidder has been agreed for Project Gwyrdd. This collaboration should deliver £1.5m of cashable savings which have been identified in the revised MTFP. The proposal to integrate the Social Services Directorates of Caerphilly CBC and Blaenau Gwent CBC did not proceed, as agreed at Cabinet on 9 April 2013.

There is much uncertainty surrounding the impact on the Authority's services of the Welfare Reform legislation and the introduction of Local Council Tax Reduction Scheme (LCTRS). Welsh Government agreed to find the shortfall for the LCTRS in 2013/14. The situation for 2014/2015 is still under review. The impact of the under occupancy benefit changes is being closely monitored, to ensure that it does not impact on the delivery of the Welsh Housing Quality Standard (WHQS) Programme.

Explanatory Foreword (continued)

2012 Code of Practice on Local Authority Accounting

The above publication, (the Code) 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 2012/2013 that are applicable to the Authority:

a) Amendments to International Financial Reporting Standard (IFRS) 7 *Financial Instruments: Disclosures (transfers of financial assets*). IFRS 7 must be implemented from 1 April 2012 and intends 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.

b) Accounting for the Carbon Reduction Commitment (CRC) energy efficient scheme based on International Financial Reporting Interpretations Committee *IFRIC 3 Emissions Rights*. 2011/12 was the first year that the CRC emissions gave rise to a liability to purchase and surrender CRC carbon allowances (2010/11 was a reporting year only). The scheme is still in its introductory phase which runs from April 2010 to March 2014 and in this phase there will be retrospective sales of allowances. The scheme gives rise to an asset for any CRC allowances held and a liability being recognised (as emissions are generated) for the surrender of allowances to the CRC Registry. Any assets held must be classed as either current intangible assets and revalued in accordance with the Code, or current assets if held for trading.

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 Acting Director of Corporate Services;
- 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 Acting Director of Corporate Services

The Acting Director of Corporate Services 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 Acting Director of Corporate Services has:

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

The Acting Director of Corporate Services 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 Acting Director of Corporate Services

I certify that the accounts, set out on pages 14 to 123, give a true and fair view of the financial position of the Authority as at 31 March 2013 and its income and expenditure for the year then ended.

Nicole Scammell

N. Scammell
Acting Director of Corporate Services
and S.151 Officer

Date 30/9/13.

The accounts were approved by the Council on

Signed on behalf of Caerphilly County Borough Council:

MGray

30-9-2013

Councillor M. Gray, Mayor
Chair of Meeting Approving the Accounts

Date

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 2013 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 2012-13 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.

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 2013 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 2012-13.

Emphasis of matter

We draw attention to the matters disclosed in note 16 to the accounts in relation to (i) remuneration paid to senior managers of £270,364, which was in breach of applicable regulations; and (ii) payments made to senior officers of £102,709 and £115,854 to buy-out allowances for Essential Car Users and Additional Annual Leave which were authorised without lawful authority to do so. In my view these items of account are unlawful. Our opinion is not qualified in respect of these matters.

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

The certificate that the audit of the accounts has been completed in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit and Inspection Practice issued by the Auditor General for Wales cannot be issued for the following reasons:

- The police investigation in respect of the decision of the senior remuneration panel in September 2012 has not yet been completed. The Appointed Auditor will consider the outcome of this investigation when complete to determine whether any further audit action should be taken in respect of this matter.
- The audit of the financial statements has identified further payments to senior officers in the form of the buy out Essential Car User and Additional Annual Leave allowances which are considered to be unlawful. The Appointed Auditor is currently considering whether to issue a public interest report under Section 22 in respect of these payments.

AJ Barrett

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

Date 30 September 2013

Introduction to Accounting Statements

The Authority's accounts for the year 2012/2013 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 2013

Movement in Reserves Statement

Restated

	Council Fund Balance £000	Earmarked Council Fund Reserves £000	Housing Revenue Account £000	Capital Grants Unapplied £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	**Note**
Balance at 1 April 2011	**(16,622)**	**(46,046)**	**(5,768)**	**(9,430)**	**(7,964)**	**(85,830)**	
Prior year adjustment	0	0	0	0	0	0	
Restated at 1 April 2011	**(16,622)**	**(46,046)**	**(5,768)**	**(9,430)**	**(7,964)**	**(85,830)**	
Movement in reserves during 2011/2012							
(Surplus)/deficit on provision of services (accounting basis)	43,964	0	(7,759)	0	0	36,205	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	
Total Comprehensive Income and Expenditure	**43,964**	**0**	**(7,759)**	**0**	**0**	**36,205**	
Adjustments between accounting basis and funding basis under regulations	(46,429)	0	6,660	(1,589)	(1,848)	(43,206)	**5**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(2,465)	0	(1,099)	(1,589)	(1,848)	(7,001)	
Transfers to/(from) Earmarked Reserves	6,279	(8,467)	2,187	1,266	507	1,772	**6**
(Increase)/Decrease in Year	**3,814**	**(8,467)**	**1,088**	**(323)**	**(1,341)**	**(5,229)**	
Balance at 31 March 2012	**(12,808)**	**(54,513)**	**(4,680)**	**(9,753)**	**(9,305)**	**(91,059)**	

	Unusable Reserves £000	**Total Authority Reserves £000**	**Note**
Balance at 1 April 2011	**(563,189)**	**(649,019)**	
Prior year adjustment	(43,892)	(43,892)	
Restated at 1 April 2011	**(607,081)**	**(692,911)**	
Movement in reserves during 2011/2012			
(Surplus)/deficit on provision of services (accounting basis)	0	36,205	
Other Comprehensive Income and Expenditure	35,643	35,643	**11,34**
Total Comprehensive Income and Expenditure	**35,643**	**71,848**	
Adjustments between accounting basis and funding basis under regulations	43,206	0	**5**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	78,849	71,848	
Transfers to/(from) Earmarked Reserves	(1,772)	0	
(Increase)/Decrease in Year	**77,077**	**71,848**	
Balance at 31 March 2012	**(530,004)**	**(621,063)**	

Movement in Reserves Statement (continued)

	Council Fund Balance £000	Earmarked Council Fund Reserves £000	Housing Revenue Account £000	Capital Grants Unapplied £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	**Note**
Balance at 1 April 2012	**(12,808)**	**(54,513)**	**(4,680)**	**(9,753)**	**(9,305)**	**(91,059)**	
Movement in reserves during 2012/2013							
(Surplus)/deficit on provision of services (accounting basis)	26,601	0	(33,346)	0	0	(6,745)	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	
Total Comprehensive Income and Expenditure	**26,601**	**0**	**(33,346)**	**0**	**0**	**(6,745)**	
Adjustments between accounting basis and funding basis under regulations	(29,091)	0	32,938	(2,342)	(1,096)	409	**5**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(2,490)	0	(408)	(2,342)	(1,096)	(6,336)	
Transfers to/(from) Earmarked Reserves	1,026	221	(1,245)	768	786	1,556	**6**
(Increase)/Decrease in Year	**(1,464)**	**221**	**(1,653)**	**(1,574)**	**(310)**	**(4,780)**	
Balance at 31 March 2013	**(14,272)**	**(54,292)**	**(6,333)**	**(11,327)**	**(9,615)**	**(95,839)**	

	Unusable Reserves £000	**Total Authority Reserves £000**	**Note**
Balance at 1 April 2012	**(530,004)**	**(621,063)**	
Movement in reserves during 2012/2013			
(Surplus)/deficit on provision of services (accounting basis)	0	(6,745)	
Other Comprehensive Income and Expenditure	153,293	153,293	**11,34**
Total Comprehensive Income and Expenditure	**153,293**	**146,548**	
Adjustments between accounting basis and funding basis under regulations	(409)	0	**5**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	152,884	146,548	
Transfers to/(from) Earmarked Reserves	(1,556)	0	
(Increase)/Decrease in Year	**151,328**	**146,548**	
Balance at 31 March 2013	**(378,676)**	**(474,515)**	

Comprehensive Income and Expenditure Statement

For the year ended

31 March 2013

Comprehensive Income and Expenditure Statement

31 March 2012 Restated Gross Expenditure £000	31 March 2012 Restated Gross Income £000	31 March 2012 Restated Net Expenditure £000		31 March 2013 Gross Expenditure £000	31 March 2013 Gross Income £000	31 March 2013 Net Expenditure £000	Note
3,572	(996)	2,576	Central Services to the Public	3,577	(1,097)	2,480	
37,251	(5,752)	31,499	Cultural and Related Services	30,779	(6,010)	24,769	
28,535	(8,751)	19,784	Environmental and Regulatory Services	28,880	(8,383)	20,497	
15,208	(6,534)	8,674	Planning Services	18,248	(5,156)	13,092	
228,608	(48,917)	179,691	Education and Children's Services	228,652	(51,454)	177,198	
31,388	(6,830)	24,558	Highways and Transport Services	29,581	(5,901)	23,680	
39,763	(41,430)	(1,667)	Local Authority Housing (HRA)	16,063	(43,484)	(27,421)	
87,293	(82,138)	5,155	Other Housing Services	86,129	(81,871)	4,258	
78,524	(16,895)	61,629	Adult Social Care	78,384	(18,031)	60,353	
4,210	(133)	4,077	Corporate and Democratic Core Costs	4,636	(286)	4,350	
7,036	(1,490)	5,546	Non Distributed Costs	5,343	(1,648)	3,695	
561,388	**(219,866)**	**341,522**	**Cost of Services**	**530,272**	**(223,321)**	**306,951**	
23,455	(1,848)	21,607	Other Operating Expenditure	21,245	(1,096)	20,149	7
60,156	(34,947)	25,209	Financing and Investment Income and Expenditure	55,195	(31,862)	23,333	8
0	(352,133)	(352,133)	Taxation and Non-Specific Grant Income	0	(357,178)	(357,178)	9
		36,205	**(Surplus)/Deficit on Provision of Services**			**(6,745)**	
		(15,703)	(Surplus)/Deficit on revaluation of non-current assets			100,570	34
		51,346	Actuarial (gains)/losses on pensions assets/liabilities			52,723	11
		35,643	**Other Comprehensive Income and Expenditure**			**153,293**	
		71,848	**Total Comprehensive Income and Expenditure**			**146,548**	

Balance Sheet

As at 31 March 2013

Balance Sheet

Restated 31 March 2011 £000	Restated 31 March 2012 £000		31 March 2013 £000	Note
1,125,507	1,098,831	Property, Plant & Equipment	996,962	22
9,680	8,680	Heritage Assets	8,806	23
3,398	2,168	Long Term Investments	4	10
548	409	Long Term Debtors	307	25
1,139,133	**1,110,088**	**Long Term Assets**	**1,006,079**	
69,827	62,455	Short Term Investments	77,369	10
948	933	Inventories	855	26
31,316	41,366	Short Term Debtors	39,507	27
5,043	5,736	Cash and Cash Equivalents	1,190	28
107,134	**110,490**	**Current Assets**	**118,921**	
(2,126)	(4,076)	Short Term Borrowing	(9,233)	10
(64,157)	(60,616)	Short Term Creditors	(56,311)	29
(2,185)	(2,004)	Short Term Provisions	(3,709)	30
(68,468)	**(66,696)**	**Current Liabilities**	**(69,253)**	
(8,789)	(8,662)	Long Term Provisions	(7,549)	30
(193,377)	(191,817)	Long Term Borrowing	(187,298)	10
(281,305)	(331,166)	Other Long Term Liabilities	(385,391)	10,11
(1,417)	(1,174)	Capital Grants Receipts in Advance	(994)	9
(484,888)	**(532,819)**	**Long Term Liabilities**	**(581,232)**	
692,911	**621,063**	**Net Assets**	**474,515**	
(85,830)	(91,059)	Usable Reserves	(95,839)	21
(607,081)	(530,004)	Unusable Reserves	(378,676)	21
(692,911)	**(621,063)**	**Total Reserves**	**(474,515)**	

The notes on pages 25 to 123 form part of the statement of accounts.

Cash Flow Statement

For the year ended 31 March 2013

Cash Flow Statement

Restated 2011/2012 £000		2012/2013 £000	Note
(36,205)	**Net surplus or (deficit) on provision of services**	**6,745**	
56,671	Adjust net surplus or deficit on the provision of services for non cash movement	20,658	**46**
(25,484)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(29,058)	**46**
(5,018)	Net cash flows from Operating Activities	**(1,655)**	
13,949	Investing Activities	(1,195)	**48**
(8,238)	Financing Activities	(1,696)	**49**
693	Net increase or (decrease) in cash and cash equivalents	**(4,546)**	
5,043	Cash and cash equivalents at the beginning of the reporting period	5,736	
5,736	**Cash and cash equivalents at the end of the reporting period**	**1,190**	**28**

Notes

to the

Core Financial Statements

Notes to the Core Financial Statements

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/2013 financial year and its position at the year-end of 31 March 2013. 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 2012/2013 (the Code), and the Service Reporting Code of Practice 2012/2013 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. Exceptional Items

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

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 Education (DfE).
- 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 2012/2013 this was calculated as a weighted average of "spot yields" on the iBoxx Sterling AA Rated Corporate Bond rate, which was 4.2% (4.9% in 2011/2012).
- 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 amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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 Council Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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 2012/2013* (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).

Deprecation is calculated on a straight line basis as follows:
- council dwellings – 15 to 40 years
- other land and buildings – 15 to 100 years
- vehicles, plant, furniture and equipment – up to 20 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 as in accordance with our componentisation policy.

Notes to the Core Financial Statements (continued)

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

Depreciation 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 Babell 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 45 for the PFI Equalisation Reserves).

xx. Provisions and Reserves

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 30.

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.

xxi. Contingent Assets and Contingent Liabilities

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 31.

Notes to the Core Financial Statements (continued)

xxii. 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.

xxiii. 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.

xxiv. 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.

xxv. 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.

xxvi. Value Added Tax

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

Notes to the Core Financial Statements (continued)

xxvii. 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 as 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.

xxviii. 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 £3.8m in 2012/2013. 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 £26.409m) and Road (valued at £31.280m) are recognised as Property, Plant and Equipment on the Authority's Balance Sheet.

- In accordance with current guidance regarding the treatment of certain types of school, only the value of the land for voluntary aided and foundation schools is included in the Balance Sheet. As the Council does not own these types of school and does not have access to them for valuation purposes, the value of the buildings is excluded from the Balance Sheet.

- The Authority has £969m recognised as Property, Plant and Equipment on its Balance Sheet as at 31 March 2013. 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 mainly by the Authority's in-house Corporate Property Department on an annual basis in line with the rolling program. External Valuers are commissioned to undertake the valuation of specific assets where in-house expertise is unavailable. 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 2013 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 £10.610m - see note 30.	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 £14.215m. However, the assumptions interact in complex ways. During 2012/2013, the Authority's Actuaries advised that the net pensions liability had increased by £56.137m. This is as a result of estimates being corrected as a result of experience and also actuarial losses on liabilities amounting to £93.126m.

Notes to the Core Financial Statements (continued)

4. Accounting Standards issued but not yet adopted

For 2012/2013, the following accounting standards have been issued, but not yet adopted by the Authority:

IAS 19 *Employee Benefits.* Full adoption of the standard will result in a change of accounting policy, the standard being required to be adopted for accounting periods beginning 1 April 2013. The standard introduces new classes of components of defined benefit cost that need to be recognised in the financial statements and new recognition criteria for service costs and termination benefits.

If the new standard had been adopted at the start of the financial year, the Authority would have recognised an increase in pension costs of £4.821m in its Comprehensive Income and Expenditure Account. As per our Actuaries estimates, there would be no material effect on the pension liability in the Balance Sheet as at 31 March 2013 and it has not been possible to estimate the amount of any adjustment required relating to prior periods.

IAS 1 *Presentation of Financial Statements – Other Comprehensive Income*. Adoption of this standard could result in a change of accounting policy if authorities have gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services. Such examples would be foreign exchange gains and losses arising from translations of financial statements of foreign operations, effective portions of gains and losses on hedging instruments in cash flow hedges and also changes in the recognition criteria for assets under construction or intangible assets such as service concession agreements. Having reviewed the amendments to the standard, there is no impact upon the Authority and consequently no disclosures required as at 31 March 2013.

IFRS 7 *Financial Instrument Disclosures* – Offsetting Financial Assets and Liabilities. As the Authority does not offset financial assets and liabilities, it is unlikely that full adoption of this standard will have a material impact upon the financial position.

IFRS 13 *Measuring the Fair value of Unquoted Equity Instruments within the scope of IFRS 9 Financial Instruments* – As the Authority does not have any unquoted equity instruments there will be no impact on the Authority's accounts and consequently no disclosures are required as at 31 March 2013.

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 Authority 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.

Notes to the Core Financial Statements (continued)

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 Authority 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)

2011/2012	Usable Reserves: Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation and impairment of non-current assets	(80,359)	(3,365)	0	0	83,724
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
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
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)
Adjustments primarily involving the Capital Grants Unapplied Account:					0
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,589	0	0	(1,589)	0
Adjustment primarily involving the Financial Instruments Adjustment Account:					
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
Adjustments primarily involving the Pensions Reserve:					
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)
Adjustments primarily involving the Accumulated Absences Account:					
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)
Total Adjustments	**(46,429)**	**6,660**	**(1,848)**	**(1,589)**	**43,206**

Notes to the Core Financial Statements (continued)

2012/2013	Usable Reserves: Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation and impairment of non-current assets	(66,363)	16,769	0	0	49,594
Amortisation of intangible assets	(330)	0	0	0	330
Capital grants and contributions applied	18,999	7,309	0	0	(26,308)
Revenue expenditure funded from capital under statute	(5,304)	0	0	0	5,304
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	(379)	785	(1,096)	0	690
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	9,831	946	0	0	(10,777)
Capital expenditure charged against the Council Fund and HRA balances	13,055	7,006	0	0	(20,061)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	2,342	0	0	(2,342)	0
Adjustment primarily involving the Financial Instruments Adjustment Account:					
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
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(25,427)	(657)	0	0	26,084
Employer's pensions contributions and direct payments to pensioners payable in the year	21,875	794	0	0	(22,669)
Adjustments primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,826	43	0	0	(2,869)
Total Adjustments	**(29,091)**	**32,938**	**(1,096)**	**(2,342)**	**(409)**

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 2012/2013.

	Balance at 1 April 2011 £000	Transfers from £000	Transfers to £000	Balance at 31 March 2012 £000	Transfers from £000	Transfers to £000	Balance at 31 March 2013 £000
Council Fund:							
Balances held by schools under a scheme of delegation (note 43)	(6,802)	3,047	(496)	**(4,251)**	806	(1,286)	**(4,731)**
Capital Earmarked Reserves (note 40)	(13,015)	5,276	(10,844)	**(18,583)**	14,406	(14,067)	**(18,244)**
Direct Services Earmarked Reserves (note 39)	(606)	443	(98)	**(261)**	63	(144)	**(342)**
Service over/underspend Reserves (note 41)	(5,559)	4,171	(4,629)	**(6,017)**	5,773	(5,205)	**(5,449)**
Insurance Earmarked Reserves (note 42)	(2,966)	270	(2,318)	**(5,014)**	3,531	(2,255)	**(3,738)**
Other Earmarked Reserves (note 45)	(17,098)	490	(3,779)	**(20,387)**	3,731	(5,132)	**(21,788)**
Total	**(46,046)**	**13,697**	**(22,164)**	**(54,513)**	**28,310**	**(28,089)**	**(54,292)**
Housing Revenue Account:							
HRA Fund Balance	**(5,768)**	**1,433**	**(345)**	**(4,680)**	**120**	**(1,773)**	**(6,333)**

7. Other Operating Expenditure

Other operating expenditure is made up as follows:

	2011/2012 £000	2012/2013 £000
Community Council Precepts	550	554
Gwent Police Authority Precept	10,906	11,229
Levies	8,878	8,772
(Gains)/losses on the disposal of non-current assets	1,273	(406)
Total	**21,607**	**20,149**

Notes to the Core Financial Statements (continued)

Levies	2011/2012 £000	2012/2013 £000
South Wales Fire Authority	8,503	8,370
Gwent Coroners' Service	153	192
Glamorgan Archives' Service	93	84
Gwent Archives' Service	129	126
Total Levies	**8,878**	**8,772**

Precepts Community Councils:	2011/2012 £000	2012/2013 £000
Aber Valley Community Council	30	30
Argoed Community Council	9	9
Bargoed Town Council	59	58
Bedwas, Trethomas and Machen Community Council	56	59
Blackwood Community Council	35	35
Caerphilly Town Council	77	77
Darren Valley Community Council	12	12
Gelligaer Community Council	72	74
Llanbradach Community Council	26	26
Maesycwmmer 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	10	10
Van Community Council	20	20
	550	**554**
Gwent Police Authority	**10,906**	**11,229**
Total Precepts upon the Authority	**11,456**	**11,783**

8. Financing and Investment Income and Expenditure

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

	2011/2012 £000	2012/2013 £000
Interest payable and similar charges	12,954	15,690
Pensions interest costs and expected return on pensions assets	7,951	9,347
Interest receivable and similar income	(682)	(435)
(Gains)/losses on direct labour/service organisations trading	431	(975)
(Gains)/losses on other trading accounts	4,555	(294)
Total	**25,209**	**23,333**

Notes to the Core Financial Statements (continued)

	2011/2012 (Surplus)/Deficit £000	Income £000	2012/2013 Expenditure £000	(Surplus)/ Deficit £000
Highway Maintenance	(138)	(6,400)	5,813	(587)
Building Cleaning	(181)	(3,198)	3,077	(121)
Vehicle Maintenance	(119)	(1,157)	1,083	(74)
Building Services	925	(14,355)	14,164	(191)
Fleet Management	(56)	(4,402)	4,400	(2)
Total (surplus)/deficit on direct service/labour organisations trading	**431**	**(29,512)**	**28,537**	**(975)**

	2011/2012 (Surplus)/Deficit £000	Income £000	2012/2013 Expenditure £000	(Surplus)/ Deficit £000
Industrial Estates	4,661	(2,182)	1,950	(232)
Housing Agency	(106)	(556)	494	(62)
Total (surplus)/deficit on other trading accounts	**4,555**	**(2,738)**	**2,444**	**(294)**

9. Taxation and non-specific grant income

	2011/2012 £000	2012/2013 £000
Council tax income	(64,770)	(65,500)
Non domestic rates	(40,046)	(46,362)
Non-ringfenced government grants	(220,561)	(216,664)
Capital grants and contributions	(26,756)	(28,652)
Total	**(352,133)**	**(357,178)**

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 2012/2013 (£897.84 in 2011/2012) is multiplied by the proportion specified for the particular band, adjusted for discount, to give the individual amount due. The total amount due for 2012/2013 was £65.705m (£64.986m in 2011/2012).

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	8,412	18,001	14,217	5,174	6,763	2,963	1,132	170	119

Analysis of the net proceeds from council tax:	2011/2012 £000	2012/2013 £000
Council tax collectable		
Caerphilly County Borough Council	(53,530)	(53,922)
Gwent Police Authority - see note 5	(10,906)	(11,229)
Community Councils - see note 5	(550)	(554)
Total amount due	(64,986)	(65,705)
Less: Bad Debt Provision	216	205
Net proceeds from council tax	**(64,770)**	**(65,500)**

National Non Domestic Rates (NNDR) Income

NNDR is organised on a national basis. The Welsh Government specifies an amount for the rate (45.2p in 2012/2013, 42.8p in 2011/2012) 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 2012/2013 was £46.362m in total (£40.046m in 2011/2012).

The anticipated NNDR proceeds of £33.9m for 2012/2013 (£31.5m in 2011/2012) was based on an average rateable value of £89.56m for the year (£88.36m for 2011/2012).

Analysis of the net proceeds from Non-Domestic Rates:	2011/2012 £000	2012/2013 £000
Anticipated proceeds	(31,483)	(33,874)
Less: Discretionary relief	310	310
Cost of collection	345	264
Bad and doubtful debts	478	516
Contribution to NNDR Pool	**(30,350)**	**(32,784)**
Redistributed amount due from NNDR Pool	(40,046)	(46,362)
Amount received from NNDR Pool	**(40,046)**	**(46,362)**

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 2012/2013:

	2011/2012 £000	2012/2013 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(210,977)	(207,273)
Outcome Agreement Grant	(1,873)	(1,882)
Private Finance Initiative Grant	(7,711)	(7,509)
Total	**(220,561)**	**(216,664)**

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:

Capital Grants Receipts in Advance	2011/2012 £000	2012/2013 £000
Opening balance as at 1 April	**(1,417)**	**(1,174)**
Planning grants	29	0
Highways and Transportation grants	214	0
Social Services	0	180
Closing balance as at 31 March	**(1,174)**	**(994)**

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 2012	31 March 2013	31 March 2012	31 March 2013
	£000	£000	£000	£000
Investments				
Loans and receivables	2,168	4	62,455	77,369
Total investments	**2,168**	**4**	**62,455**	**77,369**
Debtors				
Loans and receivables	409	307	41,366	39,507
Total debtors	**409**	**307**	**41,366**	**39,507**
Borrowings				
Financial liabilities at amortised cost	(191,817)	(187,298)	(4,076)	(9,233)
Total borrowings	**(191,817)**	**(187,298)**	**(4,076)**	**(9,233)**
Other long term liabilities				
PFI and finance lease liabilities	(44,393)	(42,412)	(1,974)	(2,038)
Deferred Liabilities	(490)	(559)	0	0
Total other long term liabilities	**(44,883)**	**(42,971)**	**(1,974)**	**(2,038)**
Creditors				
Financial liabilities carried at contract amount	0	0	(58,642)	(54,273)
Total creditors	**0**	**0**	**(58,642)**	**(54,273)**

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

Notes to the Core Financial Statements (continued)

Income, Expenses, Gains and Losses	Financial Liabilities	Financial Assets	
31 March 2013	**Liabilities measured at amortised cost £000**	**Loans and receivables £000**	**Total £000**
Interest expense	15,690	0	15,690
Total expense in Surplus or Deficit on the Provision of Services	**15,690**	**0**	**15,690**
Interest income	0	(214)	(214)
Interest income accrued on impaired financial assets	0	(221)	(221)
Total income in Surplus or Deficit on the Provision of Services	**0**	**(435)**	**(435)**
Net (gain)/loss for the year	**15,690**	**(435)**	**15,255**

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.

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 2012/2013 the Fair Value for PWLB loan debt has been arrived at using the PWLB's repayment rate at 31 March 2013.

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 2013 were of 0.02% to 3.13% 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 0.25% and 0.35%. 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.

Notes to the Core Financial Statements (continued)

The fair values calculated are as follows:

	31 March 2012		31 March 2013	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities	(256,509)	(284,665)	(252,842)	(325,584)
Long term creditors	(44,883)	(44,883)	(42,971)	(42,971)
	(301,392)	**(329,548)**	**(295,813)**	**(368,555)**

Analysis of Liabilities by maturity	**31 March 2012 £000**	**31 March 2013 £000**
Maturing within 1 year	(64,692)	(65,544)
Maturing in 1 - 2 years	(15,442)	(10,866)
Maturing in 2 - 5 years	(21,717)	(22,820)
Maturing in 5 - 10 years	(20,139)	(19,676)
Maturing in 10 - 15 years	(22,683)	(29,033)
Maturing in 15 - 20 years	(21,143)	(11,873)
Maturing in 20 - 25 years	(2,494)	(7,483)
Maturing in 25 - 30 years	(14,965)	(9,977)
Maturing in 30 - 35 years	(23,944)	(28,933)
Maturing in 35 - 40 years	(9,977)	(11,972)
Maturing in 40 - 45 years	(50,196)	(49,712)
Maturing in 45 - 50 years	(14,000)	(7,500)
Maturing in over 50 years	(20,000)	(20,424)
	(301,392)	**(295,813)**

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 2013) arising from a commitment to pay interest to lenders above current market rates.

	31 March 2012		31 March 2013	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and receivables	111,725	111,782	118,070	118,070
Long term debtors	409	409	307	307
	112,134	**112,191**	**118,377**	**118,377**

As at 31 March 2013, assets included deposits valued at nominal amounts plus accrued interest and Icelandic deposits outstanding using the latest information available. The Authority had no Asset and Liabilities at Fair Value through Profit and Loss at 31 March 2013.

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.
- Re-financing risk – the possibility that the Authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- 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 "2012/13 Annual Treasury Management Strategy and Investment Strategy (including Prudential Indicators)" was approved by Council on 23 February 2012 and is 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 2012/2013 followed that of 2011/2012, 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

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 Authority'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 2012	31 March 2013			
Counterparties rated:	Estimated maximum exposure to default £000	Amount at 31 March 2013 £000	Historical experience of default %	Historic experience adjusted for market conditions at 31 March 2013 %	Estimated maximum exposure to default £000
		A	B	C	(A x C)
AAA	0	74,714	0.00%	0.00%	0
AA	2	0	0.02%	0.03%	0
A	1	0	0.09%	0.08%	0
BBB+	0	1,192	0.00%	0.00%	0
Non-investment grade	3,425	2,657	100.00%	100.00%	2,657
Debtors - past due but not impaired	27	2,639	0.77%	0.77%	20
Total	**3,455**	**81,202**			**2,677**

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 2013, 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 2013, 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 2012 £000	31 March 2013 £000
Three to six months	968	314
Six months to one year	752	444
More than one year	1,966	1,881
	3,686	**2,639**

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.

Refinancing and Maturity Risk

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

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

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

The maturity analysis of debt outstanding with the PWLB and market loans is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy 2012/2013):

Prudential Indicator Analysis						
Period	**Minimum**	**Maximum**	**31 March 2012**		**31 March 2013**	
			£000		**£000**	
<12 Months	0%	35%	2,997	2%	8,223	4%
1-2 Years	0%	40%	5,232	3%	780	0%
2-5 Years	0%	50%	8,738	5%	11,200	6%
5-10 Years	0%	75%	8,370	4%	6,361	3%
>10 Years	0%	95%	164,829	86%	164,018	87%
			190,166	100%	190,582	100%

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.

Notes to the Core Financial Statements (continued)

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

- For borrowings at variable rates the interest expense charged to the Comprehensive Income and Expenditure Account will rise;
- For borrowings at fixed rates the fair value of the borrowings will fall (no impact on revenue balances);
- For investments at variable rates the interest income credited to the Comprehensive Income and Expenditure Account will rise;
- For investments at fixed rates the fair value of the assets will fall (no impact on revenue balances).

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 30% of its borrowings in variable rate loans when interest rate levels are favourable. However, as at 31 March 2013, 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.

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 2012/2013. According to the assessment strategy, if interest rates had been 1% higher at 31 March 2013, with all other variables held constant, the financial effect would be:

	£000
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	82
Increase in fair value of fixed rate investment assets	50
Impact on Other Comprehensive Income and Expenditure	**50**
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)	**38,298**

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.

Notes to the Core Financial Statements (continued)

Foreign exchange risk

During 2012/2013 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 to 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 during the 2012/2013 financial year. 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 2013 is:

Opening Balance on Escrow account £000	Gain/(loss) on Escrow account foreign exchange valuation as at 31 March 2013 £000	Escrow account valuation as at 31 March 2013 £000
37	3	40

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 Landsbanki in 2012/2013.

As at 31 March 2013, the impairment was recognised at £3.8m, an increase of £375k upon the previous impairment as a result of anticipated future dividend payments being re-profiled by the administrators.

Since the balance sheet date, the Authority has received further dividends from the failed Icelandic banks. The Authority received a final dividend of £1.69m from Heritable Bank, representing a total recovery of 94%, as well as a dividend of £0.255m from Landsbanki. The Authority has taken a prudent view in retaining an impairment charge of £3.8m as at 31 March 2013.

<u>Heritable Bank</u>

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%.

Notes to the Core Financial Statements (continued)

Three dividend payments were made in 2012/2013 equating to 9.45p in the £ (£945K). Following the sale of its residential mortgage book to a third party on 15th May 2013, it is likely that future dividend payments may be further delayed. The Authority has already received the following dividends:

- July 2009 16.13%
- December 2009 12.66%
- March 2010 6.19%
- July 2010 6.27%
- October 2010 4.14%
- January 2011 4.72%
- April 2011 6.25%
- July 2011 4.05%
- October 2011 4.11%
- January 2012 3.32%
- April 2012 3.79%
- July 2012 2.85%
- January 2013 2.72%

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 3.80%. 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. Furthermore, where dividends have been paid out in foreign currencies, such dividends are subject to exchange rate risk upon conversion to sterling.

The latest guidance confirms a recovery rate of 100%. The Authority has already received / is expecting to receive the following dividends:

- February 2012 30%
- May 2012 12%
- October 2012 6.0%
- December 2013 7.5%
- December 2014 7.5%
- December 2015 7.5%
- December 2016 7.5%
- December 2017 7.5%
- December 2018 7.5%
- December 2019 5.0%

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	Impair-ment as at 31 March 2012 £000	Notional Recover-able Amount as at 31 March 2012 £000	Impair-ment as at 31 March 2013 £000	Change in Impair-ment £000	Notional Recover-able Amount as at 31 March 2013 £000
Heritable Bank LT	11/07/2008	10/10/2008	3,000	706	2,423	735	28	2,395
Heritable Bank LT	14/07/2008	13/10/2008	1,500	353	1,210	366	13	1,197
Heritable Bank LT	21/08/2008	19/11/2008	1,500	349	1,205	353	4	1,201
Heritable Bank LT	26/08/2008	24/11/2008	1,000	233	802	235	2	800
Heritable Bank LT	02/09/2008	01/12/2008	2,000	465	1,602	466	1	1,601
Heritable Bank LT	09/09/2008	08/12/2008	1,000	232	800	231	(1)	801
Landsbanki Islands	15/07/2008	13/10/2008	1,000	221	821	295	74	747
Landsbanki Islands	20/08/2008	19/11/2008	3,000	651	2,456	846	195	2,261
Landsbanki Islands	15/09/2008	12/12/2008	1,000	215	817	273	59	758
		Totals	**15,000**	**3,425**	**12,136**	**3,800**	**375**	**11,761**

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	2,144
Loss of capital and accrued interest:	
Capital	1,356
Interest	17
Impairment	**3,800**

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:

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	945	916	1,861
31 March 2014	1,091	380	1,471
31 March 2015	0	380	380
31 March 2016	0	380	380
31 March 2017	0	380	380
31 March 2018	0	381	381
31 March 2019	0	381	381
31 March 2020	0	271	271
Totals	**8,894**	**4,947**	**13,841**

Notes to the Core Financial Statements (continued)

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

Bank	Credited 2011/12 £	Received 2011/12 £	Credited 2012/13 £	Received 2012/13 £
Heritable Bank LT	151,878	14,663	81,110	9,084
Landsbanki Islands	217,872	20,993	140,247	13,016

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 2012/2013, the Authority paid an employer's contribution of £19.764m, representing 20.8% of the pensionable pay of employees who are members of the scheme into the Greater Gwent (Torfaen) Pension Fund (£18.69m representing 19.5% in 2011/2012), 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.

In addition, the Authority is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2012/2013 these amounted to £1.223m, representing 1.29% of pensionable pay (£2.914m representing 3.05% in 2011/2012).

Teachers' Pension Scheme

In 2012/2013, the Authority paid £7.904m to Capita Teachers' Pensions in respect of teachers' pensions, which represents 14.1% of teachers' pensionable pay (£7.967m and 14.1% for 2011/2012). In addition, the Authority is responsible for all pension payments relating to added years that have been awarded, together with the related increases. In 2012/2013, these amounted to £1.223m, representing approximately 1.29% of pensionable pay (£1.779m and 3.15% for 2011/2012).

Notes to the Core Financial Statements (continued)

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 Tâf 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 Tâf County Borough Council Pension Fund.

Further information and the report is available on request from the Director of Finance, Rhondda Cynon Tâf County Borough Council, The Pavilions, Cambrian Park, Clydach Vale, Tonypandy 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	
	2011/2012 £000	2012/2013 £000	2011/2012 £000	2012/2013 £000
Comprehensive Income and Expenditure Statement:				
Cost of Services				
• current service cost	15,389	16,297	0	0
• past service costs	316	40	60	30
• settlements and curtailments	75	0	1,495	369
Financing and Investment Income and Expenditure				
• interest cost	33,429	32,714	1,471	1,345
• expected return on scheme assets	(26,949)	(24,712)	0	0
Total Post Employment Benefit charged to the Surplus or Deficit on Provision of Services	**22,260**	**24,339**	**3,026**	**1,744**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement				
• actuarial gains and losses	50,024	49,415	1,322	3,308
Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	**72,284**	**73,754**	**4,348**	**5,052**
Movement in Reserves Statement:				
• reversal of net charges made to the Surplus or Deficit on Provision of Services for post employment benefits in accordance with the Code	(22,260)	(24,339)	(3,026)	(1,744)
Actual Amount Charged Against the Council Fund Balance for Pensions in the Year:				
• employers' contributions payable to the scheme	20,892	20,517	2,233	2,152
• 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 2013 is a loss of £144.039m (£91.316m to 31 March 2012).

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities:

	2011/2012			
	Greater Gwent Scheme	Former Authorities Liability	Unfunded Teachers' Pension	Total
	£000	£000	£000	£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
Closing balance at 31 March	**666,550**	**8,910**	**21,299**	**696,759**

	2012/2013			
	Greater Gwent Scheme	Former Authorities Liability	Unfunded Teachers' Pension	Total
	£000	£000	£000	£000
Opening balance at 1 April	666,550	8,910	21,299	696,759
Current service cost	16,297	0	0	16,297
Interest cost	32,714	400	945	34,059
Contributions by scheme participants	6,009	0	0	6,009
Actuarial (gains) / losses	89,818	530	2,778	93,126
Benefits paid	(20,116)	(650)	(1,502)	(22,268)
Past service costs	40	30	0	70
Curtailments	0	0	369	369
Settlements	0	0	0	0
Closing balance at 31 March	**791,312**	**9,220**	**23,889**	**824,421**

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	
	2011/2012 £000	2012/2013 £000	2011/2012 £000	2012/2013 £000	2011/2012 £000	2012/2013 £000
Opening balance at 1 April	401,975	410,476	0	0	0	0
Expected rate of return	26,949	24,712	0	0	0	0
Actuarial gains / (losses)	(26,239)	40,403	0	0	0	0
Employer contributions	20,892	20,517	650	650	1,583	1,502
Contributions by scheme participants	6,143	6,009	0	0	0	0
Benefits paid	(19,244)	(20,116)	(650)	(650)	(1,583)	(1,502)
Admin Expenses	0	0	0	0	0	0
Closing balance at 31 March	**410,476**	**482,001**	**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 £65.115m (return of £701k in 2011/2012).

Scheme History:

	2008/2009 £000	2009/2010 £000	2010/2011 £000	2011/2012 £000	2012/2013 £000
Present value of liabilities:					
• Local Government Pension Scheme	(445,362)	(641,916)	(606,657)	(666,550)	(791,312)
• Former Authorities' Liability	(7,570)	(9,000)	(8,390)	(8,910)	(9,220)
• Teachers' Unfunded Discretionary Pension	(17,134)	(20,568)	(19,704)	(21,299)	(23,889)
Fair value of assets:					
• Local Government Pension Scheme	245,085	360,931	401,975	410,476	482,001
• Former Authorities' Liability	0	0	0	0	0
• Teachers' Unfunded Discretionary Pension	0	0	0	0	0
Surplus/(deficit) in the scheme:					
• Local Government Pension Scheme	(200,277)	(280,985)	(204,682)	(256,074)	(309,311)
• Former Authorities' Liability	(7,570)	(9,000)	(8,390)	(8,910)	(9,220)
• Teachers' Unfunded Discretionary Pension	(17,134)	(20,568)	(19,704)	(21,299)	(23,889)
Total	**(224,981)**	**(310,553)**	**(232,776)**	**(286,283)**	**(342,420)**

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 £342.42m 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 2014 is £19.72m.

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 2013, 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 2013 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	
	2011/2012	2012/2013	2011/2012	2012/2013	2011/2012	2012/2013
Long-term expected rate of return on scheme assets:						
Equity investments	7.0%	7.0%	n/a	n/a	7.0%	7.0%
Government Bonds	3.1%	2.8%	n/a	n/a	3.1%	2.8%
Other Bonds	4.1%	3.9%	n/a	n/a	4.1%	3.9%
Property	6.0%	5.7%	n/a	n/a	6.0%	5.7%
Cash/Liquidity	0.5%	0.5%	n/a	n/a	0.5%	0.5%
Other	7.0%	7.0%	n/a	n/a	7.0%	7.0%
Mortality assumptions:						
Longevity at 65 for current pensioners:						
- Men	21.3	21.7	23.2	23.3	21.3	21.7
- Women	23.4	23.9	24.5	24.7	23.4	23.9
Longevity at 65 for future pensioners:						
- Men	22.4	23.2	n/a	n/a	n/a	n/a
- Women	25.7	26.5	n/a	n/a	n/a	n/a
Rate of inflation	2.5%	2.4%	2.4%	2.6%	2.3%	2.4%
Rate of increase in salaries	4.0%	3.9%	n/a	n/a	4.0%	3.9%
Rate of increase in pensions	2.5%	2.4%	2.4%	2.6%	2.3%	2.4%
Rate for discounting scheme liabilities	4.9%	4.2%	4.6%	4.1%	4.6%	3.7%
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 2012	31 March 2013
Equity investments	75.1%	76.4%
Government Bonds	9.2%	8.7%
Other Bonds	8.2%	8.5%
Property	2.3%	2.3%
Cash/Liquidity	1.6%	0.5%
Other	3.6%	3.6%
	100.0%	**100.0%**

Notes to the Core Financial Statements (continued)

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/2013 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008/2009 %	2009/2010 %	2010/2011 %	2011/2012 %	2012/2013 %
Local Government Pension Scheme:					
Differences between the expected and actual return on assets	(37.4)	(23.5)	(1.8)	(6.4)	(8.4)
Experience gains and losses on liabilities	0	0	2.7	0.0	0.0
Former Authorities' Liability:					
Differences between the expected and actual return on assets	0	0	0	0	0
Experience gains and losses on liabilities	(5.3)	2.3	0.4	(2.2)	0.2
Teachers' Unfunded Discretionary Pension:					
Differences between the expected and actual return on assets	0	0	0	0	0
Experience gains and losses on liabilities	0	0	5.8	0	1.2

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 2012			31 March 2013		
	Road	Schools	Total	Road	Schools	Total
	£000	£000	£000	£000	£000	£000
Gross PFI Liabilities are due:						
- not later than 1 year	3,645	1,593	5,238	3,543	1,664	5,207
- later than 1 year and not later than 5 years	13,826	7,186	21,012	13,258	6,707	19,965
- later than 5 years	32,934	27,019	59,953	29,958	25,834	55,792
Total Gross Liabilities	**50,405**	**35,798**	**86,203**	**46,759**	**34,205**	**80,964**
Net PFI Liabilities are due:						
- not later than 1 year	1,420	274	1,694	1,425	370	1,795
- later than 1 year and not later than 5 years	6,092	2,213	8,305	5,986	1,919	7,905
- later than 5 years	20,180	15,492	35,672	18,771	15,514	34,285
Total Net Liabilities	**27,692**	**17,979**	**45,671**	**26,182**	**17,803**	**43,985**
Finance charges allocated to future periods	**(22,713)**	**(17,819)**	**(40,532)**	**(20,577)**	**(16,402)**	**(36,979)**
Reconciliation between Net Book Values of PFI Assets held under PFI schemes:						
Net Liability (as above)	27,692	17,979	45,671	26,182	17,803	43,985
Revaluations and impairments	0	18,017	18,017	0	12,027	12,027
Repayments/ Amortisation of capital sum	9,072	3,232	12,304	10,582	3,400	13,983
Accumulated Depreciation	(5,484)	(6,168)	(11,652)	(5,484)	(6,821)	(12,306)
Net Book value of PFI Assets	**31,280**	**33,060**	**64,340**	**31,280**	**26,409**	**57,689**

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 45).

Notes to the Core Financial Statements (continued)

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

	2011/2012 £000	2012/2013 £000
Balance brought forward	(11,581)	(12,241)
Amounts set aside in year:		
Schools	(445)	(283)
Road	(215)	(200)
	(12,241)	**(12,724)**

Future commitments for PFI Schemes

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

Road	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2013/2014	1,447	1,425	2,118	4,990
Payable within 2 to 5 years	6,967	5,986	7,272	20,225
Payable within 6 to 10 years	9,698	6,687	6,562	22,947
Payable within 11 to 15 years	10,516	7,376	3,732	21,624
Payable within 16 to 20 years	10,977	4,408	869	16,254
Payable within 21 to 25 years	1,401	300	24	1,725
	41,006	**26,182**	**20,577**	**87,765**

School	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2013/2014	2,321	370	1,293	3,984
Payable within 2 to 5 years	10,077	1,919	4,788	16,784
Payable within 6 to 10 years	14,430	3,433	5,173	23,036
Payable within 11 to 15 years	16,685	5,189	3,725	25,599
Payable within 16 to 20 years	16,684	6,892	1,423	24,999
	60,197	**17,803**	**16,402**	**94,402**

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 2012/2013 totalled £7,740 (£179,065 in 2011/2012) 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 £1,050,142 in 2012/2013, (£987,819 in 2011/2012) 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:

	2011/2012	2012/2013		
	Total £000	Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Not later than one year	1,009	911	8	919
Later than one year and not later than five years	2,924	2,909	298	3,207
Later than five years	5,637	8,756	0	8,756
	9,570	**12,576**	**306**	**12,882**

The Authority has sub-let some of the accommodation held under these operating leases. At 31 March 2013, the minimum payments expected to be received under non-cancellable sub leases were as follows:

Authority as sub-letter

	2011/2012	2012/2013	
	Total £000	Other Land & Buildings £000	Total £000
Not later than one year	11	1	1
Later than one year and not later than five years	20	0	0
Later than five years	0	0	0
	31	**1**	**1**

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 £34,120,272 as at 31 March 2013 and have been subject to accumulated depreciation of £1,483,054. (Gross value at 31 March 2012 £36,219,334 with accumulated depreciation of £2,224,566).

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 £58,906,455 and are subject to accumulated depreciation of £4,968,229 (Gross book value of £56,401,640 at 31 March 2012 with accumulated depreciation of £4,476,593).

Notes to the Core Financial Statements (continued)

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

Authority as lessor

	2011/2012	2012/2013		
	Total	Industrial Units	Other Land & Buildings	Total
	£000	£000	£000	£000
Not later than one year	896	725	148	873
Later than one year and not later than five years	1,646	1,116	276	1,392
Later than five years	518	0	397	397
	3,060	**1,841**	**821**	**2,662**

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 2012/2013 were £323,465 (£356,919 in 2011/2012), charged to the Comprehensive Income and Expenditure Statement as £41,134 as finance costs (debited to interest payable) and £282,331 relating to the write down of obligations to lessors.

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 2012 £000	31 March 2013 £000
Vehicles, Plant, Furniture & Equipment	696	465
	696	**465**

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 2012 £000	31 March 2013 £000
Finance lease liabilities (net present value of minimum lease payments)		
• Current	320	274
• Non- current	472	257
Finance costs payable in future years	(96)	(66)
Minimum lease payments	**696**	**465**

Notes to the Core Financial Statements (continued)

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

	Minimum Lease Payments		Finance Lease Liabilities	
	2011/2012 £000	**2012/2013 £000**	**2011/2012 £000**	**2012/2013 £000**
Not later than one year	320	274	280	243
Later than one year and not later than five years	472	257	416	222
Later than five years	0	0	0	0
	792	**531**	**696**	**465**

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 2012/2013 was £1,197,966 (£1,204,480 in 2011/2012). More detailed information on Members' Allowances can be obtained from the Head of People Management & Development, 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 2013 were:

2011/2012	Number of employees			
Remuneration Band	**School based**	**Non-School based**	**Total**	**Left in year**
£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
	33	**20**	**53**	**1**

The leaver in the year was Non-School-based

Notes to the Core Financial Statements (continued)

2012/2013	**Number of employees**			
Remuneration Band	**School based**	**Non-School based**	**Total**	**Left in year**
£60,000 - £64,999	15	2	17	0
£65,000 - £69,999	6	2	8	0
£70,000 - £74,999	1	1	2	0
£75,000 - £79,999	5	0	5	0
£80,000 - £84,999	4	9	13	0
£85,000 - £89,999	1	2	3	0
£90,000 - £94,999	1	0	1	0
£95,000 - £99,999	0	0	0	0
£100,000 - £104,999	1	0	1	1
£105,000 - £109,999	0	0	0	0
£110,000 - £114,999	1	0	1	0
	35	**16**	**51**	**1**

The leaver in the year was 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 £**	
	2011 / 2012	**2012 / 2013**	**2011 / 2012**	**2012 / 2013**	**2011 / 2012**	**2012 / 2013**	**2011 / 2012**	**2012 / 2013**
£0 - £20,000	5	5	26	23	31	28	155,233	116,752
£20,001 - £40,000	0	0	3	0	3	0	87,400	0
£40,001 - £60,000	1	0	2	0	3	0	144,889	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	1	0	1	0	83,099	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
Total	**6**	**5**	**32**	**23**	**38**	**28**	**470,621**	**116,752**

Other Departures include:	**2011 / 2012**	**2012 / 2013**
Redundancy payments at the end of Fixed Term Contracts	17	12
Cases passed by Pensions Committee	15	11
	32	**23**

An amount of £14k has been included in the total cost of exit packages in relation to an employee retiring during 2011/2012, for which the cost was incurred in the 2012/2013 financial year.

Notes to the Core Financial Statements (continued)

The Authority terminated the contracts of a number of employees in 2012/2013, incurring liabilities of £116,752 (£470,621 in 2011/2012). Of this total £81,957 was paid to employees from Human Resources, Social Services, Engineering and Schools for enhanced pension benefits as disclosed above. £34,795 was payable to employees from Social Services, Schools, Planning & Regeneration 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.

2011/2012 Post	Salary £	Expenses £	Total Remuneration excluding Employer's Pension Contributions £	Employer's Pension Contributions at 21% £	Total Remuneration including Employer's Pension Contributions £
Chief Executive *a	123,665	1,514	**125,179**	24,115	**149,294**
Deputy Chief Executive *b	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	1,406	**102,088**	19,633	**121,721**
S151 Officer *c	71,496	1,420	**72,916**	13,942	**86,858**
	519,690	7,239	**526,929**	100,729	**627,658**

**a 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.*

**b 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.*

**c 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.*

Notes to the Core Financial Statements (continued)

2012/2013 Post	Salary £	Expenses £	Conditions of Service Buy out £	Total Remuneration excluding Employer's Pension Contributions £	Employer's Pension Contributions at 20.8% £	Total Remuneration including Employer's Pension Contributions £
Chief Executive *d	144,598	854	2,340	**147,792**	30,076	**177,868**
Deputy Chief Executive *e,h	125,501	288	2,340	**128,129**	25,864	**153,993**
Director of Social Services *f	95,747	2,652	2,340	**100,739**	19,375	**120,114**
Director of Social Services *g	13,630	0	0	**13,630**	2,711	**16,341**
Director of Education *h	113,113	688	2,340	**116,141**	23,528	**139,669**
S151 Officer *i,h	83,362	545	5,672	**89,579**	17,339	**106,918**
	575,951	5,027	15,032	**596,010**	118,893	**714,903**

**d In addition to those payments listed above, the Chief Executive received Returning Officer expenses during the year to 31 March 2013 of £13,989 in respect of Local and By elections. £6,169 was also received n respect of elections for the Police and Crime Commissioner, which were paid by Central Government.*

**e In addition to those payments listed above, the Deputy Chief Executive received Returning Officer expenses during the year to 31 March 2013 of £3,500 in respect of Local and By elections. £1,750 was also received n respect of elections for the Police and Crime Commissioner, which were paid by Central Government.*

**f The Director of Social Services left in February 2013. The full annualised salary of the Director would have been £119,329*

**g The Assistant Director of Social Services took over the role of Director of Social Services from February 2013. The full annualised salary of the post would have been £107,396. As Assistant Director an amount of £3,231 was received as part of the Conditions of Service Buy Out.*

**h In March 2013, the Deputy Chief Executive became acting Chief Executive, the Director of Education also took on the roles of Acting Director of the Environment and Acting Deputy Chief Executive and the S151 Officer also took on the role of Acting Director of Corporate Services. As at 31 March 2013, none of these people received additional salary for the extra/new responsibilities. Additional salary costs were received in the 2013-2014 Financial Year.*

**i In addition to those payments listed above, the S151 Officer received £375 n respect of elections for the Police and Crime Commissioner, which were paid by Central Government.*

The Wales Audit Office issued a Public Interest Report on 6 March 2013 in respect of Senior Manager remuneration awards during 2012/13. The report concluded that the decision by the Senior Remuneration Committee (the Committee) on 5 September 2012 to approve the recommended pay structure set out in the Chief Executive's report to that Committee was unlawful. There were a number of matters that lead to this conclusion, which were set out in the report.

- The first matter is in respect of the advertisement of the meeting. The Wales Audit Office concluded that the meeting of the Committee had not been properly advertised in accordance with Sections 100A, 100B and 100E of the Local Government Act 1972 (the 1972 Act), which requires that public notice of the time and place of the meeting of committees be given.
- Section 100B of the 1972 Act (as applied by Section 100E of the 1972 Act) requires that:
  - the agenda and reports for the meeting shall be made available for public inspection at least three clear days before the meeting; and
  - reports may be withheld if the proper officer (usually the Monitoring Officer) is of the opinion that the consideration of the item will not be in the public interest.

Notes to the Core Financial Statements (continued)

In addition to concerns regarding the advertisement of the meeting, the Wales Audit Office also had concerns in respect of the following aspects of the meeting held on 5 September 2012:

- Certain officers, including the Chief Executive, who would have been (and were) beneficiaries of the decision were present throughout the meeting to approve the salary increases. No declarations of interest were made and these officers did not leave the room whilst the decision was made. In doing so, they participated in the decision-making process.
- The report presented to the Committee was authored by the Chief Executive who was a direct beneficiary of the decision made and who gave advice on a matter in which he had a pecuniary interest.
- The report by the Chief Executive did not consider the full range of options identified by the Hay Group, as set out in the appendix to the report. Nor was there any detailed and explicit consideration of these options in the meeting of the Committee. The Wales Audit Office considered that these additional matters in themselves rendered the decisions taken by the Committee unlawful.
- As a consequence, there is an amount of £270,364 included in expenditure in the 2012/13 accounts, which is considered by the Wales Audit Office to constitute unlawful expenditure. Included in the disclosure of senior salaries above, the salary figure includes amounts which are considered to be unlawful as set out below:

	£
Chief Executive *d	22,842
Deputy Chief Executive *e,h	11,530
Director of Social Services *f	11,959
Director of Education *h	16,743
S151 Officer *i,h	15,975
	79,049

Subsequently we have undertaken an additional review of payments to senior officers during the year. As a result of this review, we have identified the following payments which are considered unlawful as these decisions were made by persons without appropriate authority to do so under the Council's constitution and Scheme of Delegation:

- £102,709 in respect of the buy-out of Essential User Car Allowances; and
- £115,854 in respect of the buy-out of Additional Annual Leave.

As a consequence, there is an additional amount of £218,563 included in expenditure in the 2012/13 accounts, which is unlawful. Included in the disclosure of senior salaries above, the salary figure includes amounts which are considered to be unlawful as set out below:

	£
Chief Executive *d	2,340
Deputy Chief Executive *e,h	2,340
Director of Social Services *f	2,340
Director of Education *h	2,340
S151 Officer *i,h	5,672
	15,032

Notes to the Core Financial Statements (continued)

17. External Audit Costs

In 2012/2013 Caerphilly County Borough Council incurred the following fees relating to external audit and inspection.

	2011/2012 £000	2012/2013 £000
Fees payable to the Wales Audit Office with regard to external audit services carried out by the appointed auditor	229	228
Fees payable to the Wales Audit Office in respect of statutory inspection	155	145
Fees payable to the Wales Audit Office for the certification of grant claims and returns	96	91
Fees payable to the Wales Audit Office in respect of the National Fraud Initiative	0	4
Fees payable to the Wales Audit Office in respect of other services	8	48
	488	**516**

The fees for other services related to £18,000 in respect of queries raised by electors and local taxpayers and £30,000 in relation to an investigation around senior officers' remuneration.

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.

Lead Commissioning Arrangements	**2011/2012**	**2012/2013**			
	Authority's Contribution	**Total Funding**	**Other (ABHB) Contribution**	**Other LAs/WG Contribution**	**Authority's Contribution**
Scheme	**£000**	**£000**	**£000**	**£000**	**£000**
Cancercareline	19	31	12	0	19
Age Concern	47	118	71	0	47
Care and Repair	12	33	21	0	12
Gwent Frailty	2,121	11,829	5,475	4,611	1,743
	2,199	**12,011**	**5,579**	**4,611**	**1,821**

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 51 – Jointly Controlled Operations.

Notes to the Core Financial Statements (continued)

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 91 and 93, 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.

Members
Members of the council have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2012/2013 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. 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 62 to 69.

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 2012/2013, the Authority made payments to the Trust of £623,760 (£729,507 in 2011/2012) and received income from the Trust of £nil (£734,877 in 2011/2012). At the year-end, the Authority owed £34,128 to Groundwork (£5,150 at 31 March 2012) whilst nothing was owed from Groundwork to the Authority (£nil at 31 March 2012).

Notes to the Core Financial Statements (continued)

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 previously provided the administrative support to the Joint Committee, and funded its activities in conjunction with Bridgend, Merthyr Tydfil and Rhondda Cynon Tâf County Borough Councils. From 1st September 2012, the Authority was no longer involved with ESIS, but instead became involved in the Education Achievement Service – see below. During the course of 2012/2013, the Authority made payments to the ESIS of £417,182 (£1,362,122 in 2011/2012) and received payments from the ESIS of £nil (£21,961 in 2011/2012). Further details are given in Note 31, page 96.

Aneurin Bevan Health Board
The Authority is represented on the Board of this organisation. During the course of 2012/2013, the Authority made payments to the Board of some £4,549,590 (£3,286,521 in 2011/2012) and received income of £6,012,835 from the Board (Including Section 28a grant income of £3,069,428) (£5,028,139 and £3,069,828 respectively in 2011/2012) and NNDR income of £797,186, was collected from the Board (£809,300 in 2011/2012). At 31 March 2013, £873,559 was due from the Authority to the Health Board (£1,678,965 at 31 March 2012) and £509,183 was due from the Health Board to the Authority (£350,603 at 31 March 2012).

Education Achievement Service
The Authority became involved with the Education Achievement Service (EAS) in September 2012. EAS is a limited company that provides advisory and inspection services to the Local Education Authority and its schools. Activities of the company are funded by Caerphilly, Blaenau Gwent, Monmouthshire, Newport and Torfaen County Borough Councils. During the course of 2012/2013, the Authority made payments to the company of £952,950 and received payments from the company of £115,711. As at 31 March 2013, £320,509 was owed to EAS from the Authority and EAS owed £17,652 to the Authority.

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.

Notes to the Core Financial Statements (continued)

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.

21. Movements on Reserves

Movements in the Authority's Usable Reserves are detailed below, in the Movement in Reserves Statement and also in Notes 39 - 45, whilst details of the movements in Unusable Reserves are shown below and in Notes 33 - 38. 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 2011 £000	Net Movement in year £000	Balance 31 March 2012 £000	Net Movement in year £000	Balance 31 March 2013 £000
Council Fund	(16,622)	3,814	(12,808)	(1,464)	(14,272)
Housing Revenue Account (note 8 HRA)	(5,768)	1,088	(4,680)	(1,653)	(6,333)
Direct Service Earmarked Reserves (note 39)	(606)	345	(261)	(81)	(342)
Capital Earmarked Reserves (note 40)	(13,015)	(5,568)	(18,583)	339	(18,244)
Service Over/Underspend Reserves (note 41)	(5,559)	(458)	(6,017)	568	(5,449)
Schools Earmarked Reserves (note 43)	(6,802)	2,551	(4,251)	(480)	(4,731)
Insurance Earmarked Reserves (note 42)	(2,966)	(2,048)	(5,014)	1,276	(3,738)
Other Earmarked Reserves (note 45)	(17,098)	(3,289)	(20,387)	(1,401)	(21,788)
Usable Capital Receipts	(7,964)	(1,341)	(9,305)	(310)	(9,615)
Capital Grants Unapplied	(9,430)	(323)	(9,753)	(1,574)	(11,327)
Total Usable Reserves	**(85,830)**	**(5,229)**	**(91,059)**	**(4,780)**	**(95,839)**

Notes to the Core Financial Statements (continued)

Unusable Reserves

2011/2012 Reserve	Balance 1 April 2011 £000	Net Movement in year £000	Restated Balance 31 March 2012 £000	Purpose of Reserve	Further details of movements
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 33
Revaluation Reserve	(360,453)	(803)	(361,256)	Store of gains on revaluation of fixed assets not yet realised through sales.	Note 34
Capital Adjustment Account (CAA)	(482,600)	24,094	(458,506)	Store of capital resources set aside to meet past expenditure	Note 35
Deferred Capital Receipts	(62)	17	(45)	Proceeds to be received over future accounting periods arising principally from the sale of council dwellings	Note 36
Pensions Reserve	232,776	53,507	286,283	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 37
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 38
Total Unusable Reserves	**(607,081)**	**77,077**	**(530,004)**		

Notes to the Core Financial Statements (continued)

Unusable Reserves

2012/2013 Reserve	Balance 1 April 2012 £000	Net Movement in year £000	Balance 31 March 2013 £000	Purpose of Reserve	Further details of movements
Financial Instruments Adjustment Account	(1,709)	273	(1,436)	Amounts required by statute to be set aside in respect of discounts and premia on the rescheduling of the Authority's debts.	Note 33
Revaluation Reserve	(361,256)	108,283	(252,973)	Store of gains on revaluation of fixed assets not yet realised through sales.	Note 34
Capital Adjustment Account (CAA)	(458,506)	(10,508)	(469,014)	Store of capital resources set aside to meet past expenditure	Note 35
Deferred Capital Receipts	(45)	12	(33)	Proceeds to be received over future accounting periods arising principally from the sale of council dwellings	Note 36
Pensions Reserve	286,283	56,137	342,420	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 37
Accumulated Absences Account	5,229	(2,869)	2,360	Account to absorb differences arising on the Council Fund balance from accruing for compensated absences earned but not taken in the year.	Note 38
Total Unusable Reserves	**(530,004)**	**151,328**	**(378,676)**		

Notes to the Core Financial Statements (continued)

22. Property, Plant and Equipment

Restated

	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
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation:									
At 1 April 2011	80,608	780,946	31,150	226,173	1,604	25,639	48,695	1,194,815	79,745
Prior year adjustment	43,892	0	0	0	0	0	0	43,892	0
Restated at 1 April 2011	124,500	780,946	31,150	226,173	1,604	25,639	48,695	1,238,707	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	(3,334)	(47,418)	0	0	(14)	(4,495)	0	(55,261)	0
Other movements in cost or valuations	0	9,128	0	37,266	0	0	(46,394)	0	(388)
At 31 March 2012	129,206	735,092	33,785	268,935	2,255	25,346	13,002	1,207,621	75,985
Accumulated Depreciation and impairment:									
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)
Prior year adjustment - depreciation charge	(1,768)								
Depreciation written out to Surplus / Deficit on the Provision of Services	2,371	8,793	0	0	0	0	0	11,164	0
Prior year adjustment - depreciation written out to Surplus / Deficit on the Provision of Services	1,768								
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
At 31 March 2012	0	(21,225)	(24,212)	(63,346)	(7)	0	0	(108,790)	(11,645)
Net Book Value at 31 March 2012	**129,206**	**713,867**	**9,573**	**205,589**	**2,248**	**25,346**	**13,002**	**1,098,831**	**64,340**
Net Book Value at 31 March 2011	124,500	744,298	9,455	171,323	1,597	25,639	48,695	1,125,507	69,931

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
Cost or valuation:									
At 1 April 2012	129,206	735,092	33,785	268,935	2,255	25,346	13,002	1,207,621	75,985
Additions	14,315	18,868	1,890	10,508	0	0	3,529	49,110	0
Revaluation Increases/(decreases) to Revaluation Reserve	0	(103,412)	0	0	0	0	0	(103,412)	(5,990)
Revaluation Increases / (decreases) to Surplus / Deficit on Provision of Services	20,794	(5,602)	2,239	0	99	0	0	17,530	0
Derecognitions - Disposals	0	(677)	0	0	0	(15)	0	(692)	0
Impairments	0	(31,416)	(335)	0	0	(6,604)	0	(38,355)	0
Other movements in cost or valuations	0	2,095	0	10,908	0	0	(13,003)	0	0
At 31 March 2013	164,315	614,948	37,579	290,351	2,354	18,727	3,528	1,131,802	69,995
Accumulated Depreciation and impairment:									
At 1 April 2012	0	(21,225)	(24,212)	(63,346)	(7)	0	0	(108,790)	(11,645)
Depreciation Charge	(3,916)	(19,541)	(1,947)	(7,789)	(6)	(1)	0	(33,200)	(661)
Depreciation written out to Surplus / Deficit on the Provision of Services	0	2	0	0	0	0	0	2	0
Impairment losses / reversals to Revaluation Reserve	0	6,772	376	0	0	0	0	7,148	0
At 31 March 2013	(3,916)	(33,992)	(25,783)	(71,135)	(13)	(1)	0	(134,840)	(12,306)
Net Book Value at 31 March 2013	**160,399**	**580,956**	**11,796**	**219,216**	**2,341**	**18,726**	**3,528**	**996,962**	**57,689**

Assets under Construction

Assets under construction is analysed as follows:	**31 March 2012**	**31 March 2013**
Highway Infrastructure	£10.907m	-
Primary Schools	£1.820m	-
Secondary Schools	£0.275m	-
Ystrad Mynach Sports Facility	-	£0.772m
Bargoed Cinema Development	-	£0.162m
Caerphilly Library	-	£2.594m
	£13.002m	**£3.528m**

Assets due for closure

As at 31 March 2013, the Authority had taken the decision to close the following asset, which has a net book value of £44,000:

• Pontlottyn Children's Centre

Notes to the Core Financial Statements (continued)

Capital Commitments

At 31 March 2013, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/2013 and subsequent years budgeted to cost £15.081m. Similar commitments at 31 March 2012 were £27.274m. The major commitments are:

		2011/2012 £000	2012/2013 £000
Highways and Transportation:	LGBI Highways Improvements	0	2,800
	Bargoed By Pass	759	290
	Ystrad Fawr Highway Improvements	2,534	500
	South East Wales Transport Alliance	1,986	500
	Historical Schemes	0	581
	Blackwood Comprehensive SRTS	240	0
	Sirhowy Enterprise Way	640	70
	Regional Transport Consortia	270	63
	Safer Routes in Communities - Deri	0	91
	Bridge Strengthening	0	350
Education:	St James Primary School	200	200
	Twyn School	0	48
	Cwm Ifor Primary School	1,627	200
	Hendre Infants School	400	83
	Hendre Junior School	0	225
	Rhiw Syr Dafydd Primary School	150	0
	Ysgol Ifor Bach	230	0
	Pantside Primary School	100	0
	St Martins Comprehensive School	125	0
	St Cenydd Comprehensive School	100	0
	St Ilans Comprehensive School	4,000	900
	Blackwood Youth Club	0	131
Environment:	Cemeteries	0	240
Property:	Caerphilly Library	0	2,605
	Ystrad Mynach Sports Facility	0	1,400
Urban Renewal:	Bargoed Retail Plateau	3,172	3,172
	Newbridge Regeneration	6,792	3,665
	Bargoed Regeneration	3,493	2,075
	Bargoed Cinema	0	4,000
Economic Development:	Cwmcarn	456	100
		27,274	**24,289**

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 2013 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. The majority of valuations were carried out internally, except a small number where external Valuers were commissioned for their expertise. 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

Reconciliation of the carrying Value of Heritage Assets held by the Authority	Other Land and Buildings	Civic Regalia	Total Heritage Assets
	£000	£000	£000
Cost or Valuation			
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)
31 March 2012	**8,463**	**217**	**8,680**
Cost or Valuation			
1 April 2012	8,463	217	8,680
Additions	1	0	1
Disposals	0	0	0
Revaluations	124	0	124
Impairment Losses/(reversals) recognised in the Revaluation Reserve	1	0	1
31 March 2013	**8,589**	**217**	**8,806**

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. 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).

Notes to the Core Financial Statements (continued)

Babell Chapel
This asset is a small Welsh Calvinistic Methodist Chapel built in 1827 and houses the grave of the 19th Century Welsh Language poet, Islwyn. The asset was valued at 31 March 2013 using the existing use value. The Internal Valuers carried out this valuation.

Elliot Colliery Winding House
This asset is an historical mining museum. It was valued at 31 March 2013 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 2013 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.

War Memorials
The Authority is responsible for maintaining a number of War Memorials honouring local people who fell in two world wars and other conflicts, which are situated in parks and streets. These have 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 or recognising in the balance sheet.

Notes to the Core Financial Statements (continued)

24. 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	
	2012	**2013**
	£000	**£000**
Opening Capital Financing Requirement	292,133	288,136
Capital Investment:		
Operational Assets	43,854	49,110
Invest to Save	2,320	1,489
Intangible Assets	362	330
Revenue Expenditure funded from Capital Under Statute	6,256	4,908
Sources of Finance:		
Grants and other contributions	(31,488)	(28,488)
Capital Expenditure Funded from Revenue	(14,259)	(20,061)
Capital Receipts Set Aside	(523)	(480)
Minimum Revenue Provision	(10,976)	(10,777)
Commutation Adjustment	457	0
Closing Capital Financing Requirement	**288,136**	**284,167**

25. Long Term Debtors

	31 March 2012 £000	31 March 2013 £000
Car Loans	169	118
Housing - Right to Buy	31	20
Housing Advances	74	45
Transferred Debt - Former Authorities	120	120
Other	15	4
	409	**307**

Notes to the Core Financial Statements (continued)

26. Inventories

	Consumable Stores		Maintenance Materials		Client Services Work in Progress		Total	
	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000
Balance held at start of year	305	287	549	570	94	76	948	933
Purchases	3,948	3,776	2,044	2,182	67	2	6,059	5,960
Recognised as an expense in the year	(3,965)	(3,767)	(2,023)	(2,197)	(85)	(72)	(6,073)	(6,036)
Written off balances	(1)	(2)	0	0	0	0	(1)	(2)
Reversals of write-offs in previous years	0	0	0	0	0	0	0	0
Balance held at end of year	**287**	**294**	**570**	**555**	**76**	**6**	**933**	**855**

27. Debtors

	31 March 2012			31 March 2013		
Debtors	**Gross £000**	**Provision £000**	**Net £000**	**Gross £000**	**Provision £000**	**Net £000**
Central Government Bodies	26,139	0	26,139	22,459	0	22,459
Other Local Authorities	2,451	0	2,451	2,448	0	2,448
NHS Bodies	362	0	362	308	0	308
Other Entities and Individuals	16,747	(4,333)	12,414	18,956	(4,664)	14,292
	45,699	**(4,333)**	**41,366**	**44,171**	**(4,664)**	**39,507**

Notes to the Core Financial Statements (continued)

Debtors can be further analysed as follows:	31 March 2012			31 March 2013		
Trade Customers:	**Gross £000**	**Provision £000**	**Net £000**	**Gross £000**	**Provision £000**	**Net £000**
Council tenants	1,196	(918)	278	1,330	(758)	572
Reserved debtors	3,688	(170)	3,518	3,190	(354)	2,836
Sundry debtors	6,481	(567)	5,914	7,480	(863)	6,617
Tax Payers - Council Tax	4,048	(1,415)	2,633	3,778	(1,328)	2,450
Housing Benefit Sundry Debtors	1,592	(1,263)	329	1,671	(1,361)	310
Receivables from Related Parties:						
Grants	9,243	0	9,243	8,516	0	8,516
Other Local Authorities	2,451	0	2,451	2,448	0	2,448
Other Public Bodies	10,579	0	10,579	11,717	0	11,717
Prepayments:	1,189	0	1,189	1,380	0	1,380
Other Amounts:						
HM Revenue & Customs - Tax	92	0	92	101	0	101
HM Revenue & Customs - VAT	4,994	0	4,994	2,434	0	2,434
Car Loans	122	0	122	82	0	82
Housing Advances	9	0	9	31	0	31
Housing Right to Buy	15	0	15	13	0	13
	45,699	**(4,333)**	**41,366**	**44,171**	**(4,664)**	**39,507**

Central Government Bodies include Government Grants Debtors, which comprise:	**31 March 2012 £000**	**31 March 2013 £000**
Education Support Grants	187	1,720
Families First Grant	0	1,215
Foundation Phase Grant	4,881	769
School Effectiveness Grant	1,568	0
Out of School Childcare Grant	0	70
School Based Counsellors Grant	0	171
Post 16 Funding	0	144
Healthy Schools Grant	0	43
Basic Skills Grant	64	64
School Milk Subsidy	119	96
Primary School Free Breakfast Initiative	286	245
Countryside Grants	0	132
A4L Grant	75	0
Domestic Violence Grant	14	45
Community Safety / Crime Reduction	0	151
Substance Misuse Grant	927	938
European Regional Development Fund	24	24
Local Regeneration Fund	79	0
European Social Fund	996	1,750
Environmental Grants	23	939
	9,243	**8,516**

Notes to the Core Financial Statements (continued)

28. Cash and Cash Equivalents

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

	31 March 2012 £000	31 March 2013 £000
Cash in hand	89	86
Cash at Bank	5,753	1,104
Bank overdraft	(106)	0
Total cash and cash equivalents	**5,736**	**1,190**

29. Creditors

Creditors	31 March 2012 £000	31 March 2013 £000
Central Government Bodies	(5,319)	(5,611)
Other Local Authorities	(5,226)	(4,185)
Bodies External to Central Government	(4,282)	(2,217)
NHS Bodies	(1,612)	(927)
Public Corporations and Trading Funds	(9)	0
Other Entities and Individuals	(44,168)	(43,371)
Total Creditors excluding loans	**(60,616)**	**(56,311)**
Loans repayable within one year	(4,076)	(9,223)
Local bonds repayable within one year	(10)	(10)
Total Creditors	**(64,702)**	**(65,544)**

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 (£4,556 in 2011/2012). 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)

Central Government Bodies include Government Grant Creditors comprising:	31 March 2012 £000	31 March 2013 £000
Housing Subsidies	(24)	(39)
Basic Skills Agency	(103)	(76)
Assembly Learning Grant - Student Awards	(135)	(135)
Early Years Development	(73)	(38)
Behaviour Management Training	(19)	0
Autistic Spectrum Disorder	(60)	(60)
School Based Counselling	(151)	0
Families First Grant	0	(28)
School Special Grant	(8)	0
School Meals Subsidy	(27)	(27)
RAISE Grant	(95)	(71)
Community Focus Grant	(14)	0
Learning and Play Grant	(29)	(21)
Post 16 year olds	(51)	(7)
Foundation Phase Pilot	(28)	0
Student Awards	(238)	0
Transition to Employment Grant	0	(694)
Specialist Equipment for Learners Grant	(10)	(10)
Social Services Court Fees Grant	(34)	(34)
Social Services Short Breaks Grant	(34)	(34)
Flood Risk Alleviation Grant	0	(131)
Community Safety Grants	0	(238)
Special Educational Needs Grants	(51)	(20)
Other	(19)	(9)
	(1,203)	**(1,672)**

30. Movements in Provisions

<u>**Short Term Provisions**</u>	Social Services Provision £000	Corporate Provision £000	Insurance Provision £000	Total £000
Balance at 1 April 2012	(531)	(300)	(1,173)	(2,004)
Transfer to/from long term provisions in 2012/2013	(78)	(271)	(1,102)	(1,451)
Additional provisions made in 2012/2013	(54)	(1,809)	(569)	(2,432)
Amounts used in 2012/2013	0	280	1,469	1,749
Unused amounts reversed in 2012/2013	0	34	395	429
Balance at 31 March 2013	**(663)**	**(2,066)**	**(980)**	**(3,709)**

Notes to the Core Financial Statements (continued)

<u>Long Term Provisions</u>	Social Services Provision £000	Corporate Provision £000	Economic Development Provision £000	Insurance Provision £000	Total £000
Balance at 1 April 2012	(78)	(5,065)	0	(3,519)	(8,662)
Additional provisions made in 2012/2013	0	0	(32)	(1,709)	(1,741)
Amounts used in 2012/2013	0	219	0	0	219
Unused amounts reversed in 2012/2013	0	0	0	1,184	1,184
Transfer to/from short term provisions in 2012/2013	78	271	0	1,102	1,451
Balance at 31 March 2013	**0**	**(4,575)**	**(32)**	**(2,942)**	**(7,549)**

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 103. 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 31. Any release is subject to finalisation of the outstanding liabilities by the lead authority, Rhondda Cynon Tâf 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.

Included within the short term Corporate Provision is a provision in respect of the Carbon Reduction Commitment (CRC). A provision of £315,468 has been set up to ensure that costs are recognised in the year in which the energy has been used. Also included, is a provision of £648,000 to cover remedial works for the removal of asbestos in Cwmcarn High School.

Municipal Mutual Insurance Limited (MMI) - During 1992/93 Municipal Mutual Insurance Limited, the insurers of the former Gwent County Council, Mid Glamorgan County Council, Rhymney Valley District Council and Islwyn Borough Council ceased accepting new business. The Company is subject to a contingent Scheme of Arrangement under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) which became effective on 21 January 1994. On 13 November 2012, the directors of the Company concluded that the terms of the Scheme of Arrangement should be triggered and served notice on the Scheme Administrator and the Company to that effect. As a result, the Scheme of Arrangement was triggered and the Scheme Administrator, Ernst & Young LLP, has taken over the management of the business of the Company. The Authority received notification from the Scheme administrator on 2 April 2013 indicating that an initial levy rate of 15 % on claims payments will be due from the Authority. The Authority has made provision of £662,880 in anticipation of the potential liability arising from the triggering of the Scheme of Arrangement. Rhondda Cynon Tâf County Borough Council is currently managing claims in respect of the Former Mid Glamorgan County Council. They are currently funding these claims from an earmarked reserve brought forward from Mid Glamorgan. If this reserve is depleted by additional claims or an increase in the levy claw back percentage, the Authority may become liable for a proportion of any future claims.

Notes to the Core Financial Statements (continued)

31. Contingent Liabilities

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.

Education School Improvement Service

The Authority made a decision to withdraw from the Education School Improvement Service Joint Committee (ESIS) with effect from 31st August 2012. At this date ESIS ceased participation in the Rhondda Cynon Tâf Pension Fund. It is anticipated that the two new Education Consortium bodies to commence in their respective pension funds on a fully funded basis and, as a consequence, the Host Authorities will jointly bear the ESIS pension deficit. As a Host Authority part of the ESIS pension deficit will fall as a liability on Caerphilly. The pension fund actuaries of the Rhondda Cynon Tâf pension scheme are currently finalising the transfer of the assets and liabilities of ESIS so the exact liability is not quantifiable at present.

Capita Gwent Consultancy

In 2002, Caerphilly with three other local authorities and Capita Symonds, entered into a joint venture agreement for engineering and related services. Capita Gwent was admitted into the Greater Gwent (Torfaen) Pension Fund on 13 September 2002. This agreement was terminated at the end of the contract agreement on 31 August 2012. As a result of the termination the Pension Fund may potentially be left with an unfunded liability relating to the Capita Gwent Consultancy Joint Venture agreement. Discussions around the unfunded liability are still ongoing, but there is a potential that part of this liability could fall upon the Authority.

Notes to the Core Financial Statements (continued)

32. 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 31 March 2013 was:

£165,258 - relating to Education Trust Funds that are administered by the Head of Corporate Finance, (£162,761 in 2011/2012). 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 £165,085 is held in bank deposits (£172 and £162,589 respectively in 2011/2012). There are no other underlying assets or liabilities. The Trust Funds received £1,046 in dividends and interest on the funds during the year (£1,250 in 2011/2012) and incurred expenditure of £700 (£150 in 2011/2012).

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 2013 was £3,277,228 (£3,649,256 as at 31 March 2012).

33. 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.

	2011/2012	2012/2013
	£000	£000
Balance as at 1 April	**(1,982)**	**(1,709)**
Discounts on early repayment of loans	0	0
Amortised to revenue in the year	283	283
Effective interest rate adjustment	(10)	(10)
Balance at 31 March	**(1,709)**	**(1,436)**

Notes to the Core Financial Statements (continued)

34. 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 2013 therefore only shows revaluation gains accumulated since 1 April 2007.

	2011/2012	2012/2013	
	£000	£000	£000
Balance as at 1 April	**(360,453)**		**(361,256)**
Downward revaluation of assets and impairment losses not charged to the Surplus and Deficit on the Provision of Services	22,794	113,544	
Surplus on Revaluation of Assets	(38,497)	(12,974)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(15,703)		100,570
Difference between fair value depreciation and historical cost depreciation	9,503	7,713	
Accumulated gains on assets sold or scrapped	5,397	0	
Amount written off to the Capital Adjustment Account	14,900		7,713
Balance as at 31 March	**(361,256)**		**(252,973)**

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Notes to the Core Financial Statements (continued)

35. 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 34 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		2012/2013	
	£000	£000	£000	£000
Balance as at 1 April		**(438,707)**		**(458,506)**
Restatement re: prior year adjustment		(43,893)		0
Restated balance as at 1 April		**(482,600)**		**(458,506)**
Set Aside - Capital Receipts		(511)		(471)
Set Aside - Deferred Capital Receipts		(12)		(9)
Funding:				
Revenue funding applied	(14,259)		(20,061)	
Capital receipts applied	0		(318)	
Capital grants and contributions applied	(26,433)		(27,077)	
Total Funding		(40,692)		(47,456)
MRP	(10,976)		(10,777)	
Commutation Adjustment	457		0	
		(10,519)		(10,777)
Depreciation:				
In year charge	34,492		33,200	
Prior year adjustment - in year charge	1,768		0	
Attributable to revaluations	(9,503)		(7,713)	
Written back on revaluations	(38,361)		(7,149)	
Prior year adjustment - written back on revaluations	(1,768)		0	
Written back on disposals	(508)		(2)	
		(13,880)		18,336
Amortisation of non-enhancing expenditure		11,189		19,734
Asset Revaluations / Impairments:				
Price adjustments	100,803		3,808	
Prior year adjustment - price adjustments	(28,117)		0	
		72,686		3,808
Disposals - Council Fund	1,900		692	
Disposals - HRA	50		0	
		1,950		692
Revenue Expenditure funded from Capital	6,256		4,908	
Funding of revenue expenditure funded from capital	(5,055)		(1,093)	
		1,201		3,815
Invest to save		2,320		1,489
Amortisation of Intangible Assets		362		330
Total capital costs		65,309		37,428
Balance as at 31 March		**(458,506)**		**(469,014)**

Notes to the Core Financial Statements (continued)

36. 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 25, page 90).

	2011/2012 £000	2012/2013 £000
Balance at 1 April	**(62)**	**(45)**
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	17	12
Balance at 31 March	**(45)**	**(33)**

37. 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.

	2011/2012 £000	2012/2013 £000
Balance as at 1 April	**232,776**	**286,283**
Actuarial gains or losses on pensions assets and liabilities	51,346	52,723
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	25,286	26,083
Employer's pension contributions and direct payments to pensioners payable in the year	(23,125)	(22,669)
Balance at 31 March	**286,283**	**342,420**

Notes to the Core Financial Statements (continued)

38. 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.

	2011/2012	2012/2013	
	£000	£000	£000
Balance at 1 April	**5,240**		**5,229**
Settlement or cancellation of accrual made at the end of the preceding year	(5,240)	(5,229)	
Amounts accrued at the end of the current year	5,229	2,360	
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 acordance with statutory requirements	(11)		(2,869)
Balance at 31 March	**5,229**		**2,360**

39. Movements in Direct Services Organisation Reserves

	Balance at 1 April 2012	Appropriations From Reserves	Appropriations To Reserves	Balance at 31 March 2013
<u>Reserve:</u>	£000	£000	£000	£000
Highways Maintenance	(198)	0	(144)	(342)
Housing and Building Services	(63)	63	0	0
	(261)	**63**	**(144)**	**(342)**

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.

Notes to the Core Financial Statements (continued)

40. Movements in Capital Earmarked Reserves

Reserve:	Balance at 1 April 2012 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2013 £000
Housing Earmarked Capital	(2,537)	2,565	(1,909)	(1,881)
Corporate - All Authority	(3,802)	8,841	(7,276)	(2,237)
Private Housing	(7)	7	0	0
Lifelong Learning	(665)	483	0	(182)
Planning	0	0	(40)	(40)
Education	(8,864)	1,569	(3,142)	(10,437)
Highways and Transportation	(1,087)	387	(306)	(1,006)
Property	(1,111)	33	(107)	(1,185)
Corporate Services	0	0	(1,015)	(1,015)
Economic Development & Tourism	0	0	(1)	(1)
Community & Leisure	(510)	521	(271)	(260)
	(18,583)	**14,406**	**(14,067)**	**(18,244)**

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

41. Movements in Service Under / Overspend Earmarked Reserves

Reserve:	Balance at 1 April 2012 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2013 £000
Lifelong Learning	(1,136)	996	(392)	(532)
Economic Development and Tourism	(205)	0	0	(205)
Education	(1,408)	726	(1,692)	(2,374)
Corporate Services	(976)	1,763	(864)	(77)
Policy and Central Services	(289)	0	0	(289)
Social Services	(791)	160	(170)	(801)
Housing Non HRA	(363)	0	(122)	(485)
Directorate of the Environment	(849)	2,128	(1,965)	(686)
	(6,017)	**5,773**	**(5,205)**	**(5,449)**

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.

Notes to the Core Financial Statements (continued)

42. Movements in Insurance Earmarked Reserves

Reserve:	Balance at 1 April 2012 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2013 £000
Insurance Reserve	(4,609)	3,531	(2,178)	(3,256)
Risk Management Reserve	(405)	0	(77)	(482)
	(5,014)	**3,531**	**(2,255)**	**(3,738)**

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.

43. Movement in Schools Earmarked Reserves

Reserve:	Balance at 1 April 2012 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2013 £000
Comprehensive Schools:				
Bedwas Comprehensive School	(177)	24	0	(153)
Cwmcarn High School	(156)	10	0	(146)
Heolddu Comprehensive School	(195)	0	(61)	(256)
Lewis School Pengam	(19)	0	(115)	(134)
Lewis Girls Comprehensive School	(182)	0	(52)	(234)
Newbridge Comprehensive School	(160)	33	0	(127)
Ysgol Gyfun Cwm Rhymni	(123)	18	0	(105)
Rhymney Comprehensive School	(210)	0	(87)	(297)
Risca Comprehensive School	(242)	0	(98)	(340)
St Martin Comprehensive School	(95)	0	(104)	(199)
Trinity Fields Special School	(349)	0	(153)	(502)
Primary Schools:				
Cwrt Rawlin Primary School	(43)	0	(65)	(108)
Other Comprehensive and Primary Schools with balances under £100k each	(2,300)	721	(551)	(2,130)
Total Schools Balances	**(4,251)**	**806**	**(1,286)**	**(4,731)**

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.

44. 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 123, Note 8.

Notes to the Core Financial Statements (continued)

45. Movement in Other Earmarked Reserves

Reserve:	Balance at 1 April 2012 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2013 £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)	(9,638)	0	(283)	(9,921)
PFI Equalisation Reserve (Roads)	(2,603)	0	(200)	(2,803)
PIG Initiatives Reserve	(450)	183	(68)	(335)
Service Initiative Reserves	(2,602)	1,142	(2,393)	(3,853)
Carbon Trust Fund Reserve	(336)	227	(203)	(312)
Area Forum Reserve	(81)	0	(47)	(128)
Community Regeneration Fund Reserve	(306)	297	(307)	(316)
Cemeteries Reserve	(78)	121	(112)	(69)
LABGI Reserve	(586)	586	0	0
Electoral Admin Reserve	(244)	115	0	(129)
PFI Schools Earmarked Reserve	(256)	0	(137)	(393)
Health & Safety Initiatives Reserve	(829)	222	(76)	(683)
Corporate PC Replacement Reserve	(836)	3	(417)	(1,250)
Other Reserves	(752)	835	(889)	(806)
	(20,387)	**3,731**	**(5,132)**	**(21,788)**

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 69).

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.

46. Cash Flow Statement – Adjustments to Surplus or Deficit

	2011/2012 £000	2012/2013 £000
Adjustment to surplus or deficit on provision of services for non-cash movements		
Depreciation and Impairment	83,724	49,594
IAS19 Pensions Adjustment	2,161	3,413
Revenue Expenditure funded from Capital under Statute	3,520	5,304
Amortisation of Intangible Assets	362	330
Movements on Provisions	(308)	(465)
Contributions to / from Reserves	(19,339)	(37,233)
(Increase) / Decrease in Stocks	15	79
(Increase) / Decrease in Debtors	(10,175)	1,631
Increase / (Decrease) in Provision for Bad Debt	264	331
Increase / (Decrease) in Creditors	(3,553)	(2,326)
	56,671	**20,658**

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Notes to the Core Financial Statements (continued)

	2011/2012 £000	2012/2013 £000
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus or deficit on provision of services	(26,756)	(28,651)
Proceeds from the sale of property plant and equipment	1,272	(407)
	(25,484)	**(29,058)**

47. Cash Flow Statement – Operating Activities

The cash flows from operating activities include the following items:

	2011/2012 £000	2012/2013 £000
Interest received	(245)	(270)
Interest paid	10,531	10,618
	10,286	**10,348**

48. Cash Flow Statement – Investing Activities

	2011/2012 £000	2012/2013 £000
Purchase of property, plant and equipment and intangible assets	(34,239)	(31,636)
Purchase of short-term and long-term investments	(1,322,419)	(1,763,360)
Proceeds from the sale of property, plant and equipment and intangible assets	14,259	20,061
Proceeds from the sale of short-term and long-term investments	1,331,582	1,750,611
Other receipts from investing activities	24,766	23,129
	13,949	**(1,195)**

49. Cash Flow Statement - Financing Activities

	2011/2012 £000	2012/2013 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(302)	(282)
Repayments of short-term and long-term borrowing	(7,936)	(1,414)
Other payments for financing activities	0	0
	(8,238)	**(1,696)**

Notes to the Core Financial Statements (continued)

50. 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.

Restated 2011/2012 Service Information	Education & Leisure Directorate	Social Services Directorate	Directorate of Environment	Corporate Services	Housing Revenue Account	**Total**
	£000	£000	£000	£000	£000	**£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)
Total income	**(55,674)**	**(32,025)**	**(60,877)**	**(108,330)**	**(41,729)**	**(298,635)**
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
Total operating expenses	**185,816**	**107,085**	**111,892**	**152,765**	**39,769**	**597,327**
Net Cost of Services	**130,142**	**75,060**	**51,015**	**44,435**	**(1,960)**	**298,692**

Restated Reconciliation to Surplus or Deficit on Provision of Services:

Cost of Services in Service Analysis	**298,692**
Taxation and Non-Specific Grant Income	(325,377)
Precepts	11,456
Add amounts not reported to Management:	
Depreciation, Amortisation and Impairment	84,086
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
Surplus or Deficit on Provision of Services	**36,205**

Notes to the Core Financial Statements (continued)

Restated Reconciliation to Subjective Analysis 2011/2012:	Service Analysis	Not reported to Management	Corporate Amounts	Internal Recharge	Support Service Recharges	**Total**
	£000	£000	£000	£000	£000	**£000**
Fees, charges & other service income	(178,143)	(14,438)	0	25,283	31,129	(136,169)
Government Grants	(120,492)	(26,756)	(260,607)	0	0	(407,855)
Council Tax income	0	0	(64,770)	0	0	(64,770)
Total income	**(298,635)**	**(41,194)**	**(325,377)**	**25,283**	**31,129**	**(608,794)**
Employee expenses	221,866	(36)	0	0	0	221,830
Other operating expenses	375,461	92,664	11,456	(25,283)	(31,129)	423,169
Total operating expenses	**597,327**	**92,628**	**11,456**	**(25,283)**	**(31,129)**	**644,999**
Net Cost of Services	**298,692**	**51,434**	**(313,921)**	**0**	**0**	**36,205**

2012/2013 Service Information	Education & Leisure Directorate	Social Services Directorate	Directorate of Environment	Corporate Services	Housing Revenue Account	**Total**
	£000	£000	£000	£000	£000	**£000**
Fees, charges & other service income	(28,738)	(26,629)	(36,745)	(48,532)	(50,903)	(191,547)
Government Grants	(23,809)	(8,983)	(14,234)	(74,617)	6,282	(115,361)
Total income	**(52,547)**	**(35,612)**	**(50,979)**	**(123,149)**	**(44,621)**	**(306,908)**
Employee expenses	111,372	36,947	38,821	27,921	5,266	220,327
Other operating expenses	64,146	73,698	69,757	142,889	31,640	382,130
Total operating expenses	**175,518**	**110,645**	**108,578**	**170,810**	**36,906**	**602,457**
Net Cost of Services	**122,971**	**75,033**	**57,599**	**47,661**	**(7,715)**	**295,549**

Reconciliation to Surplus or Deficit on Provision of Services:

Cost of Services in Service Analysis	**295,549**
Taxation and Non-Specific Grant Income	(328,527)
Precepts	11,784
Add amounts not reported to Management:	
Depreciation, Amortisation and Impairment	49,925
Net Gain or Loss on Disposal of Assets	(407)
Capital Grants and Contributions	(28,651)
Minimum Revenue Provision	(10,777)
IAS 19 Pension adjustment	3,413
Accumulated Absence adjustment	(2,869)
Revenue Expenditure funded from Capital under Statute	3,815
Surplus or Deficit on Provision of Services	**(6,745)**

Notes to the Core Financial Statements (continued)

Reconciliation to Subjective Analysis 2012/2013:	Service Analysis	Not reported to Management	Corporate Amounts	Internal Recharge	Support Service Recharges	**Total**
	£000	£000	£000	£000	£000	**£000**
Fees, charges & other service income	(191,547)	(2,189)	0	23,513	29,305	(140,918)
Government Grants	(115,361)	(28,651)	(263,027)	0	0	(407,039)
Council Tax income	0	0	(65,500)	0	0	(65,500)
Total income	**(306,908)**	**(30,840)**	**(328,527)**	**23,513**	**29,305**	**(613,457)**
Employee expenses	220,327	0	0	0	0	220,327
Other operating expenses	382,130	45,289	11,784	(23,513)	(29,305)	386,385
Total operating expenses	**602,457**	**45,289**	**11,784**	**(23,513)**	**(29,305)**	**606,712**
Net Cost of Services	**295,549**	**14,449**	**(316,743)**	**0**	**0**	**(6,745)**

51. 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 Tâf. 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)

Catalogue Supplies Service Joint Committee	2011/2012		2012/2013	
	Total	CCBC share	Total	CCBC share
	£000	£000	£000	£000
Income & Expenditure Account				
Expenditure	6,219	1,191	6,081	1,165
Income	(6,376)	(1,221)	(6,239)	(1,195)
(Surplus) / Deficit for the Year	**(157)**	**(30)**	**(158)**	**(30)**
Balance Sheet				
Current assets	1,161	222	1,101	211
Current liabilities	(489)	(93)	(271)	(52)
Total Assets less Liabilities	**672**	**129**	**830**	**159**
Usable Reserves	(668)	(128)	833	160
Unusable Reserves	(4)	(1)	(3)	(1)
	(672)	**(129)**	**830**	**159**

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 Tâf. 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. Caerphilly withdrew from the joint committee on 31 August 2012.

Education School Improvement Service	2011/2012		2012/2013	
	Total	CCBC share	Total	CCBC share
	£000	£000	£000	£000
Income & Expenditure Account				
Expenditure	5,835	1,630	3,722	1,040
Income	(6,092)	(1,702)	(3,220)	(899)
Net Cost of Service	**(257)**	**(72)**	**502**	**139**
Pension interest cost / expected return on assets	175	49	95	27
Net Operating Cost	**(82)**	**(23)**	**597**	**166**
Contributions	0	0	0	0
(Surplus) / Deficit for the Year	**(82)**	**(23)**	**597**	**166**
Balance Sheet				
Current assets	2,095	585	1,380	385
Current liabilities	(290)	(81)	(12)	(3)
Pension liability	(11,415)	(3,188)	(11,453)	(3,199)
Total Assets less Liabilities	**(9,610)**	**(2,684)**	**(10,085)**	**(2,817)**
Pension Reserve	11,415	3,188	11,453	3,199
Accumulated Absences Reserve	48	13	0	0
Earmarked Reserves	(11)	(3)	(11)	(3)
General Reserve	(1,842)	(514)	(1,357)	(379)
	9,610	**2,684**	**10,085**	**2,817**

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 Tâf 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.

Glamorgan Archive Joint Committee	2011/2012 Total £000	2011/2012 CCBC share £000	2012/2013 Total £000	2012/2013 CCBC share £000
Income & Expenditure Account				
Expenditure	1,097	121	763	84
Income	(1,480)	(163)	(1,506)	(184)
Net Cost of Service	**(383)**	**(42)**	**(743)**	**(100)**
Interest and investment income	329	36	315	35
(Surplus) / Deficit for the Year	**(54)**	**(6)**	**(428)**	**(65)**
Balance Sheet				
Long term assets	7,934	873	8,155	897
Current assets	723	80	636	70
Current liabilities	(51)	(6)	(31)	(3)
Long term liabilities	(6,128)	(674)	(5,851)	(644)
Total Assets less Liabilities	**2,478**	**273**	**2,909**	**320**
Usable reserves	(671)	(74)	(603)	(66)
Unusable reserve	(1,807)	(199)	(2,306)	(254)
	(2,478)	**(273)**	**(2,909)**	**(320)**

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. The comparative amounts have been restated and the net impact has been to increase the surplus and net assets by £2,000.

Greater Gwent Cremation Joint Committee	2011/2012 Total £000	2011/2012 CCBC share £000	2012/2013 Total £000	2012/2013 CCBC share £000
Income & Expenditure Account				
Expenditure	884	203	765	116
Income	(1,422)	(216)	(1,273)	(193)
Net Cost of Service	**(538)**	**(13)**	**(508)**	**(77)**
Financing and Investment Income and Expenditure	438	(2)	440	67
Surplus/Deficit on Provision of Services	**(100)**	**(15)**	**(68)**	**(10)**
Actuarial Gains/Losses on Pensions Assets/Liabilities	115	17	54	8
Total Comprehensive Income and Expenditure	**15**	**2**	**(14)**	**(2)**

Notes to the Core Financial Statements (continued)

Balance Sheet				
Long term assets	1,915	291	2,902	441
Current assets	1,286	195	1,390	211
Current liabilities	(65)	(10)	(27)	(4)
Long term liabilities	(644)	(98)	(1,759)	(267)
Total Assets less Liabilities	**2,492**	**378**	**2,506**	**381**
Usable Reserves	(1,221)	(185)	(1,363)	(207)
Unusable Reserves	(1,271)	(193)	(1,143)	(174)
	(2,492)	**(378)**	**(2,506)**	**(381)**

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	**2011/2012**		**2012/2013**	
	Total	**CCBC share**	**Total**	**CCBC share**
Income & Expenditure Account	**£000**	**£000**	**£000**	**£000**
Expenditure	989	144	952	139
Income	(901)	(132)	(878)	(128)
Net Cost of Service	**88**	**12**	**74**	**11**
Pension interest cost / expected return on assets	(23)	(3)	(12)	(2)
Net Operating Cost	**65**	**9**	**62**	**9**
Actuarial gains/losses on pension assets/liabilities	0	0	68	10
(Surplus) / Deficit for the Year	**65**	**9**	**130**	**19**
Balance Sheet				
Current assets	638	93	494	72
Current liabilities	(240)	(35)	(144)	(21)
Pension liability	(116)	(17)	(198)	(29)
Total Assets less Liabilities	**282**	**41**	**152**	**22**
Pension Reserve	116	17	198	29
General Reserve	(398)	(58)	(350)	(51)
	(282)	**(41)**	**(152)**	**(22)**

Notes to the Core Financial Statements (continued)

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	2011/2012 Total £000	2011/2012 CCBC share £000	2012/2013 Total £000	2012/2013 CCBC share £000
Income & Expenditure Account				
Expenditure	2,605	541	2,888	600
Income	(2,605)	(541)	(2,888)	(600)
(Surplus) / Deficit for the Year	**0**	**0**	**0**	**0**
Balance Sheet				
Current assets	616	128	487	101
Current liabilities	(616)	(128)	(487)	(101)
Total Assets less Liabilities	**0**	**0**	**0**	**0**
Fund Balance	0	0	0	0
Fund Balances and Reserves	**0**	**0**	**0**	**0**

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.

Project Gwyrdd	2011/2012 Total £000	2011/2012 CCBC share £000	2012/2013 Total £000	2012/2013 CCBC share £000
Income & Expenditure Account				
Expenditure	1,156	231	1,008	201
Income	(879)	(176)	(697)	(139)
Net Cost of Service	**277**	**55**	**311**	**62**
Interest and investment income	(2)	(0)	(2)	(0)
(Surplus) / Deficit for the Year	**275**	**55**	**309**	**62**
Net (Increase) / Decrease in General reserve balance	**275**	**55**	**309**	**62**
Balance Sheet				
Current assets	772	154	463	92
Current liabilities	(173)	(34)	(202)	(40)
Total Assets less Liabilities	**599**	**120**	**261**	**52**
Accumulated Absences Reserve	1	0	2	0
Joint Committee Reserves	(600)	(120)	(263)	(52)
Net Worth	**(599)**	**(120)**	**(261)**	**(52)**

Notes to the Core Financial Statements (continued)

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.

South East Wales Transport Alliance	2011/2012		2012/2013	
	Total	CCBC share	Total	CCBC share
	£000	£000	£000	£000
Income & Expenditure Account				
Expenditure	1,900	190	3,196	320
Income	(1,887)	(189)	(3,239)	(324)
(Surplus) / Deficit for the Year	**13**	**1**	**(43)**	**(4)**
Balance Sheet				
Current assets	756	76	2,020	202
Current liabilities	(690)	(69)	(1,911)	(191)
Total Assets less Liabilities	**66**	**7**	**109**	**11**
General Reserve	(66)	(7)	(109)	(11)
	(66)	**(7)**	**(109)**	**(11)**

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.

Welsh Purchasing Consortium	2011/2012		2012/2013	
	Total	CCBC share	Total	CCBC share
	£000	£000	£000	£000
Income & Expenditure Account				
Expenditure	208	13	218	14
Income	(244)	(15)	(249)	(16)
Net Expenditure / (Income)	**(36)**	**(2)**	**(31)**	**(2)**
Appropriations from Reserves:				
Accumulated absences accrual	0	0	0	0
Net (Surplus) / Deficit	**(36)**	**(2)**	**(31)**	**(2)**
Balance Sheet				
Current assets	317	20	356	22
Current Liabilities	(2)	0	(12)	(1)
Total Assets less Liabilities	**315**	**20**	**344**	**21**
General Reserve	(317)	(20)	(347)	(21)
Accumulated Absences Account	2	0	3	0
Net Worth	**(315)**	**(20)**	**(344)**	**(21)**

Notes to the Core Financial Statements (continued)

52. Prior Year Adjustment

Upon review of the Authority's valuation model used for valuing the Housing Revenue Account Housing stock the following prior year adjustments were processed in the accounts, with the impact upon the Movement in Reserves, Balance Sheet and Comprehensive Income and Expenditure Account being shown below. The impact upon the 2010/2011 Comprehensive Income and Expenditure Account is a reduction to the impairment of £60m previously charged to the Housing Revenue Account line for the valuation of housing stock.

Movement in Reserves extract:	**Total Usable Reserves 2011/12 £000**	**Restatement due to adjustments in Council Dwellings £000**	**Restated Total Usable Reserves 2011/12 £000**
Movement in Reserves during 2011/2012			
(Surplus)/deficit on provision of services (accounting basis)	64,322	(28,117)	36,205
Adjustments between accounting basis and funding basis under regulations	(71,323)	28,117	(43,206)

2011/2012 Comprehensive Income and Expenditure Statement extract:	**Net Expenditure 2011/12 £000**	**Restatement due to adjustments in Council Dwellings £000**	**Restated Council Fund Movements 2011/12 £000**
Local Authority Housing (HRA)	26,450	(28,117)	(1,667)
Cost of Services	**26,450**	**(28,117)**	**(1,667)**
(Surplus)/Deficit on Provision of Services	**64,322**	**(28,117)**	**36,205**
Total Comprehensive Income and Expenditure	**99,965**	**(28,117)**	**71,848**

Extract from Balance Sheet as at 31 March 2011:	**Balance Sheet as at 31 March 2011 £000**	**Restatement due to adjustments in Council Dwellings £000**	**Restated Balance Sheet as at 31 March 2011 £000**
Property Plant and Equipment	1,081,615	43,892	1,125,507
Unusable Reserves	(563,189)	(43,892)	(607,081)

Notes to the Core Financial Statements (continued)

Extract from Balance Sheet as at 31 March 2012:	**Balance Sheet as at 31 March 2012 £000**	**Restatement due to adjustments in Council Dwellings £000**	**Restated Balance Sheet as at 31 March 2012 £000**
Property Plant and Equipment	1,026,822	72,009	1,098,831
Unusable Reserves	(457,995)	(72,009)	(530,004)

53. Authorisation for Issue

The Head of Corporate Finance, acting as Responsible Financial Officer, gave authorisation for the issue of these accounts on 30 September 2013. In doing so, the Financial Accounts include all material events, relating to the financial year, but occurring after the date of the balance sheet.

Housing Revenue Account

for the year ended 31 March 2013

Housing Revenue Account

Restated 2011/2012 £000		2012/2013 £000	2012/2013 £000	Note
	Income			
(37,542)	Dwelling rents	(39,165)		1
(369)	Non-dwelling rents	(369)		
(1,314)	Charges for services and facilities	(1,697)		
(2,205)	Contributions towards expenditure	(2,253)		
(41,430)	***Total Income***		**(43,484)**	
	Expenditure			
20,340	Repairs and maintenance	16,988		
4,761	Supervision and management	5,145		
3,393	Special Services	3,053		
743	Rents, rates, taxes and other charges	738		
6,764	Negative housing revenue account subsidy payable	6,322		
(4,727)	Depreciation and impairment of non-current assets	(31,084)		2
8,091	Non-Enhancing capital expenditure	14,315		2
17	Debt Management Costs	14		
381	Increase in bad debt provision	572		
39,763	***Total Expenditure***		**16,063**	
(1,667)	**Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**		(27,421)	
111	HRA services share of Corporate and Democratic Core Costs		153	
(1,556)	**Net Expenditure of HRA Services**		**(27,268)**	
2,124	Interest payable and similar charges	2,042		
(7,400)	Major Repairs Allowance and other grants	(7,309)		9
(902)	(Gain) / Loss on sale of HRA non-current assets	(785)		
(25)	Interest and investment income	(26)		
(6,203)			(6,078)	
(7,759)	**(Surplus)/deficit for the year on HRA services**		**(33,346)**	

Movement on the Housing Revenue Account Statement

Restated 2011/2012 £000		2012/2013 £000	2012/2013 £000	Note
(5,768)	Balance on the HRA at the end of the previous year		(4,680)	
(7,759)	(Surplus) or Deficit for the year on the HRA Income and Expenditure Statement	(33,346)		
6,660	Adjustments between accounting basis and funding basis under statute	32,938		
(1,099)	Net (increase)/decrease before transfers to or from reserves	(408)		
2,187	Transfers to or (from) reserves	(1,245)		
1,088	(Increase) or decrease in year on the HRA		(1,653)	
(4,680)	**Balance on the HRA at the end of the current year**		**(6,333)**	**8**

Notes to the Movement on the HRA Statement

Restated 2011/2012 £000		2012/2013 £000	2012/2013 £000	Note
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year			
(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)		
4,727	Depreciation and Impairment of non-current assets	31,084		**2**
(8,091)	Non-enhancing Capital Expenditure	(14,315)		**2,6**
902	Gain on sale of HRA non-current assets	785		
(446)	Net charges made for retirement benefits in accordance with IAS 19	(657)		**10**
7,524	Capital Grants and Contributions Applied (including Major Repairs Allowance)	7,309		
4,559			24,149	
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year			
570	Employer's contributions payable to the Greater Gwent Pension Fund and retirement benefits payable direct to pensioners	794		**10**
975	HRA Minimum Revenue Provision	946		
567	Capital expenditure funded by the HRA	7,006		**6**
(11)	Adjustment involving the Accumulated Absences Account	43		
2,187	Transfers (to) / from Reserves	(1,245)		
4,288			7,544	
8,847	**Net additional amount required by statute to be credited to the HRA Balance for the year**		**31,693**	

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 1.04% of lettable properties were void (a decrease from 1.08% in 2011/2012). The average weekly rent at 31 March 2013 was £75.06 (£72.08 in 2011/2012), based on a 48-week collection period.

2. Depreciation and Impairment

	Restated 2011/2012 £000	2012/2013 £000
Operational assets comprising:		
Dwellings (refer to Note 20 Core Financial Statements)	2,371	3,916
Other Land & Buildings	29	32
Depreciation written back on revaluation of council dwellings	(2,371)	0
Asset Impairments/revaluations	(4,756)	(35,032)
Total HRA Depreciation and Impairment of Fixed Assets	**(4,727)**	**(31,084)**
Write off of non-enhancing expenditure	8,091	14,315
Total HRA depreciation, impairment and non-enhancing expenditure	**3,364**	**(16,769)**

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 increased by £94,297. The total of current rent arrears represents 2.25% of Gross Rent Income.

	£000
Arrears at 31 March 2012	1,196
Bad Debt Provision 31 March 2012	(690)
Net Arrears at 31 March 2012	**506**
Arrears at 31 March 2013	1,290
Bad Debt Provision 31 March 2013	(737)
Net Arrears at 31 March 2013	**553**

4. Housing Subsidy

Housing Subsidy contributions of £6.322m were payable in 2012/2013. This compares to the previous year's subsidy of £6.764m. 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 10,922 dwellings during 2012/2013. The type of stock managed by the Authority is made up of approximately 60% houses, 26% flats and 14% bungalows.

	2011/2012 Number	2012/2013 Number
Stock at 1 April	10,945	10,932
Acquisitions/New Build	4	1
Sales/Demolitions/Expired Leases	(17)	(21)
Stock at 31 March	**10,932**	**10,912**

6. Capital Expenditure and Financing

	2011/2012 Assets £000	2012/2013 Assets £000
Capital Expenditure		
Operational Assets : Houses	8,091	14,315
Total Expenditure	**8,091**	**14,315**
Capital Financing		
Major Repairs Allowance	(7,400)	(7,300)
Capital Grants	(124)	(9)
Revenue Reserves	(567)	(7,006)
Total Income	**(8,091)**	**(14,315)**

7. Capital Receipts and Unapplied Capital Income

	2011/2012 £000	2012/2013 £000
Balance at 1st April	(600)	(993)
Amounts received - Right to Buy	(662)	(619)
Amounts received - Other	(242)	(170)
Less Statutory Set aside for debt repayment	511	471
Balance at 31st March	**(993)**	**(1,311)**

Notes to the Housing Revenue Account (continued)

8. Balance Carried Forward

The working balance at 31 March 2013 was £6.333m, a net increase of £1.653m over the year.

Reserve:	Balance at 1 April 2012 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2013 £000
Housing Fund Balances	(3,703)	60	(940)	(4,583)
Supporting People	(306)	0	0	(306)
Week 53 Debit	(671)	0	0	(671)
HRA Earmarked Reserve	0	60	(833)	(773)
	(4,680)	**120**	**(1,773)**	**(6,333)**

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 in future years, as appropriate.

HRA Earmarked Reserve – exists to meet future commitments in respect of planned programme works

9. Major Repairs Allowance

	2011/2012 £000	2012/2013 £000
Amount Received in Year	(7,400)	(7,300)
Amounts Applied in Year	7,400	7,300
Amounts Carried Forward	**0**	**0**

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

	2011/2012 £000	2012/2013 £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	(446)	(657)
Employer's pension contributions and direct payments to pensioners payable in the year	570	794
Total Contribution (to) / from the Pension Reserve	**124**	**137**

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 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 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. 2012/13.
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, running costs etc. on all revenue services of the Authority.
Contingent Asset - 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 - 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) - 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 2012/2013, it runs from 1 April 2012 to 31 March 2013.
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.
Heritage Asset - A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained for its contribution to knowledge and culture.

GLOSSARY OF TERMS continued

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

GLOSSARY OF TERMS continued

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

Background

Since the publication of the previous year's Annual Governance Statement the Wales Audit Office (WAO) has published a Public Interest Report arising out of findings in respect of the remuneration of senior staff following a meeting and decision of the Senior Remuneration panel on the 5th September 2012. The report presented to Council on the 23rd April 2013 highlighted a number of serious weaknesses in the Authority's corporate governance. An Action Plan approved at Council on the 23rd April 2013 had been developed and the process of delivering significant improvement in this key area has commenced. The delivery of the Action Plan is being project managed and progress will be reported to both the Audit and Democratic Services Committees and Cabinet throughout the year. The Authority's intention is to deliver rapid improvement in this area by December 2013. This will include embedding the improvements in the culture of the organisation to ensure high standards of corporate governance are sustainable and maintained.

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 strategic effectiveness, service equality, service availability, fairness, sustainability, efficiency and innovation.

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 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 Authority has acknowledged and accepted that there have been serious shortcomings in respect of its duties identified above.

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 2013 and up to the date of approval of the Statement of Accounts.

Annual Governance Statement (Continued)

The governance framework

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

Identifying and 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 (called Improvement 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 standards have been established for each strategic objective.
• The Community Strategy and Corporate Improvement Plan (forward looking plan) are published widely and are also available on the Council website and intranet.
• The Council’s Performance Report (published in October) tells citizens and service users how we have performed against the strategic objectives.

Reviewing the authority's vision and its implications for the authority's governance arrangements

• The Community Strategy and Corporate Improvement Plan and Performance Report 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.
• The Council is a lead partner of the Caerphilly Local Service Board (LSB). During 2012/13, following guidance issued by Welsh Government in June 2012 entitled “Shared Purpose-Shared delivery: guidance on integrating Partnerships and Plans”, the LSB has developed and produced “Caerphilly Delivers”, its Single Integrated Plan, which replaces the Community Strategy and other strategic plans. This Strategic Plan to be implemented from April 2013 onwards details the LSB vision, and following analysis of a Unified Needs Assessment, has identified five outcomes for delivery, namely:

Prosperous Caerphilly
Safer Caerphilly
Healthier Caerphilly
Learning Caerphilly
Greener Caerphilly

Under each of these outcomes, specific priorities have been identified to be delivered via a revised delivery structure, which rationalises previous partnerships and plans.

“Caerphilly Delivers” (The LSB Single Integrated Plan) was considered and approved by Caerphilly LSB on 17th April 2013 and Caerphilly County Borough Council on 23rd April 2013.

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 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.

Annual Governance Statement (Continued)

• 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. In respect of published data e.g. in respect of improvement objectives, 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.
• Albeit that there is an established process in place, as outlined above, it is recognised that a review is now required to ensure these procedures are best able to take the Authority forward in the medium term in light of reducing budgets, a change of emphasis in the Outcome Agreement Grant terms and conditions, the need to introduce self evaluation on a consistent corporate basis and finally the delivery of the Single Plan.

Defining and documenting the roles and 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 and a performance report which details progress against these.
• The Council’s Constitution is being reviewed as it has been accepted that this has not been undertaken for a number of years.
• In addition to the review of the Constitution a training need has been established for Members and Managers of the Authority, to ensure that all are aware of relevant policies, protocols and arrangements.

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.
• The WAO Public Interest Report has raised significant concerns in respect of conflicts of interest, particularly with regard to the role of officers. Much work is now required as part of the Action Plan to deliver significant improvement in this area.

Reviewing and 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

• 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.

Annual Governance Statement (Continued)

• 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.
• The Authority has acknowledged that this area needs strengthening. This will form part of the Action Plan.

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.
• The Terms of Reference have been recently updated.

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 had in recent years designated the Head of Legal Services as Monitoring Officer, who played a key role in ensuring compliance. After consulting with the Deputy Chief Executive Officer, the Monitoring Officer would 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 WAO Public Interest Report has identified serious failings in this area and has deemed senior pay rises from September 2012 to 17th January 2013 to be unlawful.
• The Authority drew certain payments to the attention of the external auditors in respect of the Buy Out of the Essential User Car Allowances and Additional Annual Leave for Senior Staff totaling £218,563. As a result of their audit work WAO has determined, in its opinion, that these payments were unlawful.
• In the light of this Public Interest Report the Acting Chief Executive has strengthened the roles of both the Monitoring Officer and Section 151 Officer. The Monitoring Officer role has been temporarily set apart from the Head of Legal Services role, to create a new stand alone role with a more focused remit. Additionally the Section 151 role has been incorporated into a new temporary post of Director of Corporate Services and S151, and is no longer at Head of Service level. These 2 key statutory posts report now directly to the Acting Chief Executive and attend Corporate Management Team. The Internal Audit Manager role now reports to a Director rather than a Head of Service again strengthening the profile. The effectiveness of this temporary arrangement will be reviewed periodically but as a minimum every 6 months, until such time as permanent and appropriate arrangements are put in place. The review will be undertaken by members who do not sit on the Audit Committee.
• The standard committee reporting procedure and template requires the Monitoring Officer to examine reports to the Executive for compliance with legal and procedural issues. His/her comments are referred to the Councils Corporate Management Team for action.

Annual Governance Statement (Continued)

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.
• It has been recognised that the Audit Committee has a more proactive role to play in monitoring the level of complaints and the procedures that are in place.

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

• Formal induction programmes and training and development plans are in place for members. Where identified by the PDR process senior officers participate in management development training.
• All senior officers participate in the corporate staff appraisal scheme.
• It has been recognised that the induction and training of members is sporadic in respect of some committees.
• A review of induction arrangements for officers is being undertaken as this area should be improved.
• Appropriate training will be delivered where identified in the Action Plan.

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

• 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.
• Since 1999 a "Compact Agreement" has been in place which is a local agreement for governing the relationship between public sector organisations within the County Borough and third sector organisations. In April 2013 a revised Compact Agreement was published for the period 2013 to 2017 bringing together the following partners: Gwent Association of Voluntary Organisations, Caerphilly County Borough Council, Gwent Police, the Police and Crime Commissioner for Gwent, Aneurin Bevan Health Board, South Wales Fire and Rescue Service, Community and Town Councils and the Caerphilly Business Forum. The Compact Agreement recognises the mutual benefits that can be gained from close co-operation and sets out guidelines for how all parties should work together.
• Key partnerships and partners are invited to attend the biannual Caerphilly Local Service Board Standing Conference, which focuses on communicating progress made on the delivery of LSB priorities, which include "Caerphilly Delivers" (the Single Integrated Plan), tackling the impact of poverty and reducing the harm caused by alcohol, and associated programmes/projects/initiatives.

Annual Governance Statement (Continued)

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 Council'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 and the Cabinet member for HR and Governance has been established to oversee the compilation of the Annual Governance Statement:

- Acting Director of Corporate Services and S151;
- Head of Legal Services;
- Head of Performance and Property;
- Monitoring Officer;
- Internal Audit Manager;
- Head of ICT and Customer Services

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.

The arrangements have been strengthened since March 2013 taking on board the findings of a WAO report on the AGS Statement.

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.

Monitoring Officer
This role is now a standalone post to ensure sufficient resource is directed to the Improving Governance agenda. This is an interim arrangement and is under review.

Annual Governance Statement (Continued)

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 whose terms of reference comply with the latest CIPFA guidelines. 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.

As referred to earlier in the Statement a review of these arrangements is now required.

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 Council's external auditors.

The Internal Audit Manager reports directly to a member of Corporate Management Team, the S151 Officer.

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.

Review Outcome
The review of the Council's governance arrangements has identified one additional major area where improvements could be made to strengthen the existing procedures and processes:-

a) Improving Corporate Governance. Issues relating to this matter and the means of progressing and monitoring the delivery of improvements have been covered throughout the main body of the statement.

Annual Governance Statement (Continued)

The previous year's AGS had determined that there were 2 major areas where improvements could be strengthened, these were:-

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.

The Authority has considered these 2 areas for improvement above and determined that the lessons learnt from the work streams in respect of both the Integration proposals for Social Services between Blaenau Gwent and Caerphilly CBC, plus the establishment of the Education Achievement Service and Project Gwyrdd along with the smaller collaborative ventures such as Procurement with Merthyr and Pest Control with Blaenau Gwent, have strengthened the Authority's position in respect of collaborative arrangements, albeit that it is recognised that there are always improvements in respect of the business case and internal challenge that can be made.

The second area of improvement related to Business Continuity. The Authority's Emergency Planning arrangements have been recently tested to the full as a consequence of the Cwmcarn High School issues relating to asbestos, and it needs to be noted that Business Continuity never covered this element of service delivery. It has been identified that Business Continuity exists in most front line service areas and IT but that there is no consistent approach. Recent reports to the Corporate Governance Panel and CMT have agreed a strategy that has been adopted by the Authority which should ensure that there is both a strategic and consistent approach to Business Continuity.

After consideration by the Audit Committee on 19th June 2013 it was determined that all 3 areas should remain in the Annual Governance Statement for 2012/13 to ensure that improvements continue to be made and monitored through the audit committee process.

Signed

H A Andrews

Harry Andrews
Leader of the Council

Stuart Rosser
Interim Chief Executive