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**Rhondda Cynon Taf County Borough Council****Statement of Accounts 2012/13**

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## **Explanatory Foreword**

### **1. Introduction**

Rhondda Cynon Taf County Borough Council was established on 1<sup>st</sup> April 1996 as a result of the reorganisation of Local Government in Wales under the Local Government (Wales) Act 1994.

Rhondda Cynon Taf is the third largest Council in Wales with a population of 234,410 (2011 Census), serving an area in the South Wales Valleys covering 424 square kilometres, stretching from the Brecon Beacons National Park in the north to the Capital City of Cardiff in the south.

The accounts for 2012/13 have been prepared in accordance with:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 based on International Financial Reporting Standards (IFRS).
- Local Government Act 2003.
- The Service Reporting Code of Practice for Local Authorities 2012/13 (SeRCOP).
- Accounts and Audit (Wales) Regulations 2005 (as amended).
- Sections 41 and 42 of the Local Government and Housing Act 1989.

The accounts set out on pages 5 to 153 comply with the above.

### **2. Impact of Current Economic Climate**

The impact of the current economic climate continues to be a significant challenge for this and all other local authorities. Welsh Government settlements have reduced year on year to unprecedented levels and reflect the ongoing global economic crisis and severe economic downturn. Council officers and Members continue to take their fiduciary duty extremely seriously and this has been demonstrated by the setting of prudent and fair budgets. The financial results and position demonstrated in this Statement of Accounts reflect sound financial stewardship despite continuing financial pressures.

It is the Chief Financial Officer's view that the Council should continue to maintain a minimum of £10m as a working balance, as has been the case for a number of years. This is reflected in the Balance Sheet which demonstrates Council Fund Balances of £11.204m. This is set in the context of the need for strong financial management being essential to ensure the Council maintains financial flexibility and stability going forward.

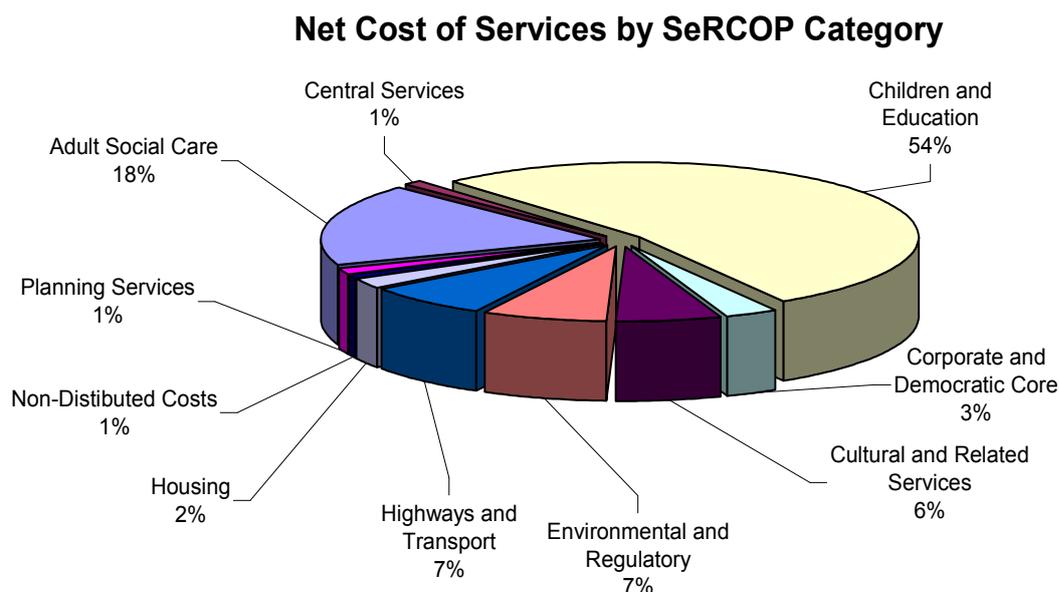
### **3. Explanation of Core Financial Statements**

The Statement of Accounts that follow this Explanatory Foreword contains the following Core Financial Statements:

- **Movement in Reserves Statement (MiRS)** – represents the movement in each usable and unusable reserve.
- **Comprehensive Income and Expenditure Statement (CI&ES)** – reflects income and expenditure in accordance with IFRS.
- **Balance Sheet** – reflects all assets, liabilities and reserves of the Council i.e. reflects the year-end financial position.
- **Cash Flow Statement**– analyses the movement in cash and cash equivalents for the year.

#### 4. Comprehensive Income and Expenditure 2012/13

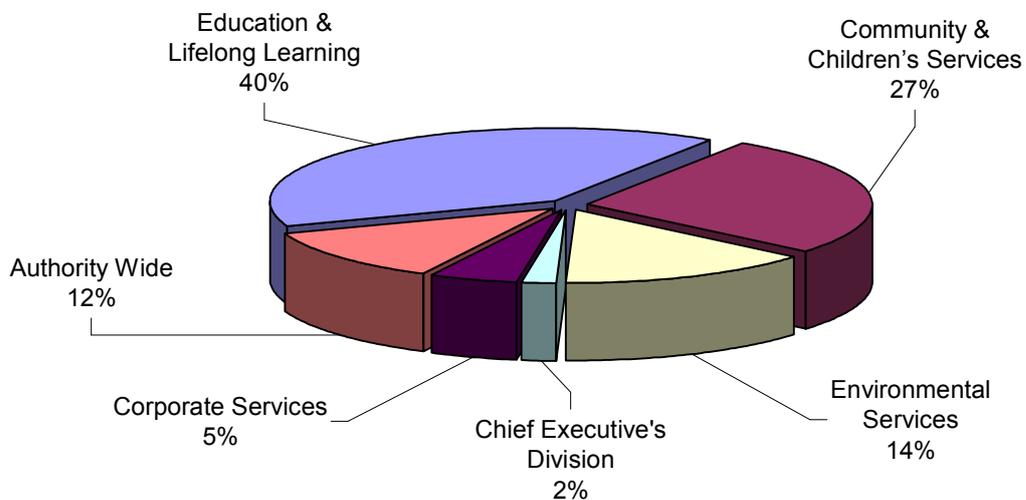
The Comprehensive Income and Expenditure Statement provides an analysis of the Council's gross revenue expenditure and income in accordance with International Financial Reporting Standards. The chart below provides an analysis of the Net Cost of Services (£447m) by Service Reporting Code of Practice (SeRCOP) Service Expenditure Analysis Area.



The Council monitors performance in terms of service groups as opposed to the SeRCOP service expenditure analysis. The following table details each of the service groups' actual net expenditure and budget during 2012/13. This represents the net revenue expenditure of the Council in line with the statutory provisions that need to be taken into account when setting local taxes. The variance against budget reconciles to the movement on the Council Fund Balance:

Service Group	Budget	Spend	Variance
	£'000	£'000	£'000
Education & Lifelong Learning	173,273	173,213	(60)
Community & Children's Services	118,121	117,640	(481)
Environmental Services	62,441	62,354	(87)
Chief Executive's Division	8,996	8,920	(76)
Corporate Services	22,697	22,540	(157)
Authority Wide	51,393	51,508	115
<b>Total</b>	<b>436,921</b>	<b>436,175</b>	<b>(746)</b>

### Net Expenditure by Service Group



	£'000
<b>Council Fund Reserves as at 31<sup>st</sup> March 2012</b>	<b>(10,458)</b>
Revenue Budget Out-turn (Variance as on page 7)	(746)
<b>Council Fund Reserves as at 31<sup>st</sup> March 2013</b>	<b>(11,204)</b>

Gross Expenditure on Services amounted to £723m, this can be analysed over the following expenditure categories:

Type of Expenditure	£'m	%
Employees	286	40
Premises	30	4
Transport	28	4
Supplies and Services	109	15
Payments to Third Parties	97	13
Transfer Payments	79	11
Capital Charges	61	8
Other Operating Costs (e.g. Support Services)	33	5
<b>Total Gross Expenditure</b>	<b>723</b>	<b>100</b>

Income during the year totalled £757m and came from the following sources:

<b>Income Analysis</b>	<b>£'m</b>	<b>%</b>
<u>Direct Service Income</u>		
Specific Grants	173	23
Sales, Fees & Charges	36	5
Other Income	66	9
<b>Sub-Total Direct Service Income</b>	<b>275</b>	<b>37</b>
<u>Other Income</u>		
Council Tax	100	13
National Non-Domestic Rates	63	8
Non-Ringfenced Government Grants	288	38
Capital Grants and Contributions	31	4
<b>Total Income</b>	<b>757</b>	<b>100</b>

## **5. Summary of Future Revenue and Capital Plans**

During 2012/13 the Community Strategy was the key strategic plan setting out the plans and ambitions for the future of the County Borough. The strategy was owned by the Local Service Board which brings together various public service organisations of which this Council is one. The Community Strategy was supported by medium term (3-year) strategic plans across statutory partnerships (for example, the Children & Young People's (Fframwaith) Partnership and the Community Safety Partnership) and these all involved partnership input from across the Public Sector within the County Borough. From April 2013, the Community Strategy (and other medium-term strategic partnership plans) has been replaced by a Single Integrated Plan. In the same way, this is owned by the Local Service Board and will guide the priorities of public services. For the Council specifically, these ambitions and strategic plans drive the production of a Corporate Plan and Annual Delivery Report. All of these plans and ambitions need to be underpinned by robust financial management. Members and officers are continually working towards achieving goals at all planning levels and these documents are key drivers in allocating resources.

Capital and revenue budgets are approved annually by full Council. The Capital Programme is approved for a rolling 3-year period and updated annually. Revenue budgets are set annually in line with the Welsh Government settlement announcements.

A summary of the latest Capital Programme agreed by Members in March 2013 is as follows:

	2013/14	2014/15	2015/16	Total
Group	£'000	£'000	£'000	£'000
Chief Executive's Division	3,720	6,046	1,002	10,768
Corporate Services	1,885	864	900	3,649
Corporate Initiatives	2,299	930	930	4,159
Education & Lifelong Learning Services	18,718	5,567	5,188	29,473
Community & Children's Services	7,300	6,803	6,658	20,761
Environmental Services	16,088	9,413	6,537	32,038
<b>Total</b>	<b>50,010</b>	<b>29,623</b>	<b>21,215</b>	<b>100,848</b>

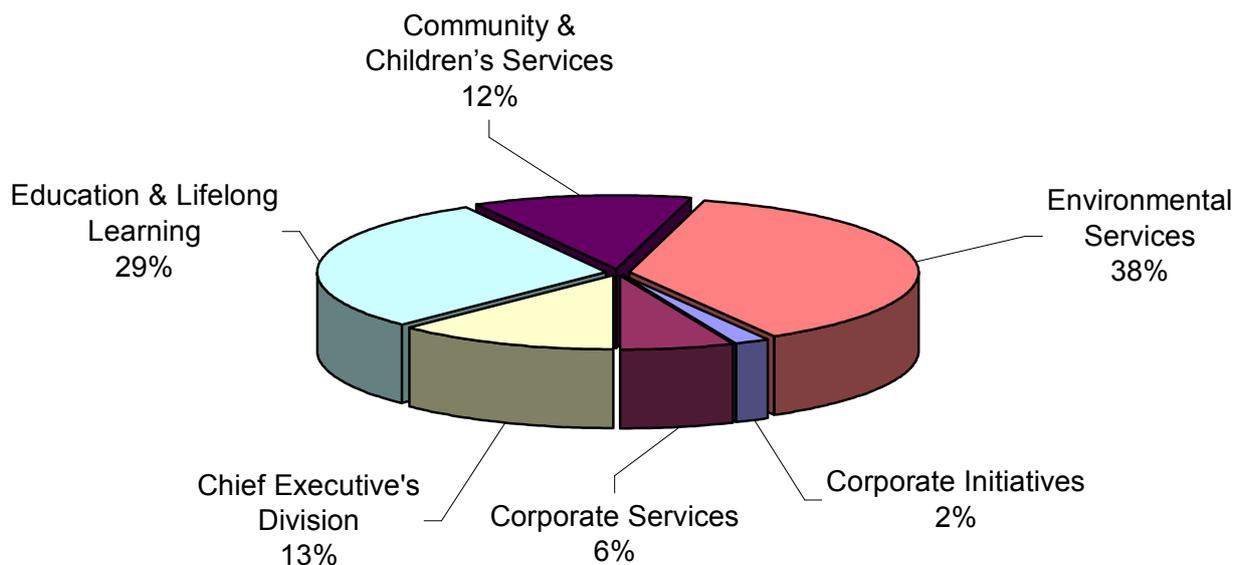
A summary of the Council's revenue budget for 2013/14 (agreed in February 2013) is outlined below:

	£'000
Authority Wide	73,316
Individual Schools Budget	148,602
Community & Children's Services	124,755
Corporate Services and Chief Executive's Division	31,186
Education & Lifelong Learning Services	31,042
Environmental Services	63,442
Less Service Cut Proposals (Part Year Effect)	(3,140)
<b>Total</b>	<b>469,203</b>

## 6. Capital Expenditure and Income 2012/13

During the year the Council spent £81.4m on capital, as summarised below:

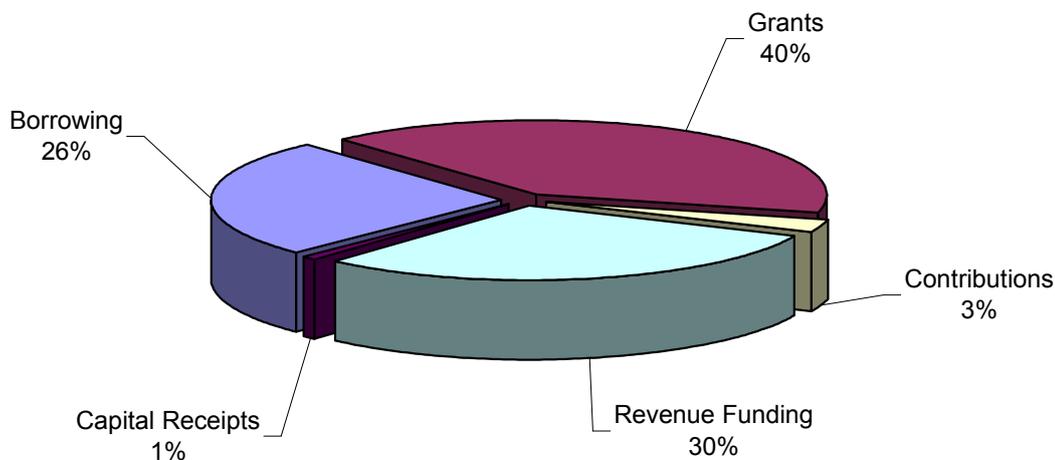
Group	£'000	%
Corporate Initiatives	1,663	2
Corporate Services	5,148	6
Chief Executive's Division	10,204	13
Education & Lifelong Learning Services	23,937	29
Community & Children's Services	9,896	12
Environmental Services	30,518	38
<b>Total</b>	<b>81,366</b>	<b>100</b>



In addition, the Council's share of capital expenditure incurred by Joint Committees in which it has an interest was £6k. The type of capital expenditure incurred during the year is summarised below:

Capital Expenditure	RCT	Joint Committees	Totals
	£'000	£'000	£'000
Tangible Long-Term Assets	68,520	6	68,526
Intangible Long-Term Assets	1,213	0	1,213
Revenue Expenditure Funded from Capital under Statute	11,633	0	11,633
<b>Total</b>	<b>81,366</b>	<b>6</b>	<b>81,372</b>

This expenditure was financed as follows:



Of the assets acquired and built during the year under the capital programme, significant spends were incurred on:

Disabled Facilities Grants/Adaptations (DFGs)  
 Fleet Vehicles  
 Highways Improvements  
 Rhydfelin Flood Alleviation  
 Llantrisant Leisure Centre  
 Pontypridd Town Centre (Convergence)  
 Aberdare Town Centre (Convergence)  
 Ty Dysgu Building  
 Ysgol Gyfun Llanhari  
 Cwmbach Community Primary School  
 Abercynon Community Primary School

As at 31<sup>st</sup> March 2013, major capital commitments over the next three years (per the Capital Programme 2013 – 2016) include the following schemes:

Scheme	31/03/13
	£'000
Disabled Facilities Grants/Adaptations (DFGs)	12,000
Maintenance Repair Assistance (MRAs)	2,610
Home Improvement Zones/Renovation Grants	1,500
Community Regeneration	2,214
Ynysboeth Community Primary School	2,374
Cwmbach Community Primary School	2,928
Abercynon Community Primary School	3,021
Fleet Vehicles	11,575
Highways Improvements	10,494
Drainage Improvements	3,141
Structures	2,400
Street Lighting	1,250
Pontypridd Lido	5,718
Pontypridd Town Centre (Convergence)	1,283
Legionella Remediation Works	1,025
Asbestos Remediation Works	7,350

The Council is also contracted to a Private Finance Initiative (PFI) scheme - a Lifelong Learning Campus at Garth Olwg. The commitment is for £113.8m over a period of 25 years. See note 40.0 to the Core Financial Statements for further details.

## 7. **Borrowing Arrangements and Sources of Funds**

Each year, in accordance with the Local Government Act 2003, and the Prudential Code, the Council is required to set limits in relation to:

- Authorised limit for borrowing.
- Limits on exposure to fixed and variable interest rates.
- Various other prudential and treasury indicators.

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

<b>Authorised borrowing limit</b>	£304.8m
<b>Interest Rate Exposure – Borrowing</b>	<b>Range</b>
Limits on total % of borrowing at fixed interest rates	55% - 90%
Limits on total % of borrowing at variable interest rates	10% - 45%
<b>Interest Rate Exposure – Investments</b>	<b>Range</b>
Limits on total % of investments at fixed interest rates	0% - 25%
Limits on total % of investments at variable interest rates	75% - 100%

The Council's borrowing totals £199.9m, of which £196.4m is long-term and £3.5m is short-term. The majority of external borrowing was from the Public Works Loan Board (£111.1m). The remaining balance comprises £87.6m from market loans and £1.2m from other sources.

The Council also has PFI liabilities of £27.2m, £26.1m is a Long-Term Liability and £1.1m is due within one year. In addition there are Finance Lease liabilities of £0.6m in Other Long-Term Liabilities.

The Council is required to prepare a Treasury Management Strategy for the forthcoming year. The Council's Treasury Management Practices allow the Council to raise funds from a variety of sources, including the PWLB and the money market. The Group Director - Corporate Services is authorised to take the most appropriate form of borrowing from approved sources within the overall borrowing limits set by Council.

## 8. Pensions Assets and Liabilities

As a result of International Accounting Standard 19 "Employee Benefits", local authorities are required to account for pensions liabilities in respect of the cost of decisions made up to the Balance Sheet date. Please refer to notes 18.4 and 42.0 to the Core Financial Statements for further details.

The effect of IAS 19 upon the reserves of the Council is as follows:

	<b>£'000</b>
Net Assets excluding Pensions Reserve	763,984
Net Assets as per Balance Sheet	89,265

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## Statement of Responsibilities for the Statement of Accounts

### The Council's Responsibilities

The Council is required:

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

I confirm that these accounts were approved by Council on 25<sup>th</sup> September 2013.

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

### Cllr. Ann Crimmings

#### Mayor

Civic Offices, Municipal Buildings  
Gelliwastad Road  
Pontypridd  
CF37 2DP

### The Group Director - Corporate Services' Responsibilities

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

In preparing this Statement of Accounts, the Group Director has:

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

The Group Director has also throughout the financial year:

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

**Certificate of the Group Director - Corporate Services Rhondda Cynon Taf CBC on the Accounts of Rhondda Cynon Taf CBC, Rhondda Cynon Taf CBC Group Accounts and the Rhondda Cynon Taf Pension Fund for 2012/13**

I certify that the accounts set out on pages 5 to 153 present a true and fair view of the financial position of Rhondda Cynon Taf CBC, Rhondda Cynon Taf CBC Group Accounts and the Rhondda Cynon Taf Pension Fund at 31<sup>st</sup> March 2013 and its income and expenditure for the year.

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

**Steve Merritt**

**Group Director - Corporate Services**  
Bronwydd House  
Porth  
CF39 9DL

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

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

### Movement in Reserves Statement for the year ended 31<sup>st</sup> March 2013

	Council Fund Balance £'000	Farmed Reserves: Capital, & Insurance £'000	Farmed Reserves: Other Revenue Related £'000	Delegated Schools Reserve £'000	Usable Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	MGCC Insurance Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves of the Council £'000
<b>Notes:</b>	17.1	17.2	17.2	17.3	17.4	17.5	17.6		18.0	
<b>Balance at 1<sup>st</sup> April 2012</b>	(10,458)	(34,984)	(72,410)	(5,484)	0	(3,397)	(1,040)	(127,773)	(40,359)	(168,132)
<b>Movement in reserves during 2012/13:</b>										
(Surplus) or deficit on the provision of services (accounting basis)	22,290	0	(81)	0	0	0	0	22,209	0	22,209
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	56,645	56,645
<b>Total comprehensive income and expenditure</b>	22,290	0	(81)	0	0	0	0	22,209	56,645	78,854
<b>Adjustments between accounting basis and funding under regulations:</b>										
<b>Adjustments primarily involving the Capital Adjustment Account:</b>										
<b>Reversal of items debited/credited to CI&amp;ES:</b>										
Charges for depreciation and impairment of non-current assets	(49,289)	0	(66)	0	0	0	0	(49,355)	49,355	0
Revaluation losses on property, plant & equipment	0	0	0	0	0	0	0	0	14	14
Amortisation of intangible assets	(1,450)	0	0	0	0	0	0	(1,450)	1,450	0
Revenue expenditure funded from capital under statute	(15,079)	0	0	0	0	0	0	(15,079)	15,079	0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(1,124)	0	0	0	(494)	0	0	(1,618)	1,618	0

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

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

## Comprehensive Income and Expenditure Statement for the year ended 31<sup>st</sup> March 2013

2011/12			Note:	2012/13		
Gross Exp	Gross Income	Net Exp		Gross Exp	Gross Income	Net Exp
£'000	£'000	£'000		£'000	£'000	£'000
30,106	(26,706)	3,400	Central Services to the Public	31,624	(27,185)	4,439
34,417	(8,131)	26,286	Cultural and Related Services	35,610	(8,290)	27,320
49,666	(20,845)	28,821	Environmental and Regulatory Services	54,994	(22,750)	32,244
16,830	(11,651)	5,179	Planning Services	16,630	(10,554)	6,076
302,560	(69,298)	233,262	Children's and Education Services	311,259	(73,662)	237,597
38,323	(14,784)	23,539	Highways and Transport Services	44,300	(13,063)	31,237
86,996	(77,118)	9,878	Housing Services	90,327	(80,040)	10,287
114,597	(38,433)	76,164	Adult Social Care	119,187	(38,642)	80,545
9,577	(1,218)	8,359	Corporate and Democratic Core	14,713	(1,312)	13,401
1,699	(91)	1,608	Non-Distributed Costs	3,921	(107)	3,814
<b>684,771</b>	<b>(268,275)</b>	<b>416,496</b>	<b>Cost of Services</b>	<b>722,565</b>	<b>(275,605)</b>	<b>446,960</b>
			<b>Other Operating Expenditure</b>			
13,214	0	13,214	Precepts	13,919	0	13,919
12,040	0	12,040	Levies	11,835	0	11,835
2,060	0	2,060	(Gains) or Losses on Disposal of Non-Current Assets	1,034	0	1,034
			<b>Financing and Investment Income and Expenditure</b>			
11,347	0	11,347	Interest Payable and Similar Charges	10,803	0	10,803
55,183	(39,463)	15,720	Pensions Interest Cost and Expected Return on Pensions Assets	55,438	(36,723)	18,715
0	(257)	(257)	Interest Receivable and Similar Income	0	(129)	(129)
17,742	(17,026)	716	Trading Operations	14,302	(13,537)	765
			<b>Taxation and Non-Specific Grant Income</b>			
0	(96,691)	(96,691)	Council Tax Income	0	(100,203)	(100,203)
0	(54,964)	(54,964)	NNDR Distribution	0	(63,406)	(63,406)
0	(294,731)	(294,731)	Non-Ringfenced Government Grants	0	(287,666)	(287,666)
0	(24,606)	(24,606)	Capital Grants and Contributions	0	(30,418)	(30,418)
<b>796,357</b>	<b>(796,013)</b>	<b>344</b>	<b>(Surplus) or Deficit on the Provision of Services</b>	<b>829,896</b>	<b>(807,687)</b>	<b>22,209</b>

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0	(26,499)	(26,499)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets	3,227	0	3,227
110,930	0	110,930	Actuarial (Gains) or Losses on Pension Assets & Liabilities	53,418	0	53,418
<b>110,930</b>	<b>(26,499)</b>	<b>84,431</b>	<b>Other Comprehensive Income and Expenditure</b>	<b>56,645</b>	<b>0</b>	<b>56,645</b>
<b>907,287</b>	<b>(822,512)</b>	<b>84,775</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>886,541</b>	<b>(807,687)</b>	<b>78,854</b>

## **Balance Sheet**

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

Balance Sheet as at 31<sup>st</sup> March 2013

31/03/12				31/03/13	
£'000			Note:	£'000	£'000
	<b>Long-Term Assets</b>	Property, Plant & Equipment:	7.0		
565,165		Other Land & Buildings		547,867	
412,656		Infrastructure		423,260	
10,896		Vehicles, Plant & Equipment		9,664	
3,672		Community Assets		4,124	
4,409		Assets Under Construction		19,675	
145		Heritage Assets	8.0	145	
2,356		Intangible Assets	9.0	2,423	
0		Long-Term Investments	10.1	1,015	
3,348		Investment in Subsidiaries		3,206	
975		Long-Term Debtors		986	
<b>1,003,622</b>			<b>TOTAL LONG-TERM ASSETS</b>		
	<b>Current Assets</b>	Short-Term Investments	10.1	725	
29,333		Assets Held for Sale	13.0	6,902	
3,993		Inventories		970	
1,029		Short-Term Debtors	11.0	60,921	
42,491		Cash and Cash Equivalents	12.0	4,545	
4,474					
<b>81,320</b>		<b>TOTAL CURRENT ASSETS</b>			<b>74,063</b>
	<b>Current Liabilities</b>	Cash and Cash Equivalents	12.0	(11,057)	
(12,185)		Short-Term Borrowing	10.1	(3,479)	
(11,663)		Short-Term Provisions	15.0	(10,646)	
(4,162)		Short-Term Creditors	14.0	(56,081)	
(48,954)					
<b>(76,964)</b>		<b>TOTAL CURRENT LIABILITIES</b>			<b>(81,263)</b>
	<b>Long-Term Liabilities</b>	Long-Term Provisions	15.0	(8,539)	
(7,059)		Long-Term Borrowing	10.1	(196,391)	
(196,511)		Other Long-Term Liabilities	16.0	(709,912)	
(635,218)		Donated Asset Account	36.3	(1,058)	
(1,058)					
<b>(839,846)</b>		<b>TOTAL LONG-TERM LIABILITIES</b>			<b>(915,900)</b>
<b>168,132</b>	<b>NET ASSETS</b>				<b>89,265</b>

Continued Overleaf...

(10,458)	<b>Usable Reserves</b>	Council Fund Balance	17.1	(11,204)		
		Earmarked Reserves:	17.2			
(34,984)		Capital, Treasury and Insurance Reserves	17.2	(22,548)		
(72,410)		Other Revenue Related Reserves	17.2	(75,822)		
(5,484)		Delegated Schools Reserve	17.3	(5,379)		
0		Usable Capital Receipts Reserve	17.4	(50)		
(3,397)		Capital Grant Unapplied Account	17.5	(2,290)		
(1,040)		MGCC Insurance Reserve	17.6	(474)		
<b>(127,773)</b>			<b>TOTAL USABLE RESERVES</b>			<b>(117,767)</b>
(192,197)	<b>Unusable Reserves</b>	Revaluation Reserve	18.1	(183,726)		
(139)		Deferred Capital Receipts Reserve		(100)		
(463,572)		Capital Adjustment Account	18.2	(476,209)		
5,969		Financial Instruments Adjustment Account	18.3	5,924		
603,440		Pensions Reserve	18.4	674,719		
616		Unequal Pay Back Pay Account	18.5	4,850		
5,524		Short-Term Accumulating Compensated Absence Account	18.6	3,044		
<b>(40,359)</b>			<b>TOTAL UNUSABLE RESERVES</b>			<b>28,502</b>
<b>(168,132)</b>		<b>TOTAL RESERVES</b>			<b>(89,265)</b>	

## **Cash Flow Statement**

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

### Cash Flow Statement 2012/13

2011/12			2012/13	
£'000		Note:	£'000	£'000
344	Net (Surplus) or Deficit on the Provision of Services		22,209	
(69,419)	Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements	19.0	(82,455)	
22,546	Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	20.0	29,384	
<b>(46,529)</b>	<b>Net Cash Flows from Operating Activities</b>			<b>(30,862)</b>
42,879	Investing Activities	22.0	20,455	
5,971	Financing Activities	23.0	9,208	29,663
<b>2,321</b>	<b>Net Increase or Decrease in Cash or Cash Equivalents</b>			<b>(1,199)</b>
5,390	Cash and Cash Equivalents at the Beginning of the Reporting Period	12.0		7,711
<b>7,711</b>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	12.0		<b>6,512</b>

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## Notes to the Core Financial Statements

### 1.0 Accounting Policies

#### 1.1 Accruals of Expenditure and Income

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

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

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

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

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

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

#### 1.2 Back Pay Arising from Unequal Pay Claims

The Council provides for the estimated costs of outstanding back pay claims made against it under the Equal Pay Act 1970. Regulations introduced by the Welsh Government give the Council discretion not to charge this cost to the Council Fund until payments have been made. This is achieved by reversing the charge in the Movement in Reserves Statement and establishing a reserve called Unequal Pay Back Pay Account. The Council has taken advantage of this discretion. The balance on the Unequal Pay Back Pay Account will be debited to the Council Fund via the Movement in Reserves Statement in future years as payments are made.

#### 1.3 Cash and Cash Equivalents

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

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

#### **1.4 Contingent Assets**

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

In accordance with the concept of prudence, contingent assets are not recognised in the Comprehensive Income and Expenditure Statement or the Balance Sheet because the gain might never be realised but disclosed in the Notes to the Core Financial Statements where it is probable there will be an inflow of economic benefit or service potential.

#### **1.5 Contingent Liabilities**

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

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

Material contingent liabilities are disclosed in Notes to the Core Financial Statements at note 44.

#### **1.6 Employee Benefits**

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

##### **Termination Benefits**

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

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

##### **Pensions**

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

Teachers - This is an unfunded scheme administered by Teachers' Pensions on behalf of the Department of Education. Contribution rates are set on the basis of a notional

fund. Whilst this is a defined benefit scheme, Teachers' Pensions is unable to identify the Council's share of the underlying assets and liabilities and accordingly, the Council has accounted for its contributions to the scheme as if it were a defined contribution scheme.

Other employees - Rhondda Cynon Taf CBC administer a fund on behalf of employees under the Local Government Pension Scheme Regulations 1997 (as amended), under which contribution rates are set by the fund's actuary based on triennial actuarial valuations. Under the regulations, contribution rates are set in order to lead to full funding of the overall liability of the Fund over time. The Local Government Scheme is accounted for as a Defined Benefit Scheme.

- The liabilities of the Rhondda Cynon Taf Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.4%.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

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

- The change in the net pensions liability is analysed into seven components:
  - Current Service Cost – the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
  - Interest Cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
  - Expected Return On Assets – the annual investment return on the fund assets attributable to the Council based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
  - Gains or Losses on Settlements and Curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

- 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 – debited or credited to the Pensions Reserve.
- Contributions Paid to the Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense in the Comprehensive Income and Expenditure Statement.

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

### **Discretionary Benefits**

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

### **Accumulated Absences**

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

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

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

The financial statements are authorised for issue in accordance with the Accounts and Audit Regulations (Wales) 2005 (as amended). Regulations state the Statement of Accounts shall be authorised for issue when certified by the Responsible Finance Officer. Certification of unaudited accounts takes place by 30<sup>th</sup> June following financial year-end.

Regulations require the audited Statement of Accounts to be published by 30<sup>th</sup> September. The published Statement of Accounts shall reflect events after the reporting period up to the date the accounts were authorised for issue. This is the date the Responsible Finance Officer re-certifies the accounts.

Two types of events can be identified;

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

## **1.8 Exceptional Items**

Exceptional items are material items that are within the normal course of duties of the Council but are exceptional because of their size or incidence. Exceptional items may be disclosed on the face of the financial statements if their omission could distort readers understanding of the accounts. Alternatively, details of such transactions may be disclosed within the Notes to the Core Financial Statements.

## **1.9 Prior Period Adjustments**

Prior period comparators are adjusted from the original audited accounts if either of the following two circumstances are apparent;

- a) when there is a requirement to correct a material error. An error is deemed material if its omission or misstatement influences decisions or assessments of users of the financial statements; or,
- b) a change of accounting policy. In this circumstance, the opening balances of the earliest period presented are revised as though the revised policy had always been applied, except to the extent that it is impracticable to do so.

Changes in estimates are not deemed to necessitate a prior period adjustment unless the estimate change is due to a change in measurement basis (change in policy).

## **1.10 Financial Instruments**

Financial Instruments consist of Financial Liabilities and Financial Assets.

### **Financial Liabilities**

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

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

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

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

### **Financial Assets**

Financial Assets are classified into two types:

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

Rhondda Cynon Taf CBC holds only “Loans and Receivables”.

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

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

#### **1.11 Foreign Currency Translation**

It is the Council’s policy not to invest or borrow in any currency other than sterling.

When transactions are required to be undertaken in a foreign currency, they are converted at the prevailing rate on the day of the transaction. The Council undertakes very few transactions of this nature.

#### **1.12 Intangible Assets**

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

Purchased or internally developed intangible assets are capitalised at cost and are amortised over their economic lives which are reviewed at the end of each reporting period and revised if necessary.

An asset is tested for impairment whenever there is an indication that the asset may be impaired. Any losses are posted to the relevant service line.

Any gain or loss arising on the disposal or abandonment of an intangible asset is reflected in the Other Operating Expenditure section in the Comprehensive Income and Expenditure Statement.

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

### **1.13 Inventories**

Inventories of stock are measured at the lower of cost and net realisable value. When such inventories are sold, exchanged or distributed, the carrying amount shall be recognised as an expense when the income (if any) is recognised.

Where inventories are acquired in a non-exchange transaction (i.e. not paid for), the stock needs to be measured at fair value at the point of acquisition. The increase in value shall be recognised in the Donated Inventories Account. When the inventories are sold, the Donated Inventories Account credits are recognised in the Comprehensive Income and Expenditure Statement as income.

Where inventories are held for distribution at no charge or for a nominal charge, they are measured at the lower of cost or current replacement cost. When such inventories are used, the carrying amount is charged as an expense.

### **1.14 Leases**

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

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

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

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

## Finance Leases

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

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

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

## Operating Leases

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

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

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

### 1.15 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.

#### 1.15.1 Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure on assets not owned by the Council, but where continuing benefit is received, is also capitalised on an accruals basis. Although capitalised, this expenditure is amortised in the year it is incurred with the exception of capital expenditure on assets held under Operating Leases whereby the expenditure is amortised over the remaining life of the lease term.

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

Asset Type	£'000
Land & Buildings	20
Vehicles	5
Plant & Equipment	5
Infrastructure	20
Community Assets	Nil

### 1.15.2 Measurement

Assets are initially measured at cost, comprising:

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

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

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

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 section 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.

Tangible Long-Term assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS). Property, Plant and Equipment assets are generally valued on the basis of existing use value (EUV) which is deemed to be "fair value". Specialist items are valued on a depreciated replacement cost basis (DRC). This method of valuation calculates the cost of constructing modern equivalent buildings and structures, depreciating them to account for the age and future economic life. This cost calculation is known as Modern Equivalent Valuation (MEV). Investment properties are generally valued on the basis of open market value (OMV). Infrastructure assets are included at historic cost, and adjusted to reflect depreciation.

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

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

Where there is no market-based evidence of 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 that 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. 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 as follows:

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

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

### 1.15.3 Impairment

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

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

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

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

### 1.15.4 Depreciation

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

Exceptions are made for:

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

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

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

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

#### **1.15.5 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. 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), and their recoverable amount at the date of the decision not to sell.

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

The criteria for recognising assets as being held for sale are:

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

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

Amounts received for a disposal in excess of £10k are categorised as capital receipts. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need

to borrow (the Capital Financing Requirement). Receipts are appropriated to the Usable Capital Receipts Reserve from the Council Fund Balance in the Movement in Reserves Statement.

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

### **1.16 Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Council Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. To ensure this isn't a charge against Council Fund Balance, the expenditure is funded via an adjustment in the Movement in Reserves Statement.

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

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

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

### **1.18 Government Grants and Other Contributions**

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

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

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

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

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

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

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

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

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Long-Term Assets during the year;

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. Therefore these charges to the Comprehensive Income and Expenditure Statement are reversed in the Movement in Reserves Statement.

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

The Local Government Act 2003 requires each local authority to set aside a Minimum Revenue Provision (MRP) for debt redemption. In accordance with the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 {S.I.2008/588 (W.59)} the Council's accounting treatment is as follows:

**Supported Borrowing:** MRP is charged to the Council Fund Balance at 4% of the Capital Financing Requirement (for assets which are operational).

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

- charge in equal instalments (or to match the benefits derived) over the life of the asset created;
- annuity method; or
- charge in accordance with the depreciation of the asset.

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

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

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor during the contract term. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no

additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

This Council has one PFI scheme which is the Lifelong Learning Campus at Garth Olwg.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Long-Term Assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

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 (Children's and Education Services).
- Finance cost – an interest charge of 3.99% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure section in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – debited to Comprehensive Income and Expenditure Statement (Children's and Education Services) as part of the service charge each year as the actual costs are borne by the private contractor and are not separately identifiable.

Third party income – profit is shared equally between the Council and the private contractor once the minimum guaranteed amount (which is set in the contract) is exceeded each year.

### **1.22 Cost of Support Services**

The cost of overheads and support services have been allocated to service areas (in accordance with SeRCOP) based on a projected out-turn basis. The balance of unallocated costs has been classified as Non-Distributed Costs.

All overhead and support costs are recharged with the exception of:

- Corporate and Democratic Core.
- Non-Distributed Costs.

### **1.23 Value Added Tax**

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

## **1.24 Provisions**

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

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

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

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

The Council has interests in companies and other entities which are required to be included in both single entity and group accounts.

Amgen Cymru Ltd. and Amgen Rhondda Ltd. meet the criteria of subsidiaries and are consolidated within the Group Accounts financial statements on this basis, and also are represented within Long-Term Assets in the Balance Sheet of the single entity financial statements.

Capita Glamorgan Consultancy Ltd meets the criteria of an associated company and is accounted for as such in the Group Accounts financial statements.

Within the single entity financial statements, the Council reflects its share of transactions of the various Joint Committee arrangements in which it participates.

The accounts of the Joint Committees have been consolidated into the Council's financial statements on a line-by-line basis, calculated using a reasonable apportionment methodology. The Joint Committees consolidated are:

- Llwydcoed Crematorium
- Glamorgan Archives
- Coychurch Crematorium
- Catalogue Supplies Service
- Education School Improvement Service (ESIS)
- Central South Consortium Joint Education Service (CSCJES)
- South East Wales Transport Alliance (SEWTA)

ESIS ceased trading on 31<sup>st</sup> August 2012 and was replaced by CSCJES; therefore 5 months of ESIS and 7 months of CSCJES accounts have been consolidated into this Statement of Accounts.

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

Local Authorities are required to disclose details of accounting standards issued but not yet adopted by the Code of Practice. For the 2012/13 accounts, the relevant standards are:

- IAS 19 Employee Benefits
- IAS 1 Presentation of Financial Statements – Other Comprehensive Income
- IFRS 7 Financial Instruments Disclosures – Offsetting Financial Assets and Liabilities
- IAS 12 Deferred Tax: Recovery of Underlying Assets
- IFRS 13 Fair Value Measurement

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

In applying the Accounting Policies set out in note 1, the Council has had to make certain judgements about complex transactions and those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

### **3.1 Heritable Bank**

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £3m invested in the sector at this time. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements as specified in CIPFA's LAAP bulletin 82. Related investment income has been fully impaired. The latest estimate indicates a base case return to creditors of between 86 and 90 pence in the pound. As at the Balance Sheet date, this Council has received dividend payments of £2.3m.

### **3.2 Private Finance Initiative**

The Council is deemed to control the services provided under a Private Finance Initiative arrangement for the provision of a Lifelong Learning Campus at Garth Olwg. The value of the assets of the scheme is held within Property, Plant & Equipment and valued at £22.7m. The value of liabilities for the term of the contract is also within long-term and current liabilities on the Balance Sheet.

### **3.3 Municipal Mutual Insurance (MMI)**

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

During April 2013, the Council received correspondence from MMI stating the initial clawback levy will be 15%. This means that the former authorities are obligated to pay

15% of the value of claims (less £50k) paid out by MMI back to the company. This liability is within Current Liabilities in the Balance Sheet.

In addition, any future settlements will be made at a level of 85% with the funding of the remaining 15% being met from the former authorities' funds.

Correspondence from the scheme administrator states that it is not possible to guarantee the initial levy will be sufficient but they are the best estimates given the current position. The scheme requires the administrator to review the levy at least once a year.

Due to the ongoing uncertainty, the Council will continue to closely monitor the situation and accordingly a contingent liability continues to be disclosed.

### **3.4 Grants and Contribution Conditions**

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

### **3.5 Voluntary Aided and Voluntary Controlled Schools**

There is ongoing debate as to whether voluntary aided/voluntary controlled schools should be on or off local authorities' Balance Sheets.

Previous CIPFA invitations to comment on consultation documents have failed to achieve a consensus view in terms of the recognition criteria for schools non-current assets. A review group has been established by CIPFA/LASAAC and it is anticipated that further guidance won't be applicable until at least 2014/15 Statement of Accounts.

For 2012/13, there are no valuations in the Balance Sheet for the eight voluntary aided schools within Rhondda Cynon Taf, as the Council does not own the assets and does not have control over the economic benefits of the schools. Exceptions are land at St Margaret's Catholic School and playing fields at both St John Baptist Church in Wales High School and Cardinal Newman Catholic Comprehensive School, whereby ownership lies with the Council. When reviewing the existing criteria, the Council does not consider it has any voluntary controlled schools.

### **3.6 Equal Pay**

The Council has set aside a Provision for Equal Pay claims. Please refer to note 15.5 for further details. There are currently Equal Pay claims lodged at tribunal and litigation is ongoing. Due to the uncertain nature inherent in any litigated claims, a judgement has to be made on accounting treatment. The potential liability meets the definition of a Provision as outlined in the Council's accounting policies and the Council has taken advantage of regulations to mitigate the impact upon the Council Fund.

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

This Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because assets and liabilities cannot always be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31<sup>st</sup> March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways. During 2012/13, AON Hewitt advised that the funded proportion of the Council's net pensions liability had decreased by £2.0m due to estimates being corrected as a result of experience and increased by £105.89m attributable to updating of assumptions. Refer to note 42.0 for further details.

##### **4.2 Insurance Provision**

The Council makes provision for all claims received (but not yet paid) according to the "reserve" value attached to that claim. The reserve value represents the most likely value to settle the claim, not taking into account probability of settlement. Reserve values are provided by the Council's in-house insurance team, claims handlers and loss adjusters depending on the claim type and estimated value of the claim. Motor and property claims are provided for at 100% of the reserve value. Liability claims are provided for at 70% of the reserve value. This reflects that not all claims received are paid. Some are successfully repudiated. Refer to note 15.3 for further details.

The risks attached to misstatement are that existing claims will change in value (increase or decrease) or be successfully repudiated. An earmarked reserve is established to meet the additional costs relating to the impact of these potential changes in estimates. The earmarked reserve also funds claims or incidents that have occurred but claims are yet to be received. Refer to note 17.2 for further details.

## **5.0 Material Items of Income and Expense**

The Council has no material items of income or expense that require separate disclosure.

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

The draft, unaudited Statement of Accounts was authorised for issue by the Group Director – Corporate Services, as Chief Finance Officer, on 28<sup>th</sup> June 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provide information about conditions existing at 31<sup>st</sup> March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no events that took place after 31<sup>st</sup> March 2013 requiring disclosure providing information that is relevant to an understanding of the Council's financial position.

**7.0 Property, Plant and Equipment****7.1 Movements on Balances****Movements in 2012/13:**

	Other Land & Buildings	Infrastructure	Vehicles, Plant & Equipment	Community Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>							
At 1 <sup>st</sup> April 2012	703,328	493,477	32,115	4,190	4,624	<b>1,237,734</b>	26,819
Joint Committees Opening Balance	968	0	166	0	0	<b>1,134</b>	0
Additions	20,140	29,510	4,176	336	14,364	<b>68,526</b>	0
Donations	0	0	0	0	0	<b>0</b>	0
Revaluation Increases/ (Decreases) Recognised in the Revaluation Reserve	10,644	0	701	165	0	<b>11,510</b>	61
Revaluation Increases/ (Decreases) Recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	<b>0</b>	0
Derecognition – Disposals	(1,012)	0	(1,013)	0	0	<b>(2,025)</b>	0
Derecognition - Other	(11,982)	0	(28)	0	0	<b>(12,010)</b>	0
Assets Reclassified (to)/from Held for Sale	(4,010)	0	0	0	0	<b>(4,010)</b>	0
Other Reclassifications	(3,852)	1,697	0	0	2,155	<b>0</b>	0
<b>At 31<sup>st</sup> March 2013</b>	<b>714,224</b>	<b>524,684</b>	<b>36,117</b>	<b>4,691</b>	<b>21,143</b>	<b>1,300,859</b>	<b>26,880</b>

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<b>Accumulated Depreciation and Impairment</b>							
At 1 <sup>st</sup> April 2012	(139,061)	(80,821)	(21,233)	(518)	(215)	<b>(241,848)</b>	(2,469)
Joint Committees Opening Balance	(70)		(152)	0	0	<b>(222)</b>	0
Depreciation Charge	(11,646)	(13,855)	(4,546)	0	0	<b>(30,047)</b>	(392)
Impairment (Losses) Recognised in the Revaluation Reserve	(16,120)	0	(7)	0	0	<b>(16,127)</b>	(1,327)
Impairment Reversals Recognised in the Revaluation Reserve	0	0	0	0	0	<b>0</b>	0
Impairment (Losses) Recognised in the Surplus/Deficit on the Provision of Services	(9,998)	(6,656)	(1,539)	(337)	(1,145)	<b>(19,675)</b>	8
Impairment Reversals Recognised in the Surplus/Deficit on the Provision of Services	1,139	0	0	288	0	<b>1,427</b>	0
Derecognition – Disposals	79	0	1,013	0	0	<b>1,092</b>	0
Derecognition - Other	8,555	0	11	0	0	<b>8,566</b>	0
Assets Reclassified (to)/from Held for Sale	565	0	0	0	0	<b>565</b>	0
Other Reclassifications	200	(92)	0	0	(108)	<b>0</b>	0
<b>At 31<sup>st</sup> March 2013</b>	<b>(166,357)</b>	<b>(101,424)</b>	<b>(26,453)</b>	<b>(567)</b>	<b>(1,468)</b>	<b>(296,269)</b>	<b>(4,180)</b>
<b>Net Book Value:</b>							
<b>At 31<sup>st</sup> March 2013</b>	<b>547,867</b>	<b>423,260</b>	<b>9,664</b>	<b>4,124</b>	<b>19,675</b>	<b>1,004,590</b>	<b>22,700</b>
<b>At 31<sup>st</sup> March 2012</b>	<b>565,165</b>	<b>412,656</b>	<b>10,896</b>	<b>3,672</b>	<b>4,409</b>	<b>996,798</b>	<b>24,350</b>

## 7.2 Depreciation

Depreciation is charged on a straight-line basis on most tangible assets with a finite useful life (refer to note 1.15), excluding non-depreciable land. Asset lives have been identified on an individual basis.

## 7.3 Capital Commitments

At 31<sup>st</sup> March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years, budgeted to cost £25.0m. Similar commitments at 31<sup>st</sup> March 2012 were £19.8m.

The total contract values as at 31<sup>st</sup> March 2013 are:

<b>Scheme</b>	<b>£'000</b>
Pontypridd Town Centre (Convergence)	6,812
Ynysboeth Community Primary School	3,933
Cwmbach Community Primary School	4,695
Abercynon Community Primary School	7,791
Pontypridd to Cardiff Bus Priority	596
Llantrisant Community Route	180
Coed Y Cwm Bridge, Ynysybwl	620
Bodwenarth Culvert, Cilfynydd	219
Albion Tip, Cilfynydd	159

## 7.4 Revaluations

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

The significant assumptions applied in estimating the fair values are:

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

The Gross Book Value of Land and Buildings revalued by the external valuer during the last five years is as follows:

	<b>Other Land and Buildings</b>
	<b>£'000</b>
Valued at Fair Value as at:	
31 <sup>st</sup> March 2013	127,110
31 <sup>st</sup> March 2012	147,051
31 <sup>st</sup> March 2011	358,914
31 <sup>st</sup> March 2010	32,216
31 <sup>st</sup> March 2009	77,504
<b>Total Cost or Valuation</b>	<b>742,795</b>

## **8.0 Heritage Assets**

### **8.1 Reconciliation of the Carrying Value of Heritage Assets Held by the Council**

There are two Heritage Assets in the 2012/13 Balance Sheet. These are the Unity Ship in Pontypridd and the Gateway Monument, "Confluence", in Porth. These are classed as Heritage Assets as they are intended to be preserved for future generations because of their cultural and historical associations. They have been valued at historical cost as they are recent build projects. These assets are not subject to annual depreciation, but will be part of the Council's impairment review.

### **8.2 Other Heritage Assets**

The Council holds other non-material Heritage Assets such as war memorials and civic regalia. These are not recognised in the Balance Sheet as they are not material, and there is no open market value for such assets.

## **9.0 Intangible Assets**

The Council accounts for its software and licences as intangible assets, to the extent that the software and licences are not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

The Council pays for licences and software in respect of three key financial systems being the payroll system, the accounting system and the revenues systems. The cost of these systems is written off over five years. The annual amortisation of these costs ranges from £1k to £88k and is not considered material for individual disclosure purposes.

All software and licences are given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge for intangible assets during 2012/13 was £1.1m.

The movement on Intangible Asset balances during the year is as follows:

	2011/12	2012/13		
	Total	Purchased Software Licences	Licences, Trade Marks and Artistic Originals	Total
	£'000	£'000	£'000	£'000
Balance at start of year				
Gross Carrying Amounts	7,679	4,158	4,278	8,436
Accumulated Amortisation	(4,964)	(3,802)	(2,278)	(6,080)
<b>Net carrying amount at start of year</b>	<b>2,715</b>	<b>356</b>	<b>2,000</b>	<b>2,356</b>
Additions: Purchases	757	389	824	1,213
Amortisation for the Period	(1,116)	(273)	(873)	(1,146)
<b>Net Carrying Amount at end of year</b>	<b>2,356</b>	<b>472</b>	<b>1,951</b>	<b>2,423</b>
Gross Carrying Amounts	8,436	4,547	5,102	9,649
Accumulated Amortisation	(6,080)	(4,075)	(3,151)	(7,226)
<b>Total</b>	<b>2,356</b>	<b>472</b>	<b>1,951</b>	<b>2,423</b>

It is not practicable to analyse amortisation of intangible assets over SeRCOP service expenditure analysis levels due to support services recharges. There are no items of capitalised intangible assets that are individually material to the financial statements.

## 10.0 Financial Instruments

### 10.1 Categories of Financial Instruments

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

Assets	Long-Term		Current	
	31/03/12	31/03/13	31/03/12	31/03/13
	£'000	£'000	£'000	£'000
Investments: Loans and Receivables	0	1,015	29,333	725
Debtors: Financial Assets Carried at Contract Amounts	975	986	42,491	60,921
<b>Total</b>	<b>975</b>	<b>2,001</b>	<b>71,824</b>	<b>61,646</b>

Liabilities	Long-Term		Current	
	31/03/12	31/03/13	31/03/12	31/03/13
	£'000	£'000	£'000	£'000
Borrowings: Financial Liabilities at Amortised Cost	196,511	196,391	11,663	3,479
Other Liabilities: PFI and Finance Lease liabilities	27,777	26,671	1,063	1,105
Creditors: Financial Liabilities at Amortised Cost	0	0	13,324	15,700
<b>Total</b>	<b>224,288</b>	<b>223,062</b>	<b>26,050</b>	<b>20,284</b>

The value of creditors in the table relates to invoices authorised for payment by the Council but remaining unpaid at year-end. This balance is included within the Balance Sheet heading *Short-Term Creditors*.

## 10.2 Income, Expense, Gains and Losses

	2011/12			2012/13		
	Financial Liabilities Measured at Amortised Cost	Financial Assets: Loans and Receivables	Total	Financial Liabilities Measured at Amortised Cost	Financial Assets: Loans and Receivables	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest Expense	11,347	0	11,347	10,771	0	10,771
Impairment Losses	0	0	0	0	32	32
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>11,347</b>	<b>0</b>	<b>11,347</b>	<b>10,771</b>	<b>32</b>	<b>10,803</b>
Interest Income	0	(139)	(139)	0	(90)	(90)
Interest Income Accrued on Impaired Financial Assets	0	(118)	(118)	0	(39)	(39)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(257)</b>	<b>(257)</b>	<b>0</b>	<b>(129)</b>	<b>(129)</b>
<b>Net Gain/(Loss) for the Year</b>	<b>11,347</b>	<b>(257)</b>	<b>11,090</b>	<b>10,771</b>	<b>(97)</b>	<b>10,674</b>

## 10.3 Fair Value of Assets and Liabilities

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

- PWLB and market debt – premature repayment rate used as discount rate.
- No early repayment or impairment is recognised.

- Where a financial instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

The fair values calculated are as follows:

	31/03/12		31/03/13	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB Debt	119,238	156,800	111,060	151,811
Market Debt	87,581	118,592	87,574	121,389
Other Debt	1,355	1,355	1,236	1,236
PFI and Finance Lease	28,840	28,840	27,777	27,777
Trade Creditors	13,324	13,324	15,700	15,700
<b>Total</b>	<b>250,338</b>	<b>318,911</b>	<b>243,347</b>	<b>317,913</b>

	31/03/12		31/03/13	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables	29,333	29,333	1,740	1,740

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

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

##### **Key Risks**

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

#### **10.5 Overall Procedures for Managing Risk**

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

- Formally adopting the requirements of the Code of Practice.

- By adopting a Treasury Management Policy Statement and Treasury Management Clauses being incorporated into Financial Procedure Rules.
- Approving annually in advance Prudential and Treasury Indicators for the following three years.
- Approving an Investment Strategy for the forthcoming year setting out criteria for both investing and selecting investment counterparties in compliance with guidance from the Welsh Government.

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

These policies are implemented by a corporate Treasury Management team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices (TMPs). The TMPs are a requirement of the Code of Practice and are reviewed periodically.

The Treasury Management Strategy is available on the Council's website.

## **10.6 Credit Risk**

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

This risk is minimised through the Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. Such criteria include credit ratings assigned by Fitch, Moody's and Standard & Poors Credit Ratings Services. The Investment Strategy also imposes a maximum amount and duration to be invested with a financial institution. In addition, at the point of an investment being made with a counterparty, it will not exceed 10% of the Council's overall investment portfolio at the time of making the investment (excluding the Government backed Debt Management Office and deposits made with public bodies). Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. There are also other criteria and controls in place regarding counterparty selection, further details of which can be found in the approved Treasury Management Strategy.

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

	31/03/13	Historical Experience of Default	Adjustment for Market Conditions at 31/03/13	Estimated Maximum Exposure to Default at 31/03/13	Estimated Maximum Exposure to Default at 31/03/12
	(a)	(b)	(c)	(a*c)	
	£'000	%	%	£'000	£'000
Deposits with Government Departments & Local Authorities	1,740	0	0	0	0
Trade Debtors	8,386	0.80	0.80	67	64

The 0.80% Historical Experience of Default represents debt written off in 2012/13 expressed as a percentage of invoices raised during that year. This percentage is not the basis of the Bad Debt Provision, which is calculated using various percentages designed to reflect the risk of debts of various ages not being collectable, as opposed to the far lower rate of actual write-offs for the year.

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

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £3m invested in the sector at this time. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements as specified in CIPFA's LAAP bulletin 82. Related investment income has been fully impaired. The latest estimate indicates a return to creditors of between 86 and 90 pence in the pound. At the Balance Sheet date, the Council has received dividend payments of £2.3m.

The Council does not generally allow credit for its trade debtors. However, £2.7m of the £8.4m balance is debt greater than 30 days old. This debt can be analysed as follows:

	31/03/12	31/03/13
	£'000	£'000
Less than 3 months	606	949
3 – 6 months	397	235
6 months to 1 year	362	196
More than 1 year	1,565	1,322
<b>Total</b>	<b>2,930</b>	<b>2,702</b>

During the reporting period the Council held no collateral as security.

## 10.7 Liquidity Risk

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

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and whilst the PWLB provides access to longer-term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to produce a balanced budget in accordance with the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

## 10.8 Refinancing and Maturity Risk

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

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

This includes;

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

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

	31/03/12	31/03/13
	£'000	£'000
Less than 1 year	9,812	1,873
Between 1 and 2 years	1,237	1,277
Between 2 and 5 years	5,954	6,026
Between 5 and 10 years	7,058	7,829
More than 10 years	210,931	208,804
<b>Total</b>	<b>234,992</b>	<b>225,809</b>

The maturity analysis of financial assets is as follows:

	31/03/12	31/03/13
	£'000	£'000
Maturity greater than one year	0	1,015
Maturity less than one year	29,333	725

Trade Debtors are not included in the table above.

## 10.9 Market Risk

### Interest Rate Risk

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From the strategy, a treasury indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team, together with the appointed Treasury Management Advisors, monitor market and forecast interest rates within the year to adjust the Council's exposures appropriately.

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

	£'000
Increase in interest payable on variable rate borrowings	8
Increase in interest receivable on variable rate investments	N/A
Impact on Comprehensive Income and Expenditure Statement	8
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES)	47,511

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

**11.0 Short-Term Debtors**

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

<b>31/03/12</b>		<b>31/03/13</b>
<b>£'000</b>		<b>£'000</b>
18,988	Central Government Bodies	35,802
607	Other Local Authorities	3,057
0	NHS Bodies	421
80	Public Corporations and Trading Funds	83
22,816	Other Entities and Individuals	21,558
<b>42,491</b>	<b>Total</b>	<b>60,921</b>

**12.0 Cash and Cash Equivalents**

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

<b>31/03/12</b>		<b>31/03/13</b>
<b>£'000</b>		<b>£'000</b>
4,474	Cash held by the Council	4,545
(12,185)	Bank Current Accounts	(11,057)
<b>(7,711)</b>	<b>Total Cash and Cash Equivalents</b>	<b>(6,512)</b>

Short-term cash surpluses are invested in line with investment strategy and are represented in the Balance Sheet as "Short-Term Investments". Bank Current Accounts represent the position of the bank account as at 31<sup>st</sup> March 2013 adjusted for unrepresented cheques.

**13.0 Assets Held for Sale**

The movement on Assets Held for Sale is as follows:

	<b>Current</b>	
	<b>2011/12</b>	<b>2012/13</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1<sup>st</sup> April</b>	<b>5,989</b>	<b>3,993</b>
Assets newly classified as held for sale:		
Property, Plant and Equipment	2,237	5,755
Revaluation Gains	2,257	1,710
Impairment Losses	(1,565)	(1,563)
Assets Declassified as Held for Sale:		
Property, Plant and Equipment	(3,122)	(2,309)
Assets Sold	(1,803)	(684)
<b>Balance at 31<sup>st</sup> March</b>	<b>3,993</b>	<b>6,902</b>

Assets Held for Sale are included in the projected receipts the Council uses in its forecasts of funding for the capital programme. Actual receipts may vary from those levels projected.

**14.0 Short-Term Creditors**

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

<b>31/03/12</b>		<b>31/03/13</b>
<b>£'000</b>		<b>£'000</b>
(2,547)	Central Government Bodies	(4,623)
(302)	Other Local Authorities	(2,524)
(894)	NHS Bodies	(269)
(131)	Public Corporations and Trading Funds	(153)
(45,080)	Other Entities and Individuals	(48,512)
<b>(48,954)</b>	<b>Total</b>	<b>(56,081)</b>

**15.0 Provisions**

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

Movements in provisions during the year were:

<b>Short-Term Provision</b>	<b>Homecare Fairer Charge</b>	<b>Land Purchases and Part 1 Claims</b>	<b>Equal Pay</b>	<b>Joint Committees</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1<sup>st</sup> April 2012</b>	<b>154</b>	<b>4,008</b>	<b>0</b>	<b>0</b>	<b>4,162</b>
Additional provisions made in 2012/13	0	1,776	4,850	12	<b>6,638</b>
Amounts used in 2012/13	0	0	0	0	<b>0</b>
Unused amounts reversed in 2012/13	(154)	0	0	0	<b>(154)</b>
<b>Balance at 31<sup>st</sup> March 2013</b>	<b>0</b>	<b>5,784</b>	<b>4,850</b>	<b>12</b>	<b>10,646</b>

Long-Term Provision	Land Purchases and Part 1 Claims	Insurance Claims	MGCC Disaggregation	Total
	£'000	£'000	£'000	£'000
Balance at 1 <sup>st</sup> April 2012	0	6,266	793	7,059
Additional provisions made in 2012/13	1,748	525	0	2,273
Amounts used in 2012/13	0	0	0	0
Unused amounts reversed in 2012/13	0	0	(793)	(793)
<b>Balance at 31<sup>st</sup> March 2013</b>	<b>1,748</b>	<b>6,791</b>	<b>0</b>	<b>8,539</b>

### 15.1 Homecare Fairer Charge - Learning Disability Clients

The provision had been set aside to cover the potential repayment of income received from a specific number of service users. The Council is of the view it no longer has a liability in this regard.

### 15.2 Land Purchases and Part 1 Claims - Land Costs

The provision represents amounts set aside to fund the cost of Land Purchases and Part 1 Claims relating to transport schemes. Part 1 of the Land Compensation Act 1973 allows people to claim compensation where their property has been reduced in value by the use of a new or altered road. The final cost is unknown as at 31<sup>st</sup> March 2013. Given the degree of uncertainty regarding both the timing and the value of future payments, a provision has been established in the Balance Sheet.

### 15.3 Insurance Claims

The Council is responsible for liability, property and motor insurance claims which are not covered by insurance policies i.e. below excess. An insurance provision is established for these costs. The provision is based on the probable ultimate cost of the reported losses at the Balance Sheet date.

An earmarked reserve is set aside to contribute towards the cost of claims incurred but not yet received. See note 17.2 for further details.

The Council also retains an insurance provision and reserve for the cost of claims relating to the former Mid Glamorgan County Council. If, at some future point, the Mid Glamorgan provision and reserve were deemed to be no longer required, amounts would be distributed to the successor authorities.

31/03/12		31/03/13
£'000		£'000
5,096	Rhondda Cynon Taf	6,070
1,170	Mid Glamorgan	721
<b>6,266</b>	<b>Insurance Provision</b>	<b>6,791</b>

**15.4 Mid Glamorgan County Council (MGCC) Disaggregation**

The provision related to estimated liabilities due to other local authorities in respect of MGCC Post Balance Sheet Events. The liabilities were settled during April 2013 and are reflected within Short-Term Creditors in the Balance Sheet.

**15.5 Equal Pay**

A provision has been set aside to meet the cost of Unequal Pay settlements. The Council has utilised statutory measures to defer the impact upon the Council Fund balance until payments are made.

**16.0 Other Long-Term Liabilities**

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

<b>31/03/12</b>		<b>31/03/13</b>
<b>£'000</b>		<b>£'000</b>
603,440	Pension Liability (IAS19)	674,719
27,215	PFI	26,110
0	Local Authority Mortgage Scheme	5
563	Finance Leases	562
4,000	Tower Colliery Redevelopment	8,516
<b>635,218</b>	<b>Total</b>	<b>709,912</b>

**17.0 Usable Reserves**

<b>31/03/12</b>			<b>31/03/13</b>
<b>£'000</b>			<b>£'000</b>
(10,458)	Council Fund Balance	17.1	(11,204)
(34,984)	Capital, Treasury and Insurance Reserves	17.2	(22,548)
(72,410)	Other Revenue Related Reserves	17.2	(75,822)
(5,484)	Delegated Schools Reserve	17.3	(5,379)
0	Usable Capital Receipts Reserve	17.4	(50)
(3,397)	Capital Grant Unapplied Account	17.5	(2,290)
(1,040)	MGCC Insurance Reserve	17.6	(474)
<b>(127,773)</b>	<b>Total Usable Reserves</b>		<b>(117,767)</b>

**17.1 Council Fund Balance**

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

Movements in Council Fund revenue balances during the year are summarised as follows:

	<b>£'000</b>
Balance as at 31 <sup>st</sup> March 2012	<b>(10,458)</b>
(Increase)/Decrease in Reserve	(746)
<b>Balance as at 31<sup>st</sup> March 2013</b>	<b>(11,204)</b>

## 17.2 Earmarked Reserves

This note sets out the amounts set aside from the Council Fund Balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Council Fund expenditure in 2012/13. All earmarked reserves are deemed to be revenue reserves.

### Capital, Treasury and Insurance Reserves

Reserve	Purpose	Balance at	Transfers	Transfers	Balance at
		31/03/12	Out	In	31/03/13
		£'000	£'000	£'000	£'000
<b>Capital Developments</b>	Resources set-aside from revenue budget, earmarked to fund the Council's approved 3-year capital programme	<b>22,017</b>	(16,326)	5,378	<b>11,069</b>
<b>Treasury Management Reserve</b>	Funding for known and potential future pressures upon the Capital Financing budget	<b>5,278</b>	(2,939)	10	<b>2,349</b>
<b>Insurance Reserve</b>	To provide for estimated costs of incidents that have occurred during the policy year but have not yet resulted in a claim being received	<b>7,689</b>	0	1,441	<b>9,130</b>
<b>Total</b>		<b>34,984</b>	<b>(19,265)</b>	<b>6,829</b>	<b>22,548</b>

**Other Revenue Related Reserves**

Reserve	Purpose	Balance at	Transfers	Transfers	Balance at
		31/03/12	Out	In	31/03/13
		£'000	£'000	£'000	£'000
<b>Private Finance Initiative</b>	Balance of excess Welsh Government support over unitary charge payments to reflect the differing expenditure and income profiles	7,150	0	345	7,495
<b>Revenue Budget Strategy 2012/13</b>	Earmarked Reserves released in line with 2012/13 Budget Setting Risk Assessment	5,158	(5,158)	0	0
<b>Revenue Budget Strategy 2013/14</b>	Earmarked Reserves to be released in line with 2013/14 Budget Setting Risk Assessment	0	0	2,439	2,439
<b>Joint Committee Reserve</b>	Reflects the Council's share of General and Earmarked Reserves of the Joint Committees in which it has an interest	1,704	0	183	1,887
<b>Revenue Grant Reserves (IFRS)</b>	Carry forward of Revenue Grants not yet applied to spend, required accounting treatment to comply with International Financial Reporting Standards	7,519	(1,214)	0	6,305
<b>E-Government/ Service Re-engineering</b>	Delivery of the Council's E-Government Strategy, system replacements and service re-engineering	339	0	0	339
<b>Financial Management and Human Resources Risk Management</b>	Resources set aside as cover for future liabilities relating to various risks identified and being managed	31,766	(4,427)	7,619	34,958
<b>Development Fund</b>	To support improvement in the delivery of the Council's business in line with key priorities.	805	(48)	0	757
<b>Social Inclusion</b>	To fund activities and projects carried out to improve social inclusion	131	0	0	131
<b>Job Evaluation</b>	Resources set-aside to cover potential liabilities and costs incurred following the implementation of Job Evaluation and changes to other terms and conditions of employment across the Council (including payment of equal pay claims)	1,500	(1,500)	0	0
<b>Prior Year Commitments</b>	Carry forward of existing funding to finance projects for which commitments have already been made in the prior year	11,115	(5,013)	3,789	9,891
<b>Medium Term Financial Planning and Service Transformation</b>	Resources set aside as transitional (one-off) funding to support the Council's medium-term financial and service planning requirements	0	0	8,847	8,847
<b>Other Specific Reserves</b>	Represents a number of reserves held for specific and identified purposes	3,266	(1,079)	586	2,773
<b>Medium-Term High Risk Financial Issues</b>	Amounts set aside to help offset the major funding risks likely to impact on the Council in the short to medium term (including the consequences of the European and UK waste management legislation)	1,957	(1,957)	0	0
<b>Total</b>		<b>72,410</b>	<b>(20,396)</b>	<b>23,808</b>	<b>75,822</b>

### 17.3 Delegated Schools Reserve

Delegated schools are those that are managed independently. As such, these balances are committed to be spent on delegated services and are not available to the Council for general use.

At the end of 2012/13, 11 of the Council's 140 schools were in deficit. In accordance with Section 4.5 and Section 4.8 of the Schools Standards and Framework Act 1998, each of these schools has financial plans illustrating how the deficit will be recovered. The 129 remaining schools have surplus funds, which are to be managed as part of ongoing budgetary control.

The following details illustrate the movement on these balances, and any resulting over or under spend.

Type of School	31/03/12	2012/13 Movement	31/03/13
	£'000	£'000	£'000
Primary	4,217	147	4,364
Secondary	671	(293)	378
Special	502	130	632
Nursery	94	(89)	5
<b>Total</b>	<b>5,484</b>	<b>(105)</b>	<b>5,379</b>

### 17.4 Usable Capital Receipts Reserve

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

The movements on the reserve are as follows:

2011/12		2012/13
£'000		£'000
(19)	<b>Balance as at 1<sup>st</sup> April</b>	<b>0</b>
	<u>Receipts During the Year:</u>	
(1,145)	Sale of assets	(581)
(44)	Mortgage repayments	(47)
(59)	Repayment of discount (Right to Buys)	(39)
	<u>Application during the Year:</u>	
1,267	Financing of capital expenditure	617
<b>0</b>	<b>Balance as at 31<sup>st</sup> March</b>	<b>(50)</b>

### 17.5 Capital Grant Unapplied Account

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

2011/12		2012/13
£'000		£'000
(1,830)	<b>Balance at 1<sup>st</sup> April</b>	<b>(3,397)</b>
(27,940)	Grants received	(34,065)
26,373	Grants utilised to fund capital expenditure	35,172
<b>(3,397)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(2,290)</b>

### 17.6 MGCC Insurance Reserve

This reserve is to fund the cost of insurance claims not yet received and movement in the value of received claims. These claims relate to the period when Mid Glamorgan County Council was in existence, prior to Local Government Reorganisation in 1996. Please refer to note 15.0 for details of claims received.

2011/12		2012/13
£'000		£'000
(1,791)	<b>Balance at 1<sup>st</sup> April</b>	<b>(1,040)</b>
751	(Increase)/Decrease in Reserve	566
<b>(1,040)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(474)</b>

### 18.0 Unusable Reserves

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

31/03/12			31/03/13
£'000			£'000
(192,197)	Revaluation Reserve	18.1	(183,726)
(139)	Deferred Capital Receipts Reserve		(100)
(463,572)	Capital Adjustment Account	18.2	(476,209)
5,969	Financial Instruments Adjustment Account	18.3	5,924
603,440	Pensions Reserve	18.4	674,719
616	Unequal Pay Back Pay Account	18.5	4,850
5,524	Short-Term Accumulating Compensated Absence Account	18.6	3,044
<b>(40,359)</b>	<b>Total Unusable Reserves</b>		<b>28,502</b>

### 18.1 Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

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

2011/12		2012/13	
£'000		£'000	£'000
(171,411)	<b>Balance at 1<sup>st</sup> April</b>	(192,197)	
(39,744)	Upward revaluation of assets	(13,234)	
13,035	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	16,479	
(198,120)	<b>Surplus or Deficit on revaluation of Non-Current Assets not posted to the Surplus or Deficit on the Provision of Services</b>		(188,952)
4,673	Difference between Fair Value Depreciation and Historical Cost Depreciation	4,392	
1,250	Accumulated Gains on Assets sold or scrapped	834	
5,923	<b>Amount written off to the Capital Adjustment Account</b>		5,226
(192,197)	<b>Balance at 31<sup>st</sup> March</b>		(183,726)

## 18.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

2011/12		2012/13	
£'000		£'000	£'000
(461,779)	<b>Balance at 1<sup>st</sup> April</b>	(463,572)	
	Reversal of items relating to Capital Expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
42,351	Charges for depreciation and impairment of Non-Current Assets	49,358	
0	Revaluation losses on Property, Plant and Equipment	0	
2,208	Amortisation of Intangible Assets	1,451	
15,115	Revenue Expenditure Funded from Capital Under Statute	15,079	
<b>Continued Overleaf...</b>			

3,214	Amounts of Non-Current Assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,616	
(5,467)	Adjusted items written out of the Revaluation Reserve	(5,229)	
<b>(404,358)</b>	<b>Net written out amount of the cost of Non-Current Assets consumed in the year</b>		<b>(401,297)</b>
	Capital Financing Applied in the Year:		
(1,267)	Use of the Capital Receipts Reserve to finance new Capital Expenditure	(618)	
(27,940)	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(34,063)	
1,567	Application of grants to capital financing from the Capital Grants Unapplied Account	(1,107)	
(14,287)	Statutory provision for the financing of capital investment charged against the Council Fund	(14,617)	
(17,331)	Capital Expenditure charged against the Council Fund	(24,554)	
44	Private mortgage repayments	47	
<b>(59,214)</b>			<b>(74,912)</b>
<b>(463,572)</b>	<b>Balance at 31<sup>st</sup> March</b>		<b>(476,209)</b>

### 18.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account represents the accumulated difference between the financing costs included in the Comprehensive Income and Expenditure Statement and the accumulated financing costs required in accordance with regulations to be charged to the Council Fund Balance.

2011/12		2012/13
£'000		£'000
<b>6,479</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>5,969</b>
(510)	Difference between finance costs charged in the Comprehensive Income and Expenditure Statement and finance costs to be charged against the Council Fund Balance in accordance with statutory requirements	(45)
<b>5,969</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>5,924</b>

**18.4 Pensions Reserve**

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

2011/12		2012/13
£'000		£'000
<b>483,347</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>603,440</b>
110,930	Actuarial gains or losses on Pensions Assets and Liabilities	53,418
41,759	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	48,155
(32,596)	Employer's pensions contributions and direct payments to pensioners payable in the year	(30,294)
<b>603,440</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>674,719</b>

**18.5 Unequal Pay Back Pay Account**

The Unequal Pay Back Pay Account recognises the differences between the amounts which the Council provides for as potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the Council Fund Balance until such time as cash might be paid out to claimants.

2011/12		2012/13	
£'000		£'000	£'000
<b>3,512</b>	<b>Balance at 1<sup>st</sup> April</b>		<b>616</b>
300	Increase in Provision for Back Pay in relation to Equal Pay cases	4,234	
(3,196)	Cash settlements paid in the year	0	
(2,896)	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements		4,234
<b>616</b>	<b>Balance at 31<sup>st</sup> March</b>		<b>4,850</b>

**18.6 Short-Term Accumulating Compensated Absence Account**

The Short-Term Accumulating Compensated Absence 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. The only "compensated absences" accrued for are Holiday Pay i.e. annual leave entitlement carried forward at 31<sup>st</sup> March. Statutory arrangements require that such holiday pay accruals do not impact upon the Council Fund Balance but are charged to this Short-Term Accumulating Compensated Absence Account.

2011/12		2012/13	
£'000		£'000	£'000
3,948	<b>Balance at 1<sup>st</sup> April</b>		<b>5,524</b>
(3,948)	Settlement or cancellation of accrual made at the end of the preceding year	(5,524)	
5,524	Amounts accrued at the end of the current year	3,044	
1,576	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		<b>(2,480)</b>
5,524	<b>Balance at 31<sup>st</sup> March</b>		<b>3,044</b>

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

2011/12		2012/13
£'000		£'000
(42,476)	Depreciation & Impairment	(49,355)
(2,208)	Amortisation	(1,450)
6,476	(Increase)/Decrease in Creditors	(15,600)
(6,029)	Increase/(Decrease) in Debtors	18,441
83	Increase/(Decrease) in Stock	(59)
(9,120)	Movement in Pension Liability	(17,845)
(2,870)	Contribution to Provisions	(7,964)
(1,576)	Short-Term Accumulated Absence Accrual	(2,480)
7,519	Revenue Grant Earmarked Reserves	6,305
1,567	Capital Grants Unapplied	1,107
(11,827)	Revenue Expenditure Funded from Capital Under Statute	(15,079)
(8,958)	Other non-cash items charged to the Net Surplus or Deficit on the Provision of Services	1,524
<b>(69,419)</b>	<b>Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements</b>	<b>(82,455)</b>

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

2011/12		2012/13
£'000		£'000
(2,060)	Proceeds from the sale of Property, Plant & Equipment, investment property and intangible assets	(1,034)
24,606	Any other items for which the cash effects are investing or financing cash flows	30,418
<b>22,546</b>		<b>29,384</b>

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

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

2011/12		2012/13
£'000		£'000
(142)	Interest received	(80)
11,289	Interest paid	10,717
<b>11,147</b>	<b>Interest within Operating Activities</b>	<b>10,637</b>

**22.0 Cash Flow Statement - Investing Activities**

2011/12		2012/13
£'000		£'000
65,989	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	78,365
(1,304)	Purchase and Redemption of Short-Term and Long-Term Investments	(29,205)
(1,248)	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(667)
(20,558)	Other receipts from Investing Activities	(28,038)
<b>42,879</b>	<b>Net Cash Flows from Investing Activities</b>	<b>20,455</b>

**23.0 Cash Flow Statement - Financing Activities**

2011/12		2012/13
£'000		£'000
(51)	Cash receipts of Short and Long-Term Borrowing	0
1,022	Cash payments for the reduction of the outstanding liabilities relating to Finance Leases and on Balance Sheet PFI contracts	1,063
5,000	Repayments of Short and Long-Term Borrowing	8,145
<b>5,971</b>	<b>Net Cash Flows from Financing Activities</b>	<b>9,208</b>

## 24.0 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 SeRCOP. However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across groups. These reports are prepared on a different basis from the accounting policies used in the financial statements. The following reconciles controllable costs to Net Cost of Services and to the (Surplus)/Deficit on Provision of Services.

Service Information for 2012/13	Education & Lifelong Learning Services	Community & Children's Services	Environmental Services	Chief Executive's Division	Corporate Services	Authority Wide	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income	(72,298)	(62,238)	(48,461)	(8,890)	(38,384)	(96,904)	(327,175)
Costs							
Employees	173,337	71,638	37,768	8,796	23,133	946	315,618
Premises	22,569	4,114	6,141	97	5,050	(1,855)	36,116
Transport	1,500	3,409	23,343	107	212	0	28,571
Supplies & Services	43,194	16,039	22,886	2,820	5,645	14,204	104,788
Third Party Payments	2,325	82,252	14,280	541	0	13,226	112,624
Transfer Payments	381	1,643	29	0	0	77,800	79,853
Other Costs e.g. Support Services	49	430	4,646	5,304	25,512	(22)	35,919
Capital Charges	2,157	352	1,722	145	1,372	44,113	49,861
Net Controllable Costs	173,214	117,639	62,354	8,920	22,540	51,508	436,175
<b>Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement</b>							
Add amounts included in Comprehensive Income and Expenditure Statement Net Cost of Services but not included as reported controllable costs							94,333
Remove amounts included within reported controllable costs but not included within Comprehensive Income and Expenditure Statement							(83,548)
<b>Net Cost of Services</b>							<b>446,960</b>

Reconciliation to Subjective 2012/13	Service Analysis	Not Reported to Management	Not Included in C&ES	Allocation of Recharges	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Income	(103,995)	0	0	36,541	(67,454)	(13,537)	(80,991)
Surplus or Deficit on Associates and Joint Ventures	0	76	0	0	76	0	76
Interest and Investment Income	(127)	0	127	0	0	(129)	(129)
Income from Council Tax	(2,672)	0	2,672	0	0	(100,203)	(100,203)
Government Grants and Contributions	(220,381)	(2,431)	2,920	0	(219,892)	(381,491)	(601,383)
<b>Total Income</b>	<b>(327,175)</b>	<b>(2,355)</b>	<b>5,719</b>	<b>36,541</b>	<b>(287,270)</b>	<b>(495,360)</b>	<b>(782,630)</b>
Employee Expenses	315,618	30,870	(29,980)	0	316,508	24,876	341,384
Other Service Expenses	349,926	15,079	(21,934)	0	343,071	7,020	350,091
Support Service Recharges	35,920	0	0	(36,541)	(621)	621	0
Depreciation, Amortisation and Impairment	0	50,739	0	0	50,739	501	51,240
Interest Payments	49,861	0	(25,328)	0	24,533	10,803	35,336
Precepts & Levies	12,025	0	(12,025)	0	0	25,754	25,754
Gain/Loss on Disposal of Long Term Assets	0	0	0	0	0	1,034	1,034
<b>Total Operating Expenses</b>	<b>763,350</b>	<b>96,688</b>	<b>(89,267)</b>	<b>(36,541)</b>	<b>734,230</b>	<b>70,609</b>	<b>804,839</b>
(Surplus)/Deficit on Provision of Services	436,175	94,333	(83,548)	0	446,960	(424,751)	22,209

## 25.0 Acquired and Discontinued Operations

There have been no material acquired or discontinued operations in the year.

## 26.0 Trading Operations

The Council operates the following activities on a trading account basis:

Trading Operations	2011/12		2012/13	
	(Surplus)/Deficit	Exp	Income	(Surplus)/Deficit
	£'000	£'000	£'000	£'000
Highways Maintenance	485	4,862	(4,517)	345
Building Cleaning	45	1,130	(986)	144
Education and Welfare Catering	(80)	7,500	(7,449)	51
Other Catering	52	329	(268)	61
Commercial Waste	132	0	0	0
Carelink/Out of Hours	82	481	(317)	164
<b>Total</b>	<b>716</b>	<b>14,302</b>	<b>(13,537)</b>	<b>765</b>

In accordance with the SeRCOP, surplus/deficits on trading operations should be re-apportioned across clients for total cost reporting purposes if a failure to do so would result in a material misstatement at division of service level or in a performance indicator (national or local). It is considered that reappportionment of trading operation surplus/deficits would be unwieldy, due to multiple users of the services. It is also considered that it would not have a material restatement of current expenditure levels (this treatment is consistent with the Council's Annual Improvement Plan).

IAS 19 "Employee Benefits" applies to trading activities. Excluding IAS 19, the deficit was £808k.

## 27.0 Agency Services

The Council collects National Non-Domestic Rates (NNDR) on an agency basis for the Welsh Government. These monies are then redistributed to all Welsh Local Authorities. Please refer to note 34.0 for further details on NNDR.

## 28.0 Road Charging Schemes

The Council does not operate a scheme of road user charging or workplace parking levy under the Transport Act 2000.

## 29.0 Pooled Budgets

The Council has entered into a pooled budget with Cwm Taf Local Health Board, Abertawe Bro Morgannwg University Local Health Board, Merthyr Tydfil CBC and Bridgend CBC for the integrated provision of community equipment services. The Council and its partners have an agreement in place for funding these services that will run for five years from 1<sup>st</sup> April 2012, with the Council contributing funds to an agreed budget equal to 53%. The same proportion is used to meet any deficit or share any surplus arising on the pooled budget at the end of each financial year. The pooled budget is hosted by the Council on behalf of the other partners to the agreement.

	2012/13	
	£'000	£'000
<b>Funding Provided to the pooled budget:</b>		
Rhondda Cynon Taf	(1,141)	
Other Partners	(993)	
		<b>(2,134)</b>
<b>Expenditure met from the pooled budget:</b>		
Rhondda Cynon Taf	1,136	
Other Partners	1,007	
		<b>2,143</b>
<b>Net (Surplus)/Deficit arising on the pooled budget during the year</b>		<b>9</b>
<b>Rhondda Cynon Taf share of 53% of net (Surplus)/Deficit arising on the pooled budget</b>		<b>5</b>

### 30.0 Members' Allowances

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

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

	2011/12	2012/13
	£'000	£'000
Allowances	1,382	1,284
Expenses	26	24
<b>Total</b>	<b>1,408</b>	<b>1,308</b>

Details of individual allowances have been published in the local press. Copies may be obtained from Group Director - Corporate Services, Bronwydd House, Porth, Rhondda CF39 9DL.

### 31.0 Officers' Remuneration

Under the Accounts and Audit (Wales) Regulations 2005 (as amended), local authorities must disclose in their accounts the number of employees whose remuneration in the year fell in each bracket of a scale in multiples of £5,000 commencing at £60,000 (excluding employer pension contributions). The disclosure includes redundancy payments.

During 2012/13 the Council paid 12,458 employees (12,444 2011/12), paying total salaries of £247m (excluding employer's national insurance and pension contributions) (£248m 2011/12). Within this, the following salary payments were made within the categories specified:

Remuneration Band	2011/12	2012/13		
	No. of Employees	No. of Employees		
	Total	At 31/03/13	Left in Year	Total
£60,000 - £64,999	33	30	3	33
£65,000 - £69,999	20	20	1	21
£70,000 - £74,999	8	5	1	6
£75,000 - £79,999	10	9	1	10
£80,000 - £84,999	9	8	1	9
£85,000 - £89,999	5	6	0	6
£90,000 - £94,999	2	1	0	1
£95,000 - £99,999	2	0	2	2
£100,000 - £104,999	0	0	1	1
£105,000 - £109,999	0	0	1	1
£110,000 - £114,999	0	0	0	0
£115,000 - £119,999	0	0	0	0
£120,000 - £124,999	1	0	0	0
£125,000 - £129,999	0	0	0	0
£130,000 - £134,999	0	0	1	1
£135,000 - £204,999	0	0	0	0
£205,000 - £209,999	0	0	1	1
<b>Total</b>	<b>90</b>	<b>79</b>	<b>13</b>	<b>92</b>

The above table excludes specific Senior Officers, as detailed below.

The following table sets out the remuneration for specific Senior Officers whose salary is less than £150k but greater than £60k. There are no Senior Officers whose salary is greater than £150k. Employer pension contributions are not included.

Post Holder Information (Post Title)	2011/12	2012/13		
	Total Remuneration	Salary	Taxable Benefits in Kind	Total Remuneration
	£'000	£'000		
Chief Executive	142	142	0	142
Chief Executive – Returning Officer	17	20	0	20
Group Director Corporate Services (Deputy Chief Executive)	122	122	0	122
Group Director Environmental Services	113	113	0	113
Group Director Community & Children's Services	113	113	0	113
Director of Legal & Democratic Services	92	92	0	92
Director of Legal & Democratic Services – Returning Officer	2	6	0	6
Director of Human Resources	92	92	0	92
Group Director (Director of Education & Lifelong Learning)	107	113	0	113

### 32.0 Severance Costs

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

During 2012/13, the cost to the Council of terminating employee contracts amounted to £3,052k (£2,761k 2011/12) with a reduction in annual payroll costs of £5,061k (£5,475k 2011/12).

The number and costs (in bandings) of compulsory and other terminations are set out in the table below (note, compulsory terminations relate to teachers/school based staff only).

Severance Cost Band £	Number of Compulsory Terminations		Number of Other Terminations		Total Number of Terminations		Total Cost of Severance £'000	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
£0 - £20,000	6	6	122	134	128	140	607	646
£20,001 - £40,000	4	1	33	33	37	34	978	965
£40,001 - £60,000	2	0	3	6	5	6	256	287
£60,001 - £80,000	0	0	5	5	5	5	360	343
£80,001 - £100,000	0	0	1	2	1	2	94	180
£100,001 - £150,000	0	0	4	5	4	5	466	631
<b>Total</b>	<b>12</b>	<b>7</b>	<b>168</b>	<b>185</b>	<b>180</b>	<b>192</b>	<b>2,761</b>	<b>3,052</b>

### 33.0 External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to other services provided by the Council's external auditors:

	2011/12 £'000	2012/13 £'000
<b>Fees Payable to Wales Audit Office</b>		
External audit services carried out by the Appointed Auditor for the year	260	260
Statutory Inspections	155	142
Certification of Grant Claims and Returns for the year	195	151
Other services provided by Wales Audit Office during the year	0	0
<b>Total</b>	<b>610</b>	<b>553</b>

### 34.0 National Non-Domestic Rates

The level of National Non-Domestic Rates (NNDR) is based on a "multiplier" set nationally by the Welsh Government, multiplied by the rateable value of a particular property. This calculation will give the property a rate liability for the year. The multiplier for 2012/13 was 45.2p (42.8p for 2011/12). The total rateable value as at 31<sup>st</sup> March 2013 was £137.3m (£136.1m as at 31<sup>st</sup> March 2012).

The Council is responsible for collecting the business rates in its area and pays the proceeds into the NNDR pool administered by the Welsh Government. The Welsh Government redistributes total collections back to local authorities on the basis of a fixed amount per head of population. Total NNDR collected from ratepayers in respect of 2012/13 rates is £48.1m (£45.8m in 2011/12). The contribution back to the Council from the pool in the year amounted to £63.4m (£55.0m in 2011/12) and the amount paid to the pool amounted to £50.1m (£50.1m in 2011/12). As the Council acts as an agent collecting income on behalf of the Welsh Government, the income collected is not recognised as income in the Comprehensive Income and Expenditure Statement.

### 35.0 Council Tax

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

The Council Tax base for 2012/13 was calculated to be £72,780.36 (compared with £72,472.87 for 2011/12). This represents the anticipated yield for every £1 of council tax levied.

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

Band	A*	A	B	C	D	E	F	G	H	I
No. of Properties	256	38,182	21,194	14,063	7,736	5,336	2,839	1,020	167	25
Multiplier	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	21/9

The resultant number of Band D properties is reduced by a percentage to reflect anticipated non-collection. The target collection rate for 2012/13 was 97%.

An analysis of the net proceeds from council tax is shown as follows:

Council Tax Analysis	2011/12	2012/13
	£'000	£'000
Council Tax Collectable	96,691	100,203
<b>Net Proceeds from Council Tax</b>	<b>96,691</b>	<b>100,203</b>
Less Payable:		
South Wales Police Authority	(11,694)	(12,330)
Community Councils	(1,520)	(1,589)
<b>Total</b>	<b>83,477</b>	<b>86,284</b>

### 36.0 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

#### 36.1 Credited to Services

A number of grants and contributions have been recognised as income within Net Cost of Services. This income amounts to £173m in 2012/13 (in 2011/12 these grants and contributions amounted to £165m).

#### 36.2 Capital Grants Receipts in Advance

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

### 36.3 Donated Assets Account

The transfer of assets for nil consideration or less than fair value are credited to a donated assets account, where any conditions of the transfer have not been met. The donated assets below consist of leased in properties where the transfer of the asset has been at less than fair value.

	31/03/12	31/03/13
	£'000	£'000
Noddfa House Day Centre	681	681
Other Donations	377	377
<b>Total</b>	<b>1,058</b>	<b>1,058</b>

### 37.0 Related Parties

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

#### 37.1 Welsh Government

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

	2011/12	2012/13
	£'000	£'000
Non-Ringfenced Government Grants	(294,731)	(287,666)
Capital Grants and Contributions	(24,606)	(30,418)
Credited to Services	(164,886)	(172,900)
<b>Total</b>	<b>(484,223)</b>	<b>(490,984)</b>

#### 37.2 Chief Officers and Members

Details of Members allowances and Officers' remunerations are provided in the Core Financial Statements notes 30.0 and 31.0 respectively. There are Chief Officer related party transactions for £11k with Care Council for Wales and £245k (net figure) with Cwm Taf Local Health Board.

Interests of Members are maintained in a register. The register is available for public inspection by appointment. Members are nominated to represent Rhondda Cynon Taf Council on various bodies, for example, RCT Homes and Cwm Taf Local Health Board. The following organisations are related parties (by virtue of Member interest in them) with whom the Council has had dealings.

Category of Organisation	2011/12	2012/13	Outstanding Balance as at 31/03/13
	£'000	£'000	£'000
Charitable Organisations	2,075	2,374	1
Community Councils, Associations & Services	2,587	2,660	(16)
Educational & Cultural Establishments	(155)	(174)	(17)
Engineering & Mechanical Services	16	0	0
Government Bodies, Associations & Staff	(71)	(239)	(49)
National Health Service Bodies & Support Groups	(601)	(110)	8
Private Companies	(210)	(490)	307
Public Houses, Halls & Institutes	0	12	0
Sports & Social Clubs	46	57	(3)

### 37.3 Precepts and Levies

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

An analysis of precepts is given in the following table:

	2011/12	2012/13
	£'000	£'000
South Wales Police Authority	11,694	12,330
Community Councils	1,520	1,589
<b>Total</b>	<b>13,214</b>	<b>13,919</b>

An analysis of levies is given in the following table:

	2011/12	2012/13
	£'000	£'000
South Wales Fire and Rescue Service	11,539	11,349
Coroner	446	429
Brecon Beacons National Park	55	57
Glamorgan Archives Joint Committee	0	0
<b>Total</b>	<b>12,040</b>	<b>11,835</b>

### 37.4 Rhondda Cynon Taf Pension Fund

The Group Director - Corporate Services is also the responsible Finance Officer to the Rhondda Cynon Taf Pension Fund. The Council charged the Pension Fund an amount of £1.3m (£1.3m in 2011/12) in respect of administration and support during financial year 2012/13. The amount owed from the Council to the Pension Fund as at 31<sup>st</sup> March 2013 is £500k (£423k in 2011/12).

### **37.5 Associated and Subsidiary Companies**

The Council has an interest in three companies, namely; Amgen Cymru Ltd., Amgen Rhondda Ltd. and Capita Glamorgan Consultancy Ltd. Further details are given in the Group Accounts section of this document. During 2012/13 the following related party transactions took place with these companies.

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

Royalties of £455k (£528k in 2011/12) were billed by the Council to Amgen Cymru. At 31st March 2013 £122k (£134k in 2011/12) was outstanding.

The Council paid Amgen Cymru £6,731k (£6,448k in 2011/12) in respect of waste management and waste disposal charges, with £1,386k (£622k in 2011/12) due to the company at the year-end.

Amgen Cymru paid the Council £535k (£1,391k in 2011/12) in respect of goods and services, with £94k (£165k in 2011/12) due to the Council at the year-end.

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

The Council paid Amgen Rhondda £50k (£50k in 2011/12) in respect of site management fees, with no amount (£5k in 2011/12) outstanding at 31<sup>st</sup> March 2013.

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

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

During 2012/13, the Council was charged £2,606k (£5,945k in 2011/12) in respect of goods, services and capital works. The balance owed to Capita Glamorgan Consultancy Ltd at 31<sup>st</sup> March 2013 was £383k (£613k in 2011/12).

Capita Glamorgan Consultancy Ltd paid the Council £1k (£4k in 2011/12) in respect of goods and services, with no amount (£2k in 2011/12) due to the Council at the year-end.

### **37.6 Joint Committees**

The remainder of this note refers to Related Party transactions with Joint Committees in which the Council participates.

#### **Glamorgan Archives Joint Committee**

The Glamorgan Record Office is managed and administered by the Glamorgan Archives Joint Committee under powers conferred by the Local Government (Wales) Act 1994. The Joint Committee has 19 members in total, of which 16 are elected members with voting rights. There are 4 Rhondda Cynon Taf CBC Members on the

Joint Committee. The Council consolidates 25% of the assets, liabilities and transactions of Glamorgan Record Office into its financial statements.

During 2012/13, the Council contributed to the Joint Committee an amount of £191k (£212k in 2011/12). This was calculated proportionately based upon population. As part of the Joint Committee consolidation process, offsetting transactions and balances are removed from the accounts to ensure individual values are not overstated.

### **Llwydcoed Crematorium**

Llwydcoed Crematorium is subject to the control of a Joint Committee of Members from Rhondda Cynon Taf CBC and Merthyr Tydfil CBC. The Council consolidates 53.37% of the assets, liabilities and transactions of Llwydcoed Crematorium into its financial statements.

During 2012/13, the Council charged Llwydcoed Crematorium £23k (£22k in 2011/12) in respect of central establishment charges. As at 31<sup>st</sup> March 2013 the Council held cash balances relating to the Crematorium of £704k (£500k in 2011/12). As part of the Joint Committee consolidation process, offsetting transactions and balances are removed from the accounts to ensure individual values are not overstated.

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

ESIS ceased trading as at 31<sup>st</sup> August 2012 and was administered by a Joint Committee comprising Bridgend, Caerphilly, Merthyr Tydfil and Rhondda Cynon Taf County Borough Councils. It provided training and advisory services to both the local education authorities and schools in each of its joint authority areas, as well as providing such services and undertaking inspection work on behalf of other public sector bodies such as ESTYN, General Teaching Council for Wales (GTCW) and Welsh Local Government Association (WLGA). Rhondda Cynon Taf CBC consolidates 39.52% of transactions, assets and liabilities into its financial statements eliminating transactions between the Council and the Joint Committee.

During 2012/13, the Council incurred expenditure of £2,502k (£2,358k in 2011/12) with ESIS in respect of advisory and training services. As at 31<sup>st</sup> March 2013 there were no outstanding amounts owed by the Council to ESIS (£105k in 2011/12).

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

The Central South Consortium Joint Education Service was created on 1<sup>st</sup> September 2012 to provide a range of school improvement services within the local authority areas of Bridgend, Cardiff, Merthyr Tydfil, Rhondda Cynon Taf and the Vale of Glamorgan.

The Consortium is split into two distinct units:

- School Improvement Service – Provides the statutory school monitoring function on behalf of each local authority.
- Learning & Innovation Network for Schools – Offers support services and courses to schools to support their individual improvement plans.

The Council consolidates 28.32% of the assets, liabilities and transactions of CSCJES into its financial statements.

During 2012/13, the Council incurred expenditure of £1,094k with CSCJES in respect of advisory and training services. The Council also charged CSCJES £66k in respect of central establishment charges. As at 31<sup>st</sup> March 2013 the Council held net overdrawn cash balances relating to CSCJES of £1,366k. As part of the Joint Committee consolidation process, offsetting transactions and balances are removed from the accounts to ensure individual values are not overstated.

### **Catalogue Supplies Service**

Catalogue Supplies Service is administered by Bridgend County Council and supplies goods such as stationery. The Council consolidates 40.04% of the assets, liabilities and transactions of Catalogue Supplies Service into its financial statements.

During 2012/13, the Council purchased goods of £2,239k (£2,180k revised figure in 2011/12) from Catalogue Supplies Service. At year-end, the Council owed £232k (£222k in 2011/12) to the Joint Committee. These transactions have been eliminated from the financial statements.

### **Coychurch Crematorium**

The Council consolidates 18% of the assets, liabilities and transactions of Coychurch Crematorium into its financial statements. There were no transactions between the Council and the Crematorium during the year.

### **South East Wales Transport Alliance (SEWTA)**

The Council consolidates 10% of the assets, liabilities and transactions of SEWTA into its financial statements. There were no transactions between the Council and SEWTA during the year.

## **38.0 Capital Expenditure and Capital Financing**

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

	2011/12	2012/13
	£'000	£'000
Opening Capital Financing Requirement	345,084	349,912
<b>Capital Investment:</b>		
Property, Plant & Equipment	48,214	68,518
Intangible Assets	758	1,214
Revenue Expenditure Funded from Capital Under Statute	15,106	11,634
	<b>64,078</b>	<b>81,366</b>
<b>Sources of Finance:</b>		
Capital Receipts	(1,267)	(618)
Government Grants and Other Contributions	(26,373)	(35,172)
	<b>(27,640)</b>	<b>(35,790)</b>
<b>Sums Set Aside from Revenue:</b>		
Direct Revenue Contributions	(17,332)	(24,548)
Minimum Revenue Payment	(14,278)	(14,607)
<b>Closing Capital Financing Requirement</b>	<b>349,912</b>	<b>356,333</b>
<b>Explanation of Movements in Year</b>		
Increase in underlying need to borrowing (supported by government financial assistance)	(1,521)	(2,502)
Increase in underlying need to borrowing (unsupported by government financial assistance)	7,372	9,987
Finance Leases	(1)	(1)
Private Finance Initiative (PFI)	(1,022)	(1,063)
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>4,828</b>	<b>6,421</b>

### 39.0 Leases

The following disclosures relate to the Council as a lessee.

#### 39.1 Finance Leases

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

	31/03/12	31/03/13
	£'000	£'000
Other Land and Buildings	389	375

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

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

	31/03/12	31/03/13
	£'000	£'000
Finance Lease Liabilities:		
Current	1	1
Non-Current	562	561
Finance costs payable in future years	1,840	1,810
<b>Minimum Lease Payments</b>	<b>2,403</b>	<b>2,372</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31/03/12	31/03/13	31/03/12	31/03/13
	£'000	£'000	£'000	£'000
Less than 1 year	30	30	1	1
1 to 5 years	152	152	5	5
Greater than 5 years	2,221	2,190	557	556
<b>Total</b>	<b>2,403</b>	<b>2,372</b>	<b>563</b>	<b>562</b>

### 39.2 Operating Leases

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

	31/03/12			31/03/13		
	Other Land & Buildings	Vehicles, Plant & Equip.	Totals	Other Land & Buildings	Vehicles, Plant & Equip.	Totals
	£'000	£'000	£'000	£'000	£'000	£'000
Less than 1 year	285	109	394	16	405	421
1 to 5 years	2,700	1,797	4,497	1,337	950	2,287
Greater than 5 years	3,173	1,377	4,550	2,998	1,499	4,497
<b>Total</b>	<b>6,158</b>	<b>3,283</b>	<b>9,441</b>	<b>4,351</b>	<b>2,854</b>	<b>7,205</b>

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

	31/03/12	31/03/13
	£'000	£'000
Minimum Lease Payments	2,197	1,705

### 39.3 Sub-Leases

The Council has sub-let office accommodation at Ty Pennant. Non-cancellable sub-lease payments of £266k per annum is expected to be received until expiry of the lease agreement, as shown in the table below:

	2011/12	2012/13
	£'000	£'000
Less than 1 year	266	266
1 to 5 years	1,064	1,064
Greater than 5 years	535	269
<b>Total</b>	<b>1,865</b>	<b>1,599</b>

#### 40.0 Private Finance Initiative

During 2003/04 financial year, the Council entered into a Private Finance Initiative (PFI) arrangement for the provision of a Lifelong Learning Campus at Garth Olwg. The facilities provided comprise a Nursery, Primary School, Secondary School, Lifelong Learning Centre, Library and Youth Centre. The arrangement will run until September 2030. There is a commitment of £113.8m over the duration of the contract, which is to be funded by a combination of PFI Credits, agreed by the Welsh Government, and Council/Delegated School resources.

The value of the assets held under the PFI contract on the Council's balance sheet, and the movement in those values are as follows:

PFI Assets	Property, Plant & Equipment
	£'000
<b>Cost or Valuation</b>	
At 1 <sup>st</sup> April 2012	26,819
Revaluations	61
<b>At 31<sup>st</sup> March 2013</b>	<b>26,880</b>
<b>Depreciation and Impairments</b>	
At 1 <sup>st</sup> April 2012	(2,469)
Charge for 2012/13	(1,711)
<b>At 31<sup>st</sup> March 2013</b>	<b>(4,180)</b>
<b>Net Book Value At 31<sup>st</sup> March 2013</b>	<b>22,700</b>
<b>Net Book Value At 1<sup>st</sup> April 2012</b>	<b>24,350</b>

The value of liabilities for the term of the contract has also been recorded in the Council's Balance Sheet. An analysis of the movements is as follows:

PFI Liabilities	2011/12	2012/13
	£'000	£'000
<b>Liability as at 1<sup>st</sup> April</b>	<b>29,299</b>	<b>28,277</b>
Repayments during the year	(1,022)	(1,063)
<b>Liability as at 31<sup>st</sup> March</b>	<b>28,277</b>	<b>27,214</b>

The service charge element of the annual payment will vary each year depending on RPI. The latest estimated commitments for future years' payments on a cash basis and taking account of estimated inflation are as follows:

Period	Principal	Interest	Service Charges	Total
	£'000	£'000	£'000	£'000
Within 1 year	1,105	1,086	2,190	4,381
2 – 5 years	4,879	3,885	9,322	18,086
6 – 10 years	7,276	3,678	13,026	23,980
11 – 15 years	8,848	2,105	14,737	25,690
16 – 20 years	5,106	370	8,090	13,566
<b>Total</b>	<b>27,214</b>	<b>11,124</b>	<b>47,365</b>	<b>85,703</b>

The Council meets the costs of the Unitary Charge from its own resources and funding from the Welsh Government. The profile of funding from the Welsh Government reduces annually until the expiry of the contract term whereas the unitary charge payable by the Council increases annually over the same period. This results in a “surplus” of resources for PFI when compared to payments for the initial period of the contract. These surplus amounts are set-aside in an earmarked reserve to fund the later part of the contract period where annual payments are greater than annual resources. As at 31<sup>st</sup> March 2013 the balance on the PFI equalisation earmarked reserve is £7.5m.

The Council has rights of access to the whole site for the provision of educational services during the agreed core hours and extended core hours.

The Council is not aware of being exposed to any significant risks under this arrangement, other than those common with the provision of educational services.

At the end of the agreement, the contractor’s rights of access to the site will terminate and all assets, including buildings, equipment and materials previously provided and maintained under the contract will transfer to the Council at no cost.

#### **41.0 Impairment Losses**

During 2012/13, the Council has recognised an impairment loss of £34.4m (a loss of £25.3m in 2011/12) in relation to its Long-Term Assets. The impairment is analysed between categories of Long-Term Assets in note 7.1.

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

##### **42.1 Participation in Pension Schemes**

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

The Council participates in two pension schemes:

- Teachers - Please refer to note 43.0.

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

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

The remaining Joint Committees are unable to produce IAS 19 compliant accounts as they are not treated as separate employers in the relevant Pension Fund. However, where the employees of the Joint Committee contribute to the Rhondda Cynon Taf CBC pension fund, the resultant assets and liabilities are included within the Rhondda Cynon Taf CBC accounts.

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

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

	2011/12	2012/13		
		RCT	Joint Comm's	Total
	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Statement:</b>				
Cost of Services:				
Current Service Cost	25,308	28,600	198	28,798
Past Service Cost	730	510	132	642
Financing and Investment Income and Expenditure:				
Interest Cost	55,183	55,150	288	55,438
Expected Return on Scheme Assets	(39,462)	(36,470)	(253)	(36,723)
<b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>41,759</b>	<b>47,790</b>	<b>365</b>	<b>48,155</b>
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement: Actuarial (Gains) and Losses	110,930	53,080	338	53,418
<b>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>152,689</b>	<b>100,870</b>	<b>703</b>	<b>101,573</b>
<b>Movement in Reserves Statement:</b>				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(41,759)	(47,790)	(365)	(48,155)
Actual amount charged against the Council Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	32,596	29,980	314	30,294

The total actuarial gains and losses recognised in Other Comprehensive Income and Expenditure to the 31<sup>st</sup> March 2013 is a loss of £53.4m (£110.9m loss in 2011/12).

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the year ending 31<sup>st</sup> March 2013 is a loss of £326.0m.

Following the UK Government's announcement on 22<sup>nd</sup> June 2010, the inflation index used for pension increases has changed from the Retail Price Index (RPI) to the Consumer Price Index (CPI). CPI is expected to be less than RPI over the long-term which means that the obligation to pay pensions has reduced.

A revised IAS 19 will come into force for accounting periods beginning on or after 1<sup>st</sup> January 2013. If this revised IAS 19 were adopted for the accounting period ending 31<sup>st</sup> March 2013 then this will increase the expenses recognised for funded benefits from £47.44M to £58.10M (Rhondda Cynon Taf CBC funded benefits from £47.08M to

£57.66M; CSCJES Joint Committee funded benefits from £0.31M to £0.37M and; Llwydcoed Crematorium funded benefits from £0.05M to £0.07M. There will be no revised figures for the ESIS Joint Committee as the Employer has ceased to participate in the Fund on the accounting date).

There is no effect on the Balance Sheet.

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

	2011/12	2012/13		
		RCT	Joint Comm's	Total
	£'000	£'000	£'000	£'000
<b>Balance at 1<sup>st</sup> April</b>	<b>1,022,784</b>	<b>1,149,480</b>	<b>11,509</b>	<b>1,160,989</b>
Current service cost	25,308	28,600	198	28,798
Interest cost	55,183	55,150	288	55,438
Contributions by scheme participants	8,463	8,470	58	8,528
Actuarial (gains) and losses	85,601	104,830	2,016	106,846
Benefits paid	(37,080)	(37,680)	(406)	(38,086)
Past service costs	730	510	132	642
Business combinations	0	0	0	0
<b>Balance at 31<sup>st</sup> March</b>	<b>1,160,989</b>	<b>1,309,360</b>	<b>13,795</b>	<b>1,323,155</b>

#### 42.4 Reconciliation of Fair Value of the Scheme Assets

	2011/12	2012/13		
		RCT	Joint Comm's	Total
	£'000	£'000	£'000	£'000
<b>Balance at 1<sup>st</sup> April</b>	<b>539,437</b>	<b>550,800</b>	<b>6,749</b>	<b>557,549</b>
Expected rate of return	39,462	36,470	253	36,723
Actuarial gains/(losses)	(25,329)	51,750	1,678	53,428
Employer contributions	32,596	29,980	314	30,294
Contributions by scheme participants	8,463	8,470	58	8,528
Benefits paid	(37,080)	(37,680)	(406)	(38,086)
<b>Balance at 31<sup>st</sup> March</b>	<b>557,549</b>	<b>639,790</b>	<b>8,646</b>	<b>648,436</b>

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

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was a gain of £88.5m (£14.1m gain in 2011/12).

**42.5 Scheme History**

	2008/09	2009/10	2010/11	2011/12	2012/13
		Inc Joint Comm's	Inc Joint Comm's	Inc Joint Comm's	Inc Joint Comm's
	£'000	£'000	£'000	£'000	£'000
Present Value of Liabilities	(835,018)	(1,137,650)	(1,022,784)	(1,160,989)	(1,323,155)
Restated Fair Value of Asset (Bid Price)	381,901	531,395	539,437	557,549	648,436
<b>Restated Surplus/(Deficit)</b>	<b>(453,117)</b>	<b>(606,255)</b>	<b>(483,347)</b>	<b>(603,440)</b>	<b>(674,719)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £675.0m has a substantial impact on the Net Worth of the Council as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the Council is not impacted upon. The deficit on the local government scheme will be made good in line with actuarial assumptions.

**42.6 Basis for Estimating Assets and Liabilities**

Rhondda Cynon Taf CBC employs a "building block" approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund as 31<sup>st</sup> March 2013.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Council Fund liabilities have been assessed by AON Hewitt, an independent firm of actuaries, with estimates for the Council Fund being based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2010.

The liability in the Balance Sheet has decreased significantly over the year mainly as a result of changes to actuarial assumptions. The principal assumptions used by the actuary have been:

	31/03/12	31/03/13
Long-Term Expected Rate of Return on Assets in the Scheme:		
Equity investments	8.1%	7.8%
Property	7.6%	7.3%
Government bonds	3.1%	2.8%
Corporate bonds	3.7%	3.8%
Other	1.8%	0.9%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23.2	23.3
Women	24.5	24.7
Longevity at 65 for future pensioners:		
Men	25.1	25.2
Women	26.5	26.6
Rate of inflation (RPI)	3.6%	3.7%
Rate of inflation (CPI)	2.6%	2.8%
Rate of increase in salaries	5.1%	4.7%
Rate of increase in pensions	2.6%	2.8%
Rate for discounting scheme liabilities	4.8%	4.4%
Take-up of option to convert annual pension into retirement lump sum:		
Post-2010 Service	75%	75%
Pre-2010 Service	50%	50%

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

	31/03/12	31/03/13
	%	%
Equity Investments	65.6	68.7
Property	6.8	5.9
Government Bonds	10.5	10.6
Corporate Bonds	13.3	11.4
Other	3.8	3.4
	<b>100</b>	<b>100</b>

#### **42.7 Contributions for the Accounting Period ending 31<sup>st</sup> March 2014**

The Employer's regular contributions to the Fund for the accounting period 31<sup>st</sup> March 2014 are estimated to be £31.0m. In addition, "strain on fund" contributions may be required.

#### **42.8 History of Experience Gains and Losses**

The actuarial gains and losses identified as movements on the Councils element of the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31<sup>st</sup> March 2013:

	2008/09		2009/10		2010/11		2011/12		2012/13	
	Funded	Unfunded								
	%	%	%	%	%	%	%	%	%	%
Difference Between Expected and Actual Return on Assets	(35.6)	N/A	22.7	N/A	(5.1)	N/A	(4.5)	N/A	8.1	N/A
Experience Gains and Losses on Liabilities	(0.4)	(1.2)	0.9	3.1	5.6	0.1	(0.8)	(2.3)	0.2	0.7

This note is concerned only with the Rhondda Cynon Taf CBC element of the fund. Please refer to the Summary Pension Fund Accounts within this document for further details on the fund as a whole.

Further information can be found in the Pension Fund Annual Report, which is available on request from the Group Director - Corporate Services, Bronwydd House, Porth, Rhondda, CF39 9DL.

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

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/13, the Council paid £11.6m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £11.6m and 14.1%. There were no contributions remaining payable at the year-end. In addition, the Council is responsible for all pension payments relating to added years that it has awarded, together with related increases. In 2012/13 these amounted to £893k (£863k in 2011/12).

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

## **44.0 Contingent Liabilities**

### **44.1 Insurance**

The Council is liable for insurance claims made against it in respect of certain events. A provision is made in respect of claims received as at 31<sup>st</sup> March 2013. There is a further contingent liability in respect of events which will have occurred but which have not resulted in a claim being made as at the date of the accounts. The "statute of limitation" sets out the timescale by which a claim will have to be made in respect of such past events. An earmarked reserve has been set up to provide towards the costs of these incidents.

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

Insurance claims are also referenced in note 4.2.

### **44.2 Municipal Mutual Insurance Ltd.**

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

During April 2013, the Council received correspondence from MMI stating the initial clawback levy will be 15%. This means that the former authorities are obligated to pay 15% of the value of claims (less £50k) paid out by MMI back to the company. This liability is within Current Liabilities in the Balance Sheet.

In addition, any future settlements will be made at a level of 85% with the funding of the remaining 15% being met from the former authorities funds.

Correspondence from the scheme administrator states that it is not possible to guarantee the levy will be sufficient but they are the best estimates given the current position. The scheme requires the administrator to review the levy at least once a year. Given the uncertainty regarding how sufficient the initial clawback will be, a contingent liability exists as the Council could be subject to further clawback dependant upon the resources of MMI, the insurer.

Note 3.3, Critical Judgements in applying Accounting Policies also refers.

## **45.0 Trust Funds**

The Council acts as sole trustees for various charities. Separate accounts are maintained for these. Net assets as at 31<sup>st</sup> March 2013 are shown as follows and are not included in the Council's Balance Sheet. The 2012/13 figures are draft, subject to

audit (the Wales Audit Office for Welsh Church Act, the Council's Internal Audit Department for the other Funds).

	Description	31/03/12	31/03/13
		£'000	£'000
Education & Miscellaneous	Various funds established for educational and community benefits	102	104
Rhondda Cynon Taf Charity for the Visually Impaired	Fund established for the benefit of visually impaired citizens	250	213
Welsh Church Act Fund	Fund established under the Welsh Church Act for various charitable aims within the counties of Rhondda Cynon Taf, Merthyr Tydfil and Bridgend	10,683	11,496

The Council also participates on the Board of Trustees for "The Rhondda Trust". This is a charity established by a manufacturing company following the closure of its factory in the Rhondda valleys. The charity's aims are to improve skills and education in the area. The Council has administrative responsibility for the fund. However, decisions are made by the Board of Trustees. The balance held on behalf of the trustees by the Council at 31<sup>st</sup> March 2013 is £203k (£180k at 31<sup>st</sup> March 2012).

## Group Accounts

### 1. Introduction

To reflect the changing nature of service provision in the public sector, all local authorities are required to prepare a full set of group financial statements, in addition to their single entity accounts, where they hold material interests in subsidiaries, associates or joint ventures.

The Group Accounts Statements comprise:

- Statement of Group Accounting Policies.
- Group Movement in Reserves Statement.
- Group Comprehensive Income and Expenditure Statement.
- Group Balance Sheet.
- Group Cash Flow Statement.

### 2. Basis of Consolidation

It is a requirement that Group Accounts are prepared using consistent accounting policies, which can differ between company and local authority accounts. The main differences between these accounts are:

- Entities must fully implement IAS 19 (Employee Benefits) into their accounting statements.
- Long-term asset valuations should be based on the measurement principles given in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 based on International Financial Reporting Standards, which generally means assets are carried at a current valuation.

### 3. Bodies Consolidated

Following a review of the Council's activities, the following have been identified as group companies and have been consolidated into the group financial statements:

- **Amgen Cymru Ltd.** - This company was set up by the former Cynon Valley Borough Council as an arms length company under the 1990 Environment Act. It is registered as "Cynon Valley Waste Disposal" but trades as "Amgen Cymru Ltd.". The principal activities of the company are the provision of waste management services and waste disposal facilities. The Council has a 100% interest in the company of £2.8m. The company is a subsidiary of the Council.
- **Amgen Rhondda Ltd.** - This company was set up during September 1999 as a wholly owned subsidiary of Amgen Cymru Ltd. The principal activity of the company is the stewardship of waste management and waste disposal facilities. The company has taken over the management of Nantygwyddon Landfill site from Rhondda Waste Disposal Limited, which went into administration during the year ended 31<sup>st</sup> March 1999. In April 2005 the company entered into a formal

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stewardship agreement with Rhondda Cynon Taf CBC, which provides for the remediation and long-term stewardship of the facility in conjunction with the shareholder.

Rhondda Cynon Taf CBC holds 100% of the voting rights of Amgen Cymru Ltd., who in turn hold 100% of the voting rights of Amgen Rhondda, and is therefore classed as a subsidiary.

The Council also holds 100% of the allotted preference shares in Amgen Rhondda Ltd.

- **Capita Glamorgan Consultancy Ltd.** - This company was incorporated on 4<sup>th</sup> July 2008 following the transfer of the former Glamorgan Engineering Consultancy (Rhondda Cynon Taf, Bridgend and Merthyr Tydfil Councils) to a new joint venture with Capita Symonds. The company commenced trading on 1<sup>st</sup> September 2008 providing highways, transportation, structures and environmental management services across South Wales. The Council holds 27.93% of the shares in the company, and has been identified as an associate.

No subsidiaries, associates or joint ventures have been excluded from consolidation into the group accounts.

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## **Statement of Group Accounting Policies**

The group financial statements have been prepared in accordance with the accounting policies adopted for the single entity accounts, with the exception of the following items:

### **1. Long-Term Assets (Subsidiary Companies)**

The Long-Term Assets of Amgen Cymru Ltd. and Amgen Rhondda Ltd. are valued in the company balance sheets at depreciated historical cost. This accounting policy is not consistent with that used by the Council. However, as the land and buildings are specialist assets used in the running of a waste disposal facility, and in the case of landfill cells a distinct class of asset not currently held by the Council, they have been consolidated into the Group Balance Sheet on this basis.

### **2. Basis of Charges for use of Long-Term Assets**

Depreciation is charged to services on a straight-line basis and included within the Cost of Services in the Group Comprehensive Income and Expenditure Statement.

### **3. Pensions**

Amgen Cymru Ltd. makes pension contributions in respect of defined benefit and defined contribution schemes. Due to the small number of members in the defined benefit scheme it is considered that the disclosures required under IAS 19 for the company would not have a material impact on the group accounts. For this reason the pension costs charged to the Group Comprehensive Income and Expenditure Statement in respect of the Amgen companies represent the actual contributions paid in the year.

### **4. Basis of Consolidation**

Subsidiary companies are consolidated into the group statements using the acquisition method. Associate companies are consolidated using the equity method.

### **5. Accounting Periods**

The financial year-end of Amgen Cymru Ltd. and Amgen Rhondda Ltd. correspond with that of the Council.

The financial year of Capita Glamorgan Consultancy Ltd. runs from 1<sup>st</sup> January to 31<sup>st</sup> December. As the year-end is not more than three months before that of the Council, FRS 9 (Associates and Joint Ventures) permits consolidation of the statutory accounts into the group financial statements without further adjustment.

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

This statement shows the movement in the year on the different reserves held by the Group, analysed into “usable reserves” (i.e. 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 economic cost of providing the Group’s services on an International Financial Reporting Standards basis, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Council Fund Balance for Council Tax setting. The Net (Increase) or Decrease before Transfers to Earmarked Reserves line shows the statutory Council Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Group.

## Group Movement in Reserves Statement for the year ended 31<sup>st</sup> March 2013

	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Council Fund Balance	Farmarked Reserves: Capital, Treasury & Insurance	Farmarked Reserves: Other Revenue Related	Delegated Schools Reserve	Usable Capital Receipts Reserve	Capital Grants Unapplied	MGCC Insurance Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves of the Council	Council's share of Reserves of Subsidiaries, Associates & Joint Ventures	Total Reserves					
<b>Balance at 1<sup>st</sup> April 2012</b>	(10,458)	(34,984)	(72,410)	(5,484)	0	(3,397)	(1,040)	(127,773)	(42,793)	(170,566)	28	(170,538)					
<b>Movement in reserves during 2012/13:</b>																	
(Surplus) or deficit on the provision of services (accounting basis)	16,345	0	(81)	0	0	0	0	16,264	0	16,264	6,008	22,272					
Other comprehensive income and expenditure		0	0	0	0	0	0	0	56,645	56,645	(51)	56,594					
Total comprehensive income and expenditure	16,345	0	(81)	0	0	0	0	16,264	56,645	72,909	5,957	78,866					
<b>Adjustments between Group Accounts and Authority Accounts:</b>	5,810	0	0	0	0	0	0	5,810	0	5,810	(5,810)	0					
<b>Net increase or decrease before transfers</b>	22,155	0	(81)	0	0	0	0	22,074	56,645	78,719	147	78,866					
<b>Adjustments between accounting basis and funding under regulations:</b>	0	0	0	0	0	0	0	0	0	0	0	0					
<b>Adjustments primarily involving the Capital Adjustment Account:</b>	0	0	0	0	0	0	0	0	0	0	0	0					
<b>Reversal of items debited / credited to C1&amp;ES:</b>																	
Charges for depreciation and impairment of non-current assets	(49,154)	0	(66)	0	0	0	0	(49,220)	49,212	(8)	0	(8)					

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## Group Comprehensive Income and Expenditure Statement for the year ended 31<sup>st</sup> March 2013

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

2011/12			Note:	2012/13		
Gross Exp	Gross Income	Net Exp		Gross Exp	Gross Income	Net Exp
£'000	£'000	£'000		£'000	£'000	£'000
30,106	(26,706)	3,400	Central Services to the Public	31,624	(27,185)	4,439
34,417	(8,131)	26,286	Cultural and Related Services	35,610	(8,290)	27,320
50,533	(21,480)	29,053	Environmental and Regulatory Services	55,615	(23,306)	32,309
16,830	(11,651)	5,179	Planning Services	16,630	(10,554)	6,076
302,559	(69,297)	233,262	Children's and Education Services	311,259	(73,662)	237,597
38,323	(14,784)	23,539	Highways and Transport Services	44,300	(13,063)	31,237
86,996	(77,118)	9,878	Housing Services	90,327	(80,040)	10,287
114,597	(38,433)	76,164	Adult Social Care	119,187	(38,642)	80,545
9,577	(1,218)	8,359	Corporate and Democratic Core	14,713	(1,312)	13,401
1,699	(91)	1,608	Non-Distributed Costs	3,921	(107)	3,814
<b>685,637</b>	<b>(268,909)</b>	<b>416,728</b>	<b>Cost of Services</b>	<b>723,186</b>	<b>(276,161)</b>	<b>447,025</b>
			<b>Other Operating Expenditure</b>			
13,214	0	13,214	Precepts	13,919	0	13,919
12,040	0	12,040	Levies	11,835	0	11,835
2,060	0	2,060	(Gains) or Losses on Disposal of Non-Current Assets	1,034	0	1,034
			<b>Financing and Investment Income and Expenditure</b>			
11,350	0	11,350	Interest Payable and Similar Charges	10,806	0	10,806
55,183	(39,463)	15,720	Pensions Interest Cost and Expected Return on Pensions Assets	55,438	(36,723)	18,715
0	(264)	(264)	Interest Receivable and Similar Income	0	(134)	(134)
17,742	(17,026)	716	Trading Operations	14,302	(13,537)	765

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			<b>Taxation and Non-Specific Grant Income</b>				
0	(96,691)	(96,691)	Council Tax Income		0	(100,203)	(100,203)
0	(54,964)	(54,964)	NNDR Distribution		0	(63,406)	(63,406)
0	(294,731)	(294,731)	Non-Ringfenced Government Grants		0	(287,666)	(287,666)
0	(24,606)	(24,606)	Capital Grants and Contributions		0	(30,418)	(30,418)
<b>797,226</b>	<b>(796,654)</b>	<b>572</b>	<b>(Surplus) or Deficit on the Provision of Services</b>		<b>830,520</b>	<b>(808,248)</b>	<b>22,272</b>
0	(106)	(106)	<b>Associates and Joint Ventures Accounted for on an Equity Basis</b>		0	(81)	(81)
			<b>Tax Expenses</b>				
0	0	0	Taxation of Group Entities		9	0	9
29	0	29	Share of Taxation of Associates and Joint Ventures		21	0	21
<b>797,255</b>	<b>(796,760)</b>	<b>495</b>	<b>Group (Surplus) or Deficit</b>		<b>830,550</b>	<b>(808,329)</b>	<b>22,221</b>
0	(26,499)	(26,499)	<b>(Surplus) or Deficit on Revaluation of Property, Plant &amp; Equipment Assets</b>		3,227	0	3,227
110,930	0	110,930	<b>Actuarial (Gains) or Losses on Pension Assets &amp; Liabilities</b>		53,418	0	53,418
<b>110,930</b>	<b>(26,499)</b>	<b>84,431</b>	<b>Other Comprehensive Income and Expenditure</b>		<b>56,645</b>	<b>0</b>	<b>56,645</b>
<b>908,185</b>	<b>(823,259)</b>	<b>84,926</b>	<b>Total Comprehensive Income and Expenditure</b>		<b>887,195</b>	<b>(808,329)</b>	<b>78,866</b>

## Group Balance Sheet as at 31<sup>st</sup> March 2013

The Group Balance Sheet summarises the financial position of the Council and its subsidiaries and associates as a whole. It shows the value of the group assets and liabilities at the end of the financial year.

31/03/12			Note:	31/03/13	
£'000				£'000	£'000
	<b>Long-Term</b>	Property, Plant & Equipment	<i>G 2.0</i>		
567,653	<b>Assets</b>	Other Land & Buildings		550,077	
412,656		Infrastructure		423,260	
12,878		Vehicles, Plant & Equipment		11,678	
539		Landfill Cells		164	
3,672		Community Assets		4,124	
4,409		Assets Under Construction		20,087	
145		Heritage Assets		145	
2,356		Intangible Assets		2,423	
0		Long-Term Investments		1,015	
170		Investment in Associates and Joint Ventures		231	
975		Long-Term Debtors		986	
<b>1,005,453</b>		<b>TOTAL LONG-TERM ASSETS</b>			<b>1,014,190</b>
29,333	<b>Current</b>	Short-Term Investments		725	
3,993	<b>Assets</b>	Assets Held for Sale		6,902	
1,029		Inventories		970	
43,575		Short-Term Debtors	<i>G 13.0</i>	62,048	
7,017		Cash and Cash Equivalents		6,127	
<b>84,947</b>		<b>TOTAL CURRENT ASSETS</b>			<b>76,772</b>
(12,185)	<b>Current</b>	Cash and Cash Equivalents		(10,408)	
(11,663)	<b>Liabilities</b>	Short-Term Borrowing		(3,479)	
(4,162)		Short-Term Provisions	<i>G 15.0</i>	(10,646)	
(50,272)		Short-Term Creditors	<i>G 14.0</i>	(57,748)	
<b>(78,282)</b>		<b>TOTAL CURRENT LIABILITIES</b>			<b>(82,281)</b>
(8,527)	<b>Long-Term</b>	Long-Term Provisions	<i>G 15.0</i>	(9,494)	
(196,511)	<b>Liabilities</b>	Long-Term Borrowing		(196,391)	
(635,223)		Other Long-Term Liabilities		(709,912)	
(261)		Government Grants Deferred		(160)	
(1,058)		Donated Asset Account		(1,058)	
<b>(841,580)</b>		<b>TOTAL LONG-TERM LIABILITIES</b>			<b>(917,015)</b>
<b>170,538</b>	<b>NET ASSETS</b>				<b>91,666</b>

(10,458)	<b>Usable</b>	Council Fund Balance		(11,204)	
	<b>Reserves</b>	Earmarked Reserves:			
(34,984)		Capital, Treasury and Insurance Reserves		(22,548)	
(72,410)		Other Revenue Related Reserves		(75,822)	
(5,484)		Delegated Schools Reserve		(5,379)	
0		Usable Capital Receipts Reserve		(50)	
(3,397)		Capital Grant Unapplied Account		(2,290)	
(1,040)		MGCC Insurance Reserve		(474)	
<b>(127,773)</b>		<b>TOTAL USABLE RESERVES</b>			<b>(117,767)</b>
(192,197)	<b>Unusable</b>	Revaluation Reserve		(183,726)	
(139)	<b>Reserves</b>	Deferred Capital Receipts Reserve		(100)	
(466,006)		Capital Adjustment Account	G 6.0	(478,786)	
5,969		Financial Instruments Adjustment Account		5,924	
603,440		Pensions Reserve		674,719	
616		Unequal Pay Back Pay Account		4,850	
5,524		Short-Term Accumulating Compensated Absence Account		3,044	
28		Group Companies Reserve	G 3.0	176	
<b>(42,765)</b>		<b>TOTAL UNUSABLE RESERVES</b>			<b>26,101</b>
<b>(170,538)</b>	<b>TOTAL RESERVES</b>				<b>(91,666)</b>

## Group Cash Flow Statement 2012/13

The Group Cash Flow Statement summarises the cash flows of the Council and its subsidiaries and associates during the year.

2011/12 £'000		Note:	2012/13	
			£'000	£'000
572	Net (Surplus) or Deficit on the Provision of Services		22,272	
(70,277)	Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements	G 7.0	(83,119)	
22,546	Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	G 8.0	29,384	
<b>(47,159)</b>	<b>Net Cash Flows from Operating Activities</b>			<b>(31,463)</b>
43,507	Investing Activities	G 10.0	21,368	
5,971	Financing Activities	G 11.0	9,208	30,576
<b>2,319</b>	<b>Net Increase or Decrease in Cash or Cash Equivalents</b>			<b>(887)</b>
2,849	Cash and Cash Equivalents at the Beginning of the Reporting Period			5,168
<b>5,168</b>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>			<b>4,281</b>

## Notes to the Group Accounts

These notes should be read in conjunction with the notes to the Council's Core Financial Statements. Unless specifically identified below, the information provided for the single entity accounts also applies to the group statements.

### G 1.0 Segmental Analysis (Subsidiary Companies)

The operating income and expenditure of Amgen Cymru Ltd. and Amgen Rhondda Ltd. has been included within Environmental and Regulatory services.

### G 2.0 Long-Term Assets

#### G 2.1 Property, Plant and Equipment

Movements in Long-Term Assets during the year were as follows:

	Other Land & Buildings	Infrastructure	Vehicles, Plant & Equipment	Landfill Cells	Community Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>							
At 1 <sup>st</sup> April 2012	708,374	493,477	35,995	1,414	4,190	4,624	1,248,074
Joint Committees Opening Balance	968	0	166	0	0	0	1,134
Additions	20,140	29,510	4,677	0	336	14,776	69,439
Donations	0	0	0	0	0	0	0
Revaluation Increases/ (Decreases) recognised in the Revaluation Reserve	10,644	0	701	0	165	0	11,510
Revaluation Increases/ (Decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition – Disposals	(1,012)	0	(1,125)	0	0	0	(2,137)
Derecognition - Other	(11,982)	0	(28)	0	0	0	(12,010)
Assets reclassified (to)/from held for Sale	(4,010)	0	0	0	0	0	(4,010)
Other reclassifications	(3,852)	1,697	0	0	0	2,155	0
<b>At 31<sup>st</sup> March 2013</b>	<b>719,270</b>	<b>524,684</b>	<b>40,386</b>	<b>1,414</b>	<b>4,691</b>	<b>21,555</b>	<b>1,312,000</b>

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<b>Accumulated Depreciation and Impairment</b>							
At 1 <sup>st</sup> April 2012	(141,619)	(80,821)	(23,131)	(875)	(518)	(215)	(247,179)
Joint Committees	(70)	0	(152)	0	0	0	(222)
Opening Balance							
Depreciation charge	(11,924)	(13,855)	(5,004)	(375)	0	0	(31,158)
Impairment (Losses) recognised in the Revaluation Reserve	(16,120)	0	(7)	0	0	0	(16,127)
Impairment reversals recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment (Losses) recognised in the Surplus/Deficit on the Provision of Services	(9,998)	(6,656)	(1,538)	0	(337)	(1,145)	(19,674)
Impairment reversals recognised in the Surplus/Deficit on the Provision of Services	1,139	0	0	0	288	0	1,427
Derecognition – disposals	79	0	1,113	0	0	0	1,192
Derecognition - Other	8,555	0	11	0	0	0	8,566
Assets reclassified (to)/from held for Sale	565	0	0	0	0	0	565
Other reclassifications	200	(92)	0	0	0	(108)	0
<b>At 31<sup>st</sup> March 2013</b>	<b>(169,193)</b>	<b>(101,424)</b>	<b>(28,708)</b>	<b>(1,250)</b>	<b>(567)</b>	<b>(1,468)</b>	<b>(302,610)</b>
<b>Net Book Value:</b>							
<b>At 31<sup>st</sup> March 2013</b>	<b>550,077</b>	<b>423,260</b>	<b>11,678</b>	<b>164</b>	<b>4,124</b>	<b>20,087</b>	<b>1,009,390</b>
<b>At 1<sup>st</sup> April 2012</b>	<b>567,653</b>	<b>412,656</b>	<b>12,878</b>	<b>539</b>	<b>3,672</b>	<b>4,409</b>	<b>1,001,807</b>

## G 2.2 Valuation of Long-Term Assets

Assets are valued according to asset type. The following table shows the type of operational assets held, the basis of valuation and the date of last valuation.

Asset Type	Date of Last Valuation	Basis of Valuation
Other Land & Buildings (Excl. Amgen)	Rolling Programme	EUV
Amgen Land & Buildings	N/A	DHC
Specialist Building	Rolling Programme	DRC
Vehicles, Plant & Equip	N/A	DHC
Infrastructure	N/A	DHC
Community Assets	N/A	DHC
Landfill Cells	N/A	DHC

EUV - Existing Use Value

DHC - Depreciated Historic Cost

DRC - Depreciated Replacement Costs

**G 3.0 Group Companies Reserve**

Movements in the Group Companies Reserve are summarised as follows:

	<b>Amgen Cymru</b>	<b>Amgen Rhondda</b>	<b>Capita Glamorgan</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 31<sup>st</sup> March 2012</b>	<b>(2,235)</b>	<b>2,434</b>	<b>(171)</b>	<b>28</b>
(Increase)/Decrease 2012/13	65	143	(60)	148
<b>Balance as at 31<sup>st</sup> March 2013</b>	<b>(2,170)</b>	<b>2,577</b>	<b>(231)</b>	<b>176</b>

**G 4.0 Subsidiary Companies Statutory Accounts**

A summary of the statutory accounts for the Amgen group is given in the following table. These accounts have been prepared in accordance with the Financial Reporting Standards for Smaller Entities.

	<b>Amgen Cymru</b>		<b>Amgen Rhondda</b>	
	<b>March 2012</b>	<b>March 2013 Draft</b>	<b>March 2012</b>	<b>March 2013 Draft</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Shareholding	2,806	2,806	535	400
Net Current Assets	2,048	1,425	448	266
Total Assets less Current Liabilities	6,970	6,091	535	400
Net Assets	5,026	4,976	535	400
(Loss)/Profit Before Tax	20	(50)	(144)	(135)
(Loss)/Profit After Tax	10	(50)	(144)	(135)
Registration No.	2660628		3687641	
Registered Office/Location of Accounts	Bryn Pica Landfill Site Llwydcoed Aberdare CF44 0BX		Bryn Pica Landfill Site Llwydcoed Aberdare CF44 0BX	
Auditors	KTS Owens Thomas Ltd		KTS Owens Thomas Ltd	
Audit Opinion	Not yet given for year ended 31 <sup>st</sup> March 2013		Not yet given for year ended 31 <sup>st</sup> March 2013	

The accounts will be approved at the companies' Annual General Meeting in November.

**G 5.0 Associate Company Statutory Accounts**

A summary of the statutory accounts for Capita Glamorgan Consultancy Ltd is given in the following table. These accounts have been prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

	<b>Capita Glamorgan Consultancy Ltd</b>	
	<b>31<sup>st</sup> December 2011</b>	<b>31<sup>st</sup> December 2012 Draft</b>
	<b>£'000</b>	<b>£'000</b>
Shareholding	27.93%	27.93%
Net Current Assets	426	676
Total Assets less Current Liabilities	617	831
Net Assets	611	828
(Loss)/Profit Before Tax	381	291
(Loss)/Profit After Tax	276	217
Registration No.	6638751	
Registered Office/Location of Accounts	The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Auditors	KPMG Audit Plc	
Audit Opinion	Not yet given for year ended 31 <sup>st</sup> December 2012	

**G 6.0 Consolidation Adjustments****G 6.1 Capital Adjustment Account**

	<b>£'000</b>
<b>Balance as at 31<sup>st</sup> March 2012</b>	<b>(466,006)</b>
(Gains)/Losses during the year	(12,780)
<b>Balance as at 31<sup>st</sup> March 2013</b>	<b>(478,786)</b>

In the Council's accounts the value of the shareholding in Amgen Rhondda Ltd. is written down to the value of the net assets of the company. To allow consolidation of the accounts the value of shareholding must be reinstated, which results in a credit to the Capital Adjustment Account of £2,577k.

**G 7.0 Cash Flow Statement – Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements**

2011/12		2012/13
£'000		£'000
(43,319)	Depreciation & Impairment	(50,466)
(2,208)	Amortisation	(1,450)
7,394	(Increase)/Decrease in Creditors	(15,948)
(6,182)	Increase/(Decrease) in Debtors	18,484
83	Increase/(Decrease) in Stock	(59)
(9,120)	Movement in Pension Liability	(17,845)
(3,426)	Contribution to Provisions	(7,451)
(1,576)	Holiday Pay Accrual	(2,480)
7,519	Revenue Grant Earmarked Reserves	6,305
1,567	Capital Grants Unapplied	1,107
(11,827)	Revenue Expenditure Funded from Capital Under Statute	(15,079)
(9,182)	Other non-cash items charged to the net surplus or deficit on the provision of services	1,763
<b>(70,277)</b>	<b>Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements</b>	<b>(83,119)</b>

**G 8.0 Cash Flow Statement - Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities**

2011/12		2012/13
£'000		£'000
(2,060)	Proceeds from the sale of Property, Plant and Equipment, investment property and intangible assets	(1,034)
24,606	Any other items for which the cash effects are investing or financing cash flows	30,418
<b>22,546</b>		<b>29,384</b>

**G 9.0 Cash Flow Statement – Interest within Operating Activities**

The cash flows for operating activities include the following items:

2011/12		2012/13
£'000		£'000
(145)	Interest received	(83)
11,296	Interest paid	10,724
<b>11,151</b>	<b>Interest within Operating Activities</b>	<b>10,641</b>

**G 10.0 Cash Flow Statement - Investing Activities**

<b>2011/12</b>		<b>2012/13</b>
<b>£'000</b>		<b>£'000</b>
66,617	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	79,278
(1,304)	Purchase and Redemption of Short-Term and Long-Term Investments	(29,205)
(1,248)	Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(667)
(20,558)	Capital Grants Received	(28,038)
<b>43,507</b>	<b>Net Cash Flows from Investing Activities</b>	<b>21,368</b>

**G 11.0 Cash Flow Statement - Financing Activities**

<b>2011/12</b>		<b>2012/13</b>
<b>£'000</b>		<b>£'000</b>
(51)	Cash Receipts of Short-Term and Long-Term Borrowing	0
1,022	Cash Payments for the Reduction of the Outstanding Liabilities Relating to Finance Leases and On-Balance Sheet PFI Contracts	1,063
5,000	Repayments of Short-Term and Long-Term Borrowing	8,145
<b>5,971</b>	<b>Net Cash Flows from Financing Activities</b>	<b>9,208</b>

**G 12.0 Adjustments Between Group Accounts and Council Accounts in the Group Movements in Reserves Statement**

The adjustments between Group Accounts and the Council's Accounts in the Group Movements in Reserves Statement relate to sales and purchases between the Council and subsidiaries.

<b>2011/12</b>		<b>2012/13</b>
<b>£'000</b>		<b>£'000</b>
(50)	Amgen Rhondda supplies to the Council	(50)
(6,448)	Amgen Cymru supplies to the Council	(6,731)
947	Council supplies to Amgen Cymru	959
<b>(5,551)</b>	<b>Net Expenditure</b>	<b>(5,822)</b>

**G 13.0 Debtors**

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

<b>2011/12</b>		<b>2012/13</b>
<b>£'000</b>		<b>£'000</b>
18,988	Central Government Bodies	35,802
607	Other Local Authorities	1,569
0	NHS Bodies	421
80	Public Corporations and Trading Funds	83
23,900	Other Entities and Individuals	24,173
<b>43,575</b>	<b>Total</b>	<b>62,048</b>

**G 14.0 Creditors**

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

<b>2011/12</b>		<b>2012/13</b>
<b>£'000</b>		<b>£'000</b>
(3,689)	Central Government Bodies	(5,950)
(302)	Other Local Authorities	(1,685)
(894)	NHS Bodies	(269)
(131)	Public Corporations and Trading Funds	(153)
(45,256)	Other Entities and Individuals	(49,691)
<b>(50,272)</b>	<b>Total</b>	<b>(57,748)</b>

**G 15.0 Provisions**

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

Movements in provisions during the year were:

Short-Term Provision	Homecare Fairer Charge	Land Purchases and Part 1 Claims	Equal Pay	Joint Committees	Total
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1<sup>st</sup> April 2012</b>	<b>154</b>	<b>4,008</b>	<b>0</b>	<b>0</b>	<b>4,162</b>
Additional provisions made in 2012/13	0	1,776	4,850	12	6,638
Amounts used in 2012/13	0	0	0	0	0
Unused amounts reversed in 2012/13	(154)	0	0	0	(154)
<b>Balance at 31<sup>st</sup> March 2013</b>	<b>0</b>	<b>5,784</b>	<b>4,850</b>	<b>12</b>	<b>10,646</b>

Long-Term Provision	Land Purchases and Part 1 Claims	Insurance Claims	MGCC Disaggregation	Amgen Cymru – Landfill Aftercare	Amgen Cymru – Deferred Tax	Amgen Cymru – HMRC Provision	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1<sup>st</sup> April 2012</b>	<b>0</b>	<b>6,266</b>	<b>793</b>	<b>790</b>	<b>42</b>	<b>636</b>	<b>8,527</b>
Additional provisions made in 2012/13	1,748	525	0	192	10	0	2,475
Amounts used in 2012/13	0	0	0	(79)	0	(636)	(715)
Unused amounts reversed in 2012/13	0	0	(793)	0	0	0	(793)
<b>Balance at 31<sup>st</sup> March 2013</b>	<b>1,748</b>	<b>6,791</b>	<b>0</b>	<b>903</b>	<b>52</b>	<b>0</b>	<b>9,494</b>

**G 15.1 Amgen Cymru – Landfill Aftercare**

The Company is required by the shareholders agreement to provide for future aftercare cost such as landfill capping and restoration. During the year the Company provided £2 per tonne (2011/12 £2 per tonne).

**G 15.2 Amgen Cymru – Deferred Tax**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax is also recognised where transactions or events have occurred at the balance sheet date that will result in an obligation to pay more, or a right to pay less, or to receive more tax.

**G 15.3 Amgen Cymru – HMRC Provision**

The provision relates to a tax repayment received from HMRC during the year in respect of a repayment of landfill tax. The company is currently awaiting the outcome of pending legal advice and confirmation from HMRC that the repayment is a realisable benefit to Amgen Cymru. The outcome of this will provide clarification as to whether the repayment should be released to the Comprehensive Income and Expenditure Statement.

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## Rhondda Cynon Taf Pension Fund Accounts

### **Background to the Fund**

The Rhondda Cynon Taf County Borough Council Pension Fund was established with effect from 1<sup>st</sup> April 1996, upon the reorganisation of Local Government in Wales under the Local Government Pension Scheme (Local Government Reorganisation in Wales) Regulations, 1995.

The Local Government Pension Scheme is open to all employees in Local Government apart from teachers, who have their own scheme. It is also open to employees of other organisations that have been accepted into the fund.

The Rhondda Cynon Taf Pension Fund provides pension benefits for employees of Rhondda Cynon Taf, Bridgend and Merthyr Tydfil County Borough Councils, together with employees from around 40 other bodies.

### **Fund Administration**

Rhondda Cynon Taf CBC has responsibility for the interpretation of pension legislation, the creation and maintenance of records, the calculation and payment of benefits and the provision of information to employees, employers and other relevant bodies.

### **Fund Investments**

Investment strategy is considered and agreed by the Pension Fund Investments Panel, which is chaired by the Rhondda Cynon Taf Group Director Corporate Services and consists of two Rhondda Cynon Taf Council Members, two independent investment advisors and other senior finance officers.

The Panel meets quarterly to determine policy in light of market movements and to question and challenge the Investment Managers on their activities and performance. At the Net Asset Statement date there were seven Investment Managers carrying out the actual day-to-day investment management of the Fund's assets:

Baillie Gifford (Equities and High Alpha Equities)  
Newton (High Alpha Equities)  
BlackRock (UK Equities)  
Invesco (UK Equities)  
Legal & General (Passive Equities)  
F & C (Bonds)  
CBRE (Property)

**Fund Account**

2011/12 £'000		Note	2012/13	
			£'000	£'000
	<b>Contributions</b>			
(82,693)	Employer contributions	8.0	(93,606)	
(25,874)	Member contributions	8.0	(26,267)	
<b>(108,567)</b>				<b>(119,873)</b>
(69,253)	Transfers in from other pension funds		(7,521)	
(5,313)	Other income		(2,743)	
<b>(74,566)</b>				<b>(10,264)</b>
	<b>Benefits</b>			
79,987	Pensions		86,135	
23,497	Commutation of pensions and lump sum retirement benefits		18,784	
1,959	Lump sum death benefits		2,010	
<b>105,443</b>		8.0		<b>106,929</b>
	<b>Payments to and on account of leavers</b>			
4,175	Transfers out to other pension funds		4,830	
13	Other payments		8	
<b>4,188</b>				<b>4,838</b>
<b>1,689</b>	<b>Administrative expenses</b>	9.0		<b>1,862</b>
<b>(71,813)</b>	<b>Net (additions)/withdrawals from dealings with members</b>			<b>(16,508)</b>
	<b>Investment income</b>			
(26,572)	Income from fixed interest securities		(26,117)	
(23,475)	Dividends from equities		(24,871)	
(58)	Income from index-linked securities		(162)	
(5,634)	Income from pooled investment vehicles		(6,916)	
(89)	Interest on cash deposits		(85)	
<b>(55,828)</b>				<b>(58,151)</b>
(7,221)	<b>(Profits) and losses on disposal of investments and changes in the value of investments</b>		(226,374)	
				<b>(226,374)</b>
4,337	Investment management expenses	9.0		5,392
1,403	Taxes on income			1,331
<b>(57,309)</b>	<b>Net Returns on Investments</b>			<b>(277,802)</b>
<b>(129,122)</b>	<b>Net (increase)/decrease in net assets available for benefits during the year</b>			<b>(294,310)</b>
<b>(1,655,904)</b>	<b>Opening Net Assets</b>			<b>(1,785,026)</b>
<b>(1,785,026)</b>	<b>Closing Net Assets</b>			<b>(2,079,336)</b>

**Net Assets Statement**

31/03/2012		Note	31/03/2013	
			£'000	£'000
	<b>Investment Assets</b>			
	<b>Fixed interest securities</b>			
171,967	Public sector		210,907	
226,954	Corporate bonds		233,373	
		4.0		<b>444,280</b>
884,706	<b>Equities</b>	4.0		<b>1,092,600</b>
	<b>Index linked securities</b>			
8,066	Public sector		5,646	
		4.0		<b>5,646</b>
	<b>Pooled investment vehicles</b>			
66,394	Open ended investment companies		61,546	
172,112	Managed funds		250,978	
116,783	Property		119,871	
		4.0		<b>432,395</b>
<b>58,204</b>	<b>Cash deposits</b>			<b>67,682</b>
	<b>Other investment balances</b>			
6,670	Accrued interest		6,393	
9,093	Investment debtors		5,897	
558	Tax recoverable		1,261	
				<b>13,551</b>
<b>1,721,507</b>				<b>2,056,154</b>
	<b>Investment Liabilities</b>			
(6,055)	Investment creditors			<b>(1,231)</b>
<b>1,715,452</b>	<b>Net investment assets</b>			<b>2,054,923</b>
	<b>Current Assets</b>			
5,002	Contributions due from employers	10.0	5,054	
853	Cash balances		196	
423	Amount owed from RCTCBC		500	
65,267	Other current assets		21,475	
				<b>27,225</b>
	<b>Current Liabilities</b>			
(1,971)	Current liabilities		(2,812)	
				<b>(2,812)</b>
<b>1,785,026</b>	<b>Net assets of the scheme available to fund benefits at period end</b>			<b>2,079,336</b>

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

A summary of the actuarial position of the scheme, which takes account of these obligations, is included in note 3. These accounts should be read in conjunction with that report.

There have been no significant post balance sheet events.

## **1.0 Introduction**

These accounts have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2012/13, which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector, and the Pension Fund SORP (Financial Reports of Pension Schemes – A Statement of Recommended Practice (Revised May 2007)). A more detailed Pension Fund Annual Report is available on request from the Corporate Service Group Director.

## **2.0 Accounting Policies**

### **2.1 Accruals Concept**

Where material, accruals are made for employee and employer fund contributions, investment income, benefits paid, administration costs, investment management fees and advisors fees. Transfer values are accounted for on a cash basis, with the exception of material group transfers.

### **2.2 Investment Valuation of Financial Instruments**

In terms of “Fair Value”, all investments have quoted prices in active markets, with the exception of Pooled Property Funds. Listed securities are valued in accordance with IAS 39 “Financial Instruments”, using bid prices as at 31<sup>st</sup> March 2013 obtained from recognised Stock Exchanges. Fixed interest securities are valued “clean”, i.e. excluding accrued interest. Sterling valuations of securities denominated in foreign currencies are based on closing exchange rates as at 31<sup>st</sup> March 2013.

Pooled Property Funds are valued using reliable valuation techniques to determine Fair Value. Property valuations are represented by unit prices, based on underlying independent professional valuations. No assets require significant judgements or assumptions to determine Fair Value.

### **2.3 Additional Voluntary Contributions (AVCs)**

Scheme members may elect to make additional voluntary pension contributions from their salaries. These AVCs are not included in the Pension Fund Accounts in accordance with regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

The amount of AVC contributions paid during the year amounted to £1,022k (£1,056k in 2011/12) and the market value of separately invested AVCs at the balance sheet date was £5,276k (£5,374k in 2011/12).

## **2.4 Acquisition and Disposal Costs**

Transaction costs incurred in acquiring or disposing of investments are included as part of the purchase cost or netted off against sales proceeds, as appropriate. Transaction costs include fees, commissions and duties. Transaction costs incurred during 2012/13 amounted to £0.6m (£0.7m in 2011/12).

In addition to the direct costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

## **2.5 Taxation**

As a registered public service scheme the pension fund is exempt from UK income tax and capital gains tax. Overseas investment income incurs withholding tax in the country of origin unless exemption is granted.

Irrecoverable tax is accounted for as an expense in the Fund Account, with any recoverable tax shown as an asset in the Net Assets Statement.

There is a small liability to income tax on refunds of contributions and compounded pensions (small pensions converted into lump sums). These amounts are paid to HMRC on a quarterly basis.

VAT is recoverable on all activities, so the accounts are shown exclusive of VAT.

## **3.0 Actuarial Position**

The Fund's Actuary, AON Hewitt, carried out an actuarial valuation of the Fund as at 31<sup>st</sup> March 2010, as required by Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Where a valuation reveals a deficiency (or surplus), employer contribution rates are adjusted to seek restoration of a 100% funding ratio. The recovery period for each employer is set by the Administering Authority in consultation with the Actuary.

The funding policy of the scheme is to ensure that:

- Employer contribution rates are kept as nearly constant as possible and at reasonable cost to the employers and taxpayers.
- Sufficient resources are available to meet all liabilities as they fall due.
- Employers' liabilities are managed effectively by seeking regular actuarial advice.
- Income from investments is maximised within reasonable risk parameters.

The result of the 2010 valuation is shown in the table below.

	31/03/2010	31/03/2007
	£'m	£'m
Funding Target	2,229.00	1,908.60
Market Value of Assets	1,568.90	1,327.30
Funding Deficit	660.1	581.3
Funding Ratio	70%	70%

The aggregate employer contribution rate for future service (benefits accruing after the valuation date) is calculated to be 13.1%. In order to restore the funding ratio to 100% using a recovery period of 25 years the aggregate employer contribution rate is calculated to be 20.4%.

Rates of contribution payable by individual scheme employers vary depending on their particular circumstances. Some employers will also phase in contribution increases over a maximum period of 6 years. Full details are available in the actuarial report.

Contribution rates have been calculated using the Projected Unit Method for most employers. The Attained Age Method has been used for some employers who do not permit new employees to join the Fund. The key financial assumptions made are listed below:

	2010 Valuation	2007 Valuation
Assumption	% p.a.	% p.a.
Fixed Interest Gilt Yields	4.5	4.7
Index-Linked Gilt Yields	0.7	1.5
RPI Price Inflation	3.8	3.2
CPI Price Inflation	3.1	n/a
Pension Increases in Excess of GMPs	3.1	3.2
GMPs Accrued After 5 <sup>th</sup> April 1988	2.7	2.7
GMPs Accrued Before 6 <sup>th</sup> April 1988	0	0
General Pay Increases	5.3	4.7
In Service Discount Rate (Scheduled Bodies)	7.1	6.2
In Service Discount Rate (Admitted Bodies)	6.25	6.2
Left Service Discount Rate (Scheduled Bodies)	7.1	6.2
Left Service Discount Rate (Admitted Bodies)	4.75	5.2

The key demographic assumption is member mortality. Since the previous valuation, research has generally shown that life expectancy is improving much faster than previous research envisaged, so the Fund's mortality assumptions have been revised to reflect this.

The CIPFA Code of Practice on Local Authority Accounting also requires the disclosure of the actuarial present value of promised retirement benefits for the whole fund, using projected salary levels in accordance with IAS19. These will be updated at each triennial valuation, or if there are material changes in fund membership or actuarial assumptions.

	<b>Value as at 31/3/2010</b>	<b>Value as at 31/3/2007</b>
	<b>£'m</b>	<b>£'m</b>
Actuarial present value of promised retirement benefits	3,103	2,242

The change from RPI to CPI for pension increases in the June 2010 Emergency Budget has had a significant impact on the value of future benefits. Had the change been implemented from 31<sup>st</sup> March 2010 the actuarial present value of promised benefits at that date would have reduced by £351.7m to £2,751.6m. The accounting assumptions made in this calculation (distinct from the funding assumptions above) are shown below.

<b>Assumption</b>	<b>31/03/2010</b>	<b>31/03/2007</b>
	<b>(% p.a.)</b>	<b>(% p.a.)</b>
Discount Rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3.0	n/a
Rate of Increase: Pensions in Payment	3.9	3.2
Rate of Increase: Deferred Pensions	3.9	3.2
Rate of General Increase in Salaries	5.4	4.7

#### 4.0 Analysis of Investments at Fair Value

	2011/12		2012/13	
	£'000	£'000	£'000	£'000
<b><u>Equities</u></b>				
UK	247,775		292,406	
Overseas	636,931		800,194	
		<b>884,706</b>		<b>1,092,600</b>
<b><u>Fixed interest</u></b>				
UK	394,750		438,897	
Overseas	4,171		5,383	
		<b>398,921</b>		<b>444,280</b>
<b><u>Index linked</u></b>				
UK	8,066		5,646	
Overseas	0		0	
		<b>8,066</b>		<b>5,646</b>
<b><u>Pooled investments</u></b>				
UK - property	96,479		100,682	
Overseas - property	20,305		19,189	
UK – other	98,305		121,371	
Overseas - other	140,200		191,153	
		<b>355,289</b>		<b>432,395</b>
<b>Total long-term investments</b>		<b>1,646,982</b>		<b>1,974,921</b>

The Investments Panel has decided that the Fund will not enter into any stock lending arrangements. All investments held are quoted investments, and no assets were reclassified. Carrying Values of assets held in the balance sheet are the same as Fair Values shown above.

All investments above are deemed to be Financial Instruments designated "Fair Value through Profit and Loss". All investment income, profits / losses on disposals of investments, and changes in the value of investments recognised in the Fund Account arise from Financial Instruments designated "Fair Value through Profit and Loss", with the exception of interest on Cash Deposits. Cash Deposits are deemed to be Financial Instruments designated "Loans and Receivables".

#### 5.0 Fund Manager Asset Allocation

The market values of investments held by the fund managers employed by the fund are detailed in the following table.

Fund Manager	Market Value		Proportion of Fund	
	31/03/2012 £'000	31/03/2013 £'000	31/03/2012 %	31/03/2013 %
Baillie Gifford (Equities)	339,447	405,627	19.8	19.9
Baillie Gifford (High Alpha Equities)	305,057	364,727	17.8	17.8
Newton (High Alpha Equities)	248,035	306,361	14.5	15.0
Invesco (UK Equities)	83,880	101,020	4.9	4.9
BlackRock (UK Equities)	84,883	97,258	5.0	4.8
L&G (Passive Equities)	86,587	149,958	5.1	7.3
F&C (Bonds)	423,204	460,396	24.7	22.5
CBRE (Property)	118,585	123,774	6.9	6.1
Internal	22,612	34,179	1.3	1.7
<b>Total</b>	<b>1,712,290</b>	<b>2,043,300</b>	<b>100</b>	<b>100</b>

No single investment accounted for more than 5% of the Fund's assets.

The market value of investments shown in this table includes short-term investments such as cash balances and money deposits, and so differs from the total of long-term investments only, as shown in note 4.0.

Investment risk is mitigated by employing a number of fund managers to diversify manager risk, with mandates covering a variety of assets including equities, bonds and property. Managers must maintain a diversified portfolio of investments and comply with the LGPS investment regulations, and any additional restrictions set by the Investments Panel. The underlying investments are further diversified by country and industry sector.

Each manager's performance is monitored quarterly by the Investments Panel against a target linked to an asset allocation benchmark, effectively constraining managers from deviating significantly from the intended approach, while still permitting some flexibility to enhance returns.

## 6.0 Contingencies

There is a contingent liability of £344k (£349k in 2011/12) in respect of refundable contributions for leavers who have not yet claimed refunds.

## 7.0 Reconciliation of Investment Asset Valuation

A reconciliation of the opening and closing investment valuations is given below.

Fund manager	Market Value 01/4/12	Purchases	Sales	Change in Market Value	Market Value 31/03/13
	£'000	£'000	£'000	£'000	£'000
Baillie Gifford (Equities)	327,917	71,603	(44,894)	46,923	401,549
Baillie Gifford (High Alpha Equities)	300,726	62,018	(60,381)	54,579	356,942
Newton (High Alpha Equities)	241,185	82,006	(73,511)	50,597	300,277
Invesco (UK Equities)	83,880	1,090	0	16,050	101,020
BlackRock (UK Equities)	82,917	11,392	(8,833)	9,902	95,378
L&G (Passive Equities)	86,586	41,500	0	21,872	149,958
F&C (Bonds)	406,987	771,539	(747,041)	18,441	449,926
CBRE (Property)	116,784	9,475	(3,319)	(3,069)	119,871
<b>Total</b>	<b>1,646,982</b>	<b>1,050,623</b>	<b>(937,979)</b>	<b>215,295</b>	<b>1,974,921</b>

## 8.0 Contributions Receivable and Benefits Payable

Contributions received and benefits paid are shown in the table below.

Type of Body	Member Contributions		Employer Contributions		Pensions, Lump Sums and Death Benefits	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000	£'000
Administering	8,385	8,465	28,117	28,385	20,532	22,982
Admitted	2,816	2,824	11,046	20,412	9,102	10,529
Scheduled	14,673	14,978	43,530	44,809	75,809	73,418
<b>Total</b>	<b>25,874</b>	<b>26,267</b>	<b>82,693</b>	<b>93,606</b>	<b>105,443</b>	<b>106,929</b>

Included in employer contributions are £18,877k of deficit funding contributions (£10,202k in 2011/12) and £18k of augmented contributions (£59k in 2011/12).

## 9.0 Administration Expenses

The administration costs borne by the Fund in 2012/13 are set out below:

	2011/12	2012/13
	£'000	£'000
Fund management expenses	4,019	5,195
Investment administration expenses	318	197
Pensions administration expenses	1,689	1,862
<b>Total</b>	<b>6,026</b>	<b>7,254</b>

This represents 0.35% (0.34% in 2011/12) of the value of the Pension Fund as at 31<sup>st</sup> March 2013.

## 10.0 Transactions with Related Parties

In the course of fulfilling its role as administering authority to the Fund, Rhondda Cynon Taf CBC provided services to the Fund for which it charged £1.3m (£1.3m in 2011/12). These costs are mainly in respect of those staff employed in ensuring that the pension service is delivered.

At the year-end, contributions outstanding from the Employing Bodies in the Fund amounted to £5.1m (£5.0m in 2011/12), of which £3.8m related to employer contributions and £1.3m to employee contributions.

## 11.0 Membership of the Fund

Fund membership at 31<sup>st</sup> March is as follows:

	2012	2013
Active Employers	42	42
Contributors	23,396	25,195
Pensioners	14,378	14,726
Dependants	2,622	2,631
Deferred beneficiaries	15,821	17,096

## 12.0 Group Transfers

The Fund received transfers in respect of the Wales Probation Trust amounting to £43.5m leaving an estimated £20m-£25m remaining, for which an accrual has been made. The Fund also received a bulk transfer of £853k in respect of the South Wales Fire Service, and made a payment of £847k for a bulk transfer out in respect of the Local Government Data Unit.

## 13.0 Nature and Extent of Risks Arising From Financial Instruments

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. There are three main ways in which the Pension Fund is exposed to risk from financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

The overall objective is to minimise the risk of a reduction in the value of the Fund, and to maximise the opportunity for gains within reasonable risk parameters.

The Funding Strategy Statement identifies key risks to the Pension Fund together with the countermeasures undertaken to mitigate the risks.

### 13.1 Credit Risk

Credit risk is the possibility that a counterparty will fail to discharge its obligation to the Pension Fund, causing a financial loss. Counterparties considered are banks and financial institutions with whom investments are placed, employers within the Fund and investment managers. The risk of counterparties failing to discharge obligations is managed in a number of ways:

- Counterparties for cash investments made by the Administering Authority must meet the strict credit criteria set out in the Rhondda Cynon Taf CBC Treasury Management Strategy.
- Participating employers may be required to provide a bond to cover the risk to the Fund should they be unable to meet their pension contribution obligations.
- Investment managers manage funds that are held in the name of the Pension Fund, not in the name of the investment managers. In the event of the investment manager being unable to fulfil their obligations the Fund's investments will not be considered part of their asset portfolio.

The Pension Fund has had no experience of counterparty default in the last five years. Cash deposits held by the Administering Authority for the Pension Fund as at 31<sup>st</sup> March 2013 amounted to £34.1m with the institutions shown in the table below.

Institution	Balance at 31/03/13 £'000	Maturity Date
Leeds City Council	2,850	02/04/2013
Leeds City Council	10,000	03/04/2013
Leeds City Council	1,630	08/04/2013
Blaenau Gwent County Borough Council	3,000	02/04/2013
Blaenau Gwent County Borough Council	3,000	04/04/2013
Wakefield Metropolitan District Council	3,570	05/04/2013
Nottingham City Council	5,750	02/04/2013
Plymouth City Council	1,300	09/04/2013
Newport City Council	2,000	02/04/2013
Newport City Council	1,000	04/04/2013
<b>Total</b>	<b>34,100</b>	

The Treasury Management strategy sets a limit of £15m for cash deposits with individual local authorities.

### 13.2 Liquidity Risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations as they fall due. This risk is managed by:

- Maintaining a robust cashflow monitoring and forecasting model.
- Ensuring that the Pension Fund has access to cash in the short and medium-term to pay pensions by managing cashflow from money-market investments.
- Taking actuarial advice to set employer contribution rates at triennial valuations in order to meet the long-term funding requirements to pay pensions and other commitments.

The Administering Authority has immediate access to internally managed Pension Fund cash balances via its own bank, Barclays. The Authority also invests Pension Fund cash in short-term deposits with the Debt Management Office or other UK public bodies for periods normally less than 3 months.

### 13.3 Market Risk

Market risk is the risk of a loss in the value of investment assets from movements in investment markets e.g. asset prices, interest rates and currency exchange rates. This risk is managed by ensuring that the Fund invests in a broad range of assets diversified by Investment Manager, asset class and geographical region.

Following analysis of historic data, State Street, the Fund's custodian, have provided a view of market movements for the 2013/14 financial year. The possible impact of movements is shown in the following tables:

Asset type	31/03/13 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
UK Equities	413,777	11.8	462,603	364,951
Overseas Equities	991,346	12.7	1,117,247	865,445
Bonds	449,926	4.5	470,173	429,679
Property	119,871	2.4	122,748	116,994
Cash	67,878	0.3	68,082	67,674
<b>Total</b>	<b>2,042,798</b>		<b>2,240,853</b>	<b>1,844,743</b>

The Fund's interest rate risk is monitored regularly with the advice of the Administering Authority's treasury advisors. Interest rates changes can affect Fund income and asset values.

A movement in interest rates of 1% for the 2013/14 financial year would have the following effect:

Asset type	31/03/13 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Fixed interest securities	449,926	454,425	445,427
Cash deposits & balances	67,878	68,557	67,199
<b>Total</b>	<b>517,804</b>	<b>522,982</b>	<b>512,626</b>

Currency risk is the risk to income and investment asset values from changes in foreign exchange rates. The Fund is exposed to this risk from non-sterling denominated investments in a range of assets.

A movement in currency exchange rates of 5.4% would have the following effect:

Asset type	31/03/13 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas Equities	991,346	1,044,879	937,813
Overseas Fixed Interest	5,383	5,674	5,092
Overseas Pooled Property	19,189	20,225	18,153
<b>Total</b>	<b>1,015,918</b>	<b>1,070,778</b>	<b>961,058</b>

## RHONDDA CYNON TAF

### ANNUAL GOVERNANCE STATEMENT

<b>1.</b>	<b>Scope of Responsibility</b>
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- 1.1 Rhondda Cynon Taf County Borough Council (The Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In addition, the introduction of the Local Government (Wales) Measure 2009 identifies that the Authority has a 'general duty to improve'.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes the arrangements for the management of risk.
- 1.3 The Council's Annual Governance Statement aims to provide an accurate representation of the governance arrangements in place for financial year ending 31<sup>st</sup> March 2013 and to highlight those areas where improvement is needed.

<b>2.</b>	<b>The purpose of the governance framework</b>
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- 2.1 The governance framework comprises the systems and processes, and cultural values, by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 For Rhondda Cynon Taf County Borough Council, governance is about ensuring that the Council does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. (Source - DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT FRAMEWORK)
- 2.3 The system of internal control is a significant part of that framework and is designed to manage the risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 2.4 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's aims and

objectives, to evaluate the likelihood and impact of those risks materialising, and to manage them efficiently, effectively and economically.

- 2.5 The governance framework has been in place at Rhondda Cynon Taf County Borough Council for the year ended 31<sup>st</sup> March 2013 and up to the date of approval of the 2012/13 annual statement of accounts.

**3.**

### **The Governance Framework**

- 3.1 The Council has used the Chartered Institute of Public Finance and Accounting / Society of Local Authority Chief Executives (CIPFA / SOLACE) 'Delivering Good Governance in Local Government Framework' in compiling its Annual Governance Statement. This framework illustrates best practice and recommends that local authorities must be able to demonstrate compliance with the six principles of good governance:

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

- 3.2 The Council has applied these principles to structure its Annual Governance Statement for financial year ending 31<sup>st</sup> March 2013.

### 3.3 **Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area**

#### Developing and promoting the Authority's purpose

- 3.3.1 In 2010, a new long term vision was agreed for Rhondda Cynon Taf, *Rhondda Cynon Taf Community Strategy 2010 – 2020 Promoting Achievement, Tackling Disadvantage* (Community Strategy 2010–2020) setting out some of the things, called Core Improvement Themes, partners in the County Borough would do to improve the quality of life for local residents.
- 3.3.2 For 2012/13, the Council agreed eight improvement priorities at its meeting on 4<sup>th</sup> July 2012 in a document called 'Rhondda Cynon Taf County Borough Council - Corporate Plan 2012/13' (Corporate Plan) (from hereon in Corporate Plan). Within this document, the Council's improvement priorities have each been linked to at least one of the Core Improvement Themes within the Community Strategy, to demonstrate how the Council's work will contribute to delivering the long term vision for the County Borough. The agreed eight improvement priorities were:
- Medium term service planning
  - Education
  - Street care services and the natural environment
  - Children and family centred services
  - Maintaining people's independence
  - Enforcement and regulation
  - Regeneration of our communities (Physical and Social)
  - Better customer contact
- 3.3.3 The Corporate Plan indicates that in developing its improvement priorities for 2012/13 the Council asked a range of stakeholders, as part of its annual revenue budget consultation process, what they thought was important to them and took account of a range of information, for example, external regulator reports, key statistics, performance indicator results and in-year user engagement feed back. The document was made available on the Council's internet site, hard copies were sited in Council buildings and circulated to each elected Councillor, and a summary was included within the July 2012 edition of the Council's newspaper, Outlook.
- 3.3.4 The Council's external auditor, the Wales Audit Office, reviewed the Council's Corporate Plan in line with their statutory responsibilities. A full copy of the report was presented to Council on 17<sup>th</sup> October 2012 (WAO - Improvement Assessment). In summary, their conclusion was that *'The Council continues to build on its robust arrangements for delivering improvement and its improvement plan is well-considered and defines the outcomes the Council wants to achieve and why it needs to take action to achieve them'*.

3.3.5 Further to approval of the Corporate Plan, each improvement priority action plan formed part of the Council's in year performance reporting arrangements (further references to in year performance reporting is included at 3.4.8 and 3.6.6). A review of the Corporate Plan has identified:

- Specific themes fed back by stakeholders as part of engagement activities have been included as areas for improvement during the year
- The Council has included high level value for money measures within its plans for Children and Family Centred Services, Maintaining People's Independence and Better Customer Contact to help provide a more complete picture of performance
- No reference was made to the Council's risk management arrangements – further reference is made to this at 5.3.1 and 5.3.2.

Publishing an annual report on a timely basis

3.3.6 In October 2012, the Council produced a document called an Annual Delivery Report (Annual Delivery Report) that assessed the Council's performance against its improvement priorities for the 2011/12 financial year. This was reported to and approved by Full Council on 17<sup>th</sup> October 2012. The Wales Audit Office reviewed the Annual Delivery Report as part of its statutory responsibility, a full copy of the report can be found at [http://www.wao.gov.uk/assets/Local\\_Reports/IAL2\\_RCTCBC\\_English.pdf](http://www.wao.gov.uk/assets/Local_Reports/IAL2_RCTCBC_English.pdf). In summary their conclusion was that *'The Annual Delivery Report is comprehensive, fair and balanced with an improved focus on outcomes but it could more clearly evaluate the Council's overall progress in achieving its improvement priorities'* – further reference is made to this at 5.3.3.

Partnerships are underpinned by a common vision for their work

3.3.7 During 2012/13 a delivery framework for partnership working within Rhondda Cynon Taf was agreed by the Rhondda Cynon Taf Local Service Board. The delivery framework was used to develop a draft Single Integrated Plan, "*Delivering Change*", in line with guidance issued by Welsh Government and through a multi-agency approach involving engagement with a wide range of partners and members of the public.

3.3.8 In parallel, a unified needs assessment, "*Understanding what matters*", was produced to inform the content of "*Delivering Change*". "*Delivering Change*", was published for consultation between September and December 2012 and a final version was approved by the Rhondda Cynon Taf Local Service Board on 19<sup>th</sup> March 2013, published on the 28<sup>th</sup> March 2013 and became effective from 1<sup>st</sup> April 2013, replacing the existing Community Strategy. The agreed joint vision is that all people in Rhondda Cynon Taf are *safe, healthy* and *prosperous* and will provide the 'frame' for the Council to set its improvement priorities over the medium term.

### 3.4 **Members and officers working together to achieve a common purpose with clearly defined functions and roles**

#### Setting out clear roles and responsibilities

- 3.4.1 The Council's Constitution was adopted in May 2002 and sets out how it should operate, how decisions need to be made and the procedures to be followed to ensure they are efficient, transparent and available to local people. Since that time, and in particular throughout the 2012/13 financial year, amendments have been made with the aim of ensuring the document remains fit for purpose.
- 3.4.2 An overview is provided in Part 1 of the Constitution (Summary and Explanation) and Part 2, Articles of the Constitution explain the right of citizens and how key parts of the Constitution operate including the roles and responsibilities of Council, the Executive, the five Overview and Scrutiny Committees and non-executive committees; and the roles and responsibilities of senior officers, specifically the Head of Paid Service (Chief Executive), Chief Finance Officer (Corporate Services Group Director) and Monitoring Officer (the Director of Legal and Democratic Services).
- 3.4.3 Terms of reference are in place for Council, Standing Committees and other committees, these being last up dated in June 2012. In addition, terms of reference were established for a new committee, the Democratic Services Committee, that met for the first time on 12<sup>th</sup> July 2012 (Democratic Services Committee) and revisions to the Audit Committee terms of reference were reported to Council on 12<sup>th</sup> December 2012 (Audit Committee Revised TOR) to take account of new requirements brought about by the Local Government (Wales) Measure 2011 (further information is set out at point 3.6.7).
- 3.4.4 Forward work programmes for each of the five Overview and Scrutiny Committees were published on the Council's internet site, these being made available during September 2012 for the 2012/13 municipal year. Each work programme set out the specific meetings that would consider financial and operational performance information together with other key themes within the terms of reference of each scrutiny committee.
- 3.4.5 The Council's Chief Executive (as Head of Paid Service) leads the Council's officers and chairs the Corporate Management Team. The Corporate Management Team also consisted of:
- The Corporate Services Group Director (the position designated to fulfil the statutory role of Section 151 officer i.e. the Chief Finance Officer)
  - The Director of Legal and Democratic Services (the Monitoring Officer)
  - The Group Director for Community and Children's Services
  - The Director of Education and Lifelong Learning
  - The Group Director of Environmental Services
  - The Director of Human Resources
- 3.4.6 In accordance with best practice, the statutory role of Section 151 officer within Rhondda Cynon Taf County Borough Council (Chief Financial Officer)

complies with the principles outlined in the CIPFA document "The Role of the Chief Financial Officer". Accordingly, the Chief Financial Officer:

1. is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
2. is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
3. leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Financial Officer:

4. leads and directs a finance function that is resourced to be fit for purpose; and
5. is professionally qualified and suitably experienced.

- 3.4.7 At an officer level, a scheme of delegation framework was in place setting out the levels of authority assigned to pre-determined posts. Where this was the case, schemes had been issued to the relevant post holders so that they were aware of the parameters of their operational authority.

#### Effective communication between elected Councillors and officers

- 3.4.8 A protocol is in place, 'Protocol for Member/Officer Relations' to promote the effective communication between elected Councillors and officers. More specifically, an elected Councillor has been allocated specific responsibility to review, in consultation with the Council's Director of Financial Services, each quarterly Performance Report and summarise financial and operational performance results, areas of positive performance and also where improvements were required. The outcome of these reviews were quarterly Exception Reports for each of the five Overview and Scrutiny Committees to help elected Councillors focus on the most important issues at each meeting. Full copies of quarterly Performance Reports were also made available via the web-site for elected Councillors to review as required.

#### Terms and conditions of elected councillors and officers

- 3.4.9 A schedule of elected Councillor remuneration for the 2012/13 financial year (i.e. what is expected to be paid), was published in the July 2012 edition of Outlook in accordance with the requirements of the Independent Remuneration Panel for Wales (IRPW) Regulations. The remuneration received by elected Councillors for the 2011/12 financial year was published in Outlook in September 2012, again in accordance with IRPW Regulations.
- 3.4.10 Employees have contracts of employment and competency based job descriptions which set out grade, roles and responsibilities. The Human Resources Service oversees terms and conditions of employment and the Council has a suite of policies and procedures that are available on the internal web-site for officers to access.
- 3.4.11 In line with the Accounts and Audit (Wales) Regulations 2005 (as amended),

local authorities must disclose in their accounts the number of employees whose remuneration in the year fell in each bracket of a scale in multiples of £5,000 commencing at £60,000 (excluding employer pension contributions). This requirement was met within the Council's Statement of Accounts for 2011/12.

#### Clarity of roles for partnership working

3.4.12 In line with the Audit Commission report, "Governing partnerships" (2005), partnerships in Rhondda Cynon Taf were reviewed and agreed new Terms of Reference in 2012, outlining key principles to inform, promote and manage collaborative arrangements and help ensure that these operate efficiently and effectively. These will evolve as the Council sets its improvement priorities in alignment with "Delivering Change".

3.4.13 A Cwm Taf Regional Collaboration Board, consisting of public service leaders across Merthyr Tydfil and Rhondda Cynon Taf exists to facilitate public service reform and collaboration, through focussing on national deliverables and a set of key partnership projects to drive forward improvement in public services at a regional level (Terms of Reference as agreed in March 2012). The Board met six times during 2012/13.

### 3.5 **Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

#### Creating an environment of openness, support and respect

3.5.1 The Council has a series of codes, protocols and policies in place that include:

#### **Codes and Protocols**

- Members' Code of Conduct
- Protocol Standard of Conduct expected by members
- Gifts and Hospitality Policy
- Officers' Code of Conduct
- Protocol for Member/Officer Relations
- Whistleblowing Policy
- Development Control Committee - Code of Good Practice
- Management of Unreasonably Persistent Customers

#### **Policies**

- Financial Procedure Rules;
- Contract Procedure Rules;
- Anti-Fraud and Corruption Policy (incorporating the requirements of the Bribery Act 2010);
- Whistleblowing Policy;
- Human Resources policies

The Internal Audit Service has, amongst other things, tested compliance against the Financial and Contract Procedure Rules as part of delivering the

annual Internal Audit Plan for 2012/13 and where relevant reported the findings to the Council's Audit Committee. Further information is set out at 4.5 on the Head of Internal Audit's opinion on the standard of internal control for 2012/13.

- 3.5.2 The Council has also developed a set of values to help shape and influence the behaviour of employees. The values have been incorporated into the Council's Corporate Plan and within guidance material provided to employees throughout 2012/13 to help support improved personal performance.

Defined standards of behaviour for elected councillors and officers

- 3.5.3 A Members' code of conduct is in place setting out the standards that are expected by elected Councillors in fulfilling their roles. All elected Councillors signed up to the code following the local government elections in May 2012. In addition, a 'Standard of Conduct Expected By Members' is in place, setting out the expected standard of elected Councillors when dealing with each other. The Terms of Reference for the Council's Standards Committee (Standards Committee - TOR Page 62) has a key responsibility in training and advising elected Councillors in relation to the code of conduct.

- 3.5.4 The Council's Standards Committee met on four occasions throughout 2012/13, a primary responsibility being to monitor the conduct of Members and also investigate allegations of misconduct by Members (that fall below the threshold for investigation by the Public Services Ombudsman Wales). During 2012/13 the Standards Committee considered its Annual Report (Standards Committee - Annual Report) for 2011/12 (that provided an overview of its work during this period in continuing to promote high standards of conduct within the Council), considered a complaint under the Local Protocol – Standard of Conduct Expected by Members and appointed a Community Councillor to the Standards Committee.

- 3.5.5 A gifts and hospitality register is maintained by the Director of Legal and Democratic Services for elected Councillors and by each Group Director at an officer level. Both elected Councillors and officers have been made aware of the content of the policy and compliance requirements.

Using customer feedback to inform service delivery

**Customer Care Charter**

- 3.5.6 The Council has a Customer Care Charter in place that sets out the standards the Council seeks to achieve when dealing with customers. The Charter includes key aims and also includes a suite of measurable 'Service Standards' by which customers can assess the Council in terms of the service it has delivered.

The Customer Care Charter is reviewed annually with performance against the charter monitored throughout the year in the form of quarterly satisfaction results across the multi-channel access service provision (Telephone (Contact Centre), Face-to-Face (One4all Centres) and Internet

([www.rctcbc.gov.uk](http://www.rctcbc.gov.uk)).

A summary of performance results for the service is published quarterly as part of the Council's Performance Reports and within the Annual Delivery report.

### **Customer Feedback Scheme**

- 3.5.7 The Council has a Customer Feedback Scheme that is designed to inform service improvements, raise the profile and reputation of the Council, and develop more responsive ways of working that puts the customer at the heart of everything through encouraging feedback from customers whether comments, compliments or complaints.
- 3.5.8 Compliments received are acknowledged and brought to the attention of the manager and staff member(s) concerned. Comments received should be acknowledged and once evaluated, used to improve service delivery (if possible), the manager will write to the sender, advising of the outcome.
- 3.5.9 A Complaints Procedure is in place for the Council to receive and investigate any complaint made against it, including its Members and officers. They are dealt with in three stages (the third stage escalating to the Chief Executive), in the event that the customer is dissatisfied after the third stage, customers are advised to refer to matter to the Public Services Ombudsman For Wales.
- 3.5.10 The above Complaints Procedure does not apply to complaints relating to Social Services, these being dealt with separately by the Representation and Complaints Unit (within the Community and Children's Services Group) and provide an opportunity for service users and carers to:
- Make complaints, comments and representations about the nature, quality, availability or delivery of a service
  - Suggest improvements
  - Challenge decisions.

There are separate sets of regulations for services to children and adults and these were brought together into a common framework and one body of guidance called 'Listening and Learning'. The Representations and Complaints Unit policy reflects the key themes and principles contained in the 'Listening and Learning' guidance.

- 3.5.11 The Community and Children's Services Scrutiny Committee considered a Social Services Annual Complaints Report for 2011/12 (Annual Complaints Report). The conclusion from the annual report was that:
- Social Services continue to provide a robust and effective complaints procedure in line with the statutory requirements
  - Complaints are seen as providing valuable customer feedback, with the information from complaints providing important lessons learnt when planning and improving services to meet the needs of customers

### **3.6 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

3.6.1 The Council's Constitution sets out how the Council must operate and the process for policy and decision-making. The Full Council is required by law to approve, amongst other things, the Council's annual revenue budget, three year capital programme, annual Treasury Management Strategy and the level of Council Tax each year – these being reported to and approved by Council in March 2012 for the 2012/13 financial year. Other decisions are the responsibility of the Executive (otherwise known as Cabinet). Cabinet meetings are generally open to the public except where items are exempt under the Access to Information Procedure Rules.

3.6.2 Full Council is made up of seventy five elected Councillors. The Cabinet consists of ten elected Councillors:

- A leader
- A deputy leader
- Eight Cabinet members
- For the Cabinet overall, three positions are occupied by females and seven by males. The female proportion of 30% compares well with the private sector where 10% of FTSE 350 company directors are female

(Source – Grant Thornton – Local Government Governance Review 2012 – High Pressure System).

#### **Develop and maintain open and effective mechanisms for documenting evidence for decisions**

3.6.3 All committee agendas and reports were made public on the Council's internet site 4 working days prior to the meeting (excluding special / extraordinary meetings).

3.6.4 Where decisions were taken by Council and / or Cabinet throughout 2012/13, these have been based on written reports that set out key information (including Equality Impact Assessments where appropriate, and financial and legal implications) and options for elected Councillors to consider. The meetings were open to the public except for those exempt under the Access to Information Procedure Rules. Where decisions were made, Decision Notices were published on the Council's internet site and considered for accuracy at the next meeting of the respective committee.

#### **Develop and maintain an effective scrutiny function which encourages constructive challenge**

3.6.5 The Council's Constitution allows a decision made by the Cabinet or an individual Member of the Cabinet or a Committee of the Cabinet to only be implemented after 5 clear working days following publication of the decision unless it can be demonstrated that any delay could seriously prejudice the Council's or public interest. A decision can be 'called in' by one of five Overview and Scrutiny Committees if a prescribed Call in Form is received by the Monitoring Officer within the 5 day period which is signed by 3 Members of that Committee (from at least two political groups) and which sets out the reasons why they think the matter should be re-considered. For the 2012/13

financial year, there were two 'call-ins':

- Proposals for the regeneration of Ynysangharad War Memorial Park Lido. The Cabinet meeting of the 30<sup>th</sup> July 2012 approved the scheme and the recommended funding package subject to no adverse responses from the Trustees of the Ynysangharad War Memorial Park. The decision was called in and considered by the Overview and Scrutiny Committee on the 9<sup>th</sup> August 2012. The outcome following consideration of the reasons for call-in and the responses of the appropriate Officers was that the matter not be referred back to the Cabinet for reconsideration and that the decision taken on the 30<sup>th</sup> July 2012 take effect as from the date of the call in meeting i.e. 9<sup>th</sup> August, 2012
- The Council's 2013/14 revenue budget - decisions to bridge the budget gap. The Cabinet meeting of the 11<sup>th</sup> February 2013 agreed proposals to bridge the revenue budget gap for 2013/14. The decision was called in by elected Councillors who were members of the Environmental Services Scrutiny Committee. This committee met on the 21<sup>st</sup> February 2013 to consider the decision and resolved that the matter not be referred back to Cabinet for reconsideration.

3.6.6 The five Overview and Scrutiny Committees scrutinised areas as set out in agreed work programmes for the year and a Scrutiny Annual Report for 2011/12 was reported to Council on 23<sup>rd</sup> May 2012. Key areas of business reviewed by scrutiny committees were:

- Reviewing quarterly Exception Reports on the Council's financial and operational performance
- Providing feed back as part of the Council's revenue budget setting consultation process
- Considering the Annual Reports for 2011/12 for the Local Safeguarding Children Board, the Protection of Vulnerable Adults and the Public Service Ombudsman Wales (complaints of mal-administration)
- Considering the findings of external inspection reports i.e. the Care and Social Services Inspectorate Wales annual review and evaluation of performance for 2011/12 (CSSIW - Annual Report) and feedback on Estyn's inspection on the quality of local authority education services for children and young people (Estyn Report)
- Establishing working groups / joint scrutiny arrangements to review Rhondda Cynon Taf's Children & Young People's Partnership (Fframwaith) and the disposal of respirator inhalers
- Considering specific themes as contained within the Council's improvement priorities, for example, school attendance and attainment results, the introduction of Civil Parking Enforcement and Foster Carer Recruitment.

In addition, it was noted that the Council has a Corporate Parenting Board that met on 5 occasions throughout 2012/13 to champion the voice of children in need and looked after children.

Develop and maintain an effective Audit Committee

3.6.7 The Council's Audit Committee met on six occasions during 2012/13. Throughout the year revisions were made to the membership of Audit Committee in line with the Local Government (Wales) Measure 2011. This meant the appointment of a layperson to the committee who was subsequently appointed as Chairperson. In addition, the Terms of Reference for the committee were revised to take account of the above mentioned legislation, these being approved by Audit Committee on 24<sup>th</sup> October 2012 and reported to Full Council for information on 12<sup>th</sup> December 2012.

3.6.8 The Audit Committee made specific recommendations throughout the year based on information presented. The key recommendations were:

- That the 2011/12 Annual Governance Statement be certified by the Chief Executive and Leader of the Council further to the inclusion of revised wording to reflect that the Cross Party Working Group did not meet during this period – this was actioned
- Accelerating a programme of financial administration training for school based staff – this was actioned
- To receive a full copy of the Budgetary Control internal audit report when finalised as part of helping members of the Committee to better understand the robustness of the Council's financial managements arrangements – this is scheduled to be reported to Audit Committee in 2013/14
- To receive a programme of information briefings to help Audit Committee members effectively discharge their responsibilities - this commenced during the year with briefings on the roles of internal audit and external audit and overviews of the Local Government (Wales) Measure 2011 legislation and Contract Procedure Rules. It is noted that further briefings are scheduled for 2013/14 including an overview of governance, Financial Procedure Rules and the Council's Anti-fraud and corruption policy.

Arrangements to safeguard elected councillors against conflicts of interest

3.6.9 For all committee meetings held, a standard agenda item for each meeting is 'Declarations of Interest', whereby members of the committee declare any personal interests in accordance with the code of conduct. This information is recorded, appropriate action taken (for example, the declaration 'noted', the elected Councillor leaves the meeting at the point of discussing the specific agenda item) is included in the publicly available minutes of each meeting.

Embedding risk management into the culture of the Council

3.6.10 Internally within the Council, a series of activities were in place to ensure resources are focussed in the right areas, service performance is effectively managed and risk, as far as practically possible, is controlled. These include:

- Each Service Division prepared an annual business plan setting out for the forthcoming year what it intends to achieve (objectives), how they will do it, how progress will be measured and the barriers or risks to achieving objectives. A corporate template, agreed by the Corporate Management Team, is in place to help services meet this requirement. Plans are monitored by accountable officer(s) and reviewed corporately throughout

the year

- Financial management support to services that culminates in a monthly summary being reported to the Corporate Management Team of key financial risks and the actions required to mitigate these
- Based on in-year service, financial and risk information, a forward looking financial plan is maintained to help the Council plan over the medium to long term
- Medium Term Service Planning was one of the Council's eight improvement priorities for 2012/13 with progress up dates scrutinised by the Cabinet Performance and Resources Committee and the Overview and Scrutiny Committee throughout the year.

In reviewing risk management arrangements for 2012/13, it was identified that:

- The key risks identified and managed were not incorporated into a single Strategic Risk Register
- The Council's Risk Management Strategy has not been reviewed for a number of years.

### 3.7 **Developing the capacity and capability of members and officers to be effective**

3.7.1 The Council aims to ensure that Members and employees of the Council have the skills, knowledge and capacity they need to discharge their responsibilities and recognises the value of well-trained and competent people in effective service delivery.

Ensuring that elected councillors and officers have the necessary skills, resources and support to effectively perform their roles

#### **Elected Councillor Training & Development**

3.7.2 The Council's Democratic Services Committee has been formally assigned with overall responsibility for deciding what should be regarded as reasonable training and development opportunities as part of its function of providing support to Members to carry out their functions. This responsibility is also included within the portfolio of a Cabinet Member: the Cabinet Member for Council Business and Public Relations.

3.7.3 At the Democratic Services Committee meeting on the 2<sup>nd</sup> October 2012, a report titled 'Discharge of the Democratic Services functions and training and development' was presented. Key information included:

- The adoption of a 'Member Development Strategy'
- The delivery of training and Member development activities following the Local Government Elections in May 2012 on 'How the Council works', 'Code of Conduct', 'Local Government Pension Scheme', 'Introduction to scrutiny' and 'an introduction to local authority licensing'
- Elected Member Development Programme
- Future Member Development Sessions
- Personal Development Reviews
- Member Development Network
- Wales Charter for Member Support and Development

#### **Workforce Development**

3.7.4 The Council has a Workforce Development Strategy that aims to ensure it develops a motivated, appropriately skilled, diverse and outward-looking workforce capable of delivering high quality services to the Community it serves. Workforce planning also formed a key part of the Council's Medium Term Service Planning improvement priority area.

3.7.5 To support the Workforce Development strategy, a Managing People and Performance Managers Guide and a separate Employee Booklet was introduced during the year and briefings held with a number of management teams. Both documents aim to support managers and employees to get the most from workforce development discussions. It is considered that this area will require on-going corporate attention to help services embed arrangements across the Council and integrate with business planning processes.

3.7.6 All new employees and those who have changed jobs are invited to a

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Corporate Welcome (i.e. an induction). In parallel, officers also receive a local induction at their specific place of work.

3.7.7 A range of training and development activities have taken place during the year in line with service need together with specific initiatives to develop the workforce over the longer term, for example:

- The appointment of four graduate officers on 2 year fixed term contracts to work on a peripatetic / project basis
- The appointment of thirty three apprentices across a number of disciplines where the Council has identified the need to 'grow its own'
- Leadership and middle manager programmes to help develop leaders of the future

Statutory officers have the skills, resources and support necessary to perform their roles effectively

3.7.8 Business and budget planning arrangements ensured that necessary resources and plans were in place to meet the responsibilities of statutory officers. This included the resource levels to maintain robust financial management arrangements and the timely closure of accounts.

Ensuring an organisation structure is in place to encourage development

3.7.9 The organisation structure for the Council is in line with the revised pay and grading arrangements introduced in June 2011. A number of approved temporary positions and honorarium arrangements have been in place during the year to support specific projects and allocation of additional responsibilities. Where this is the case, it has provided officers with opportunities to learn new skills with the aim of further enhancing future employment prospects.

### 3.8 **Engaging with local people and other stakeholders to ensure robust public accountability**

#### Delivering a programme of citizen engagement and feed back

- 3.8.1 The Council has a Consultation Strategy that aims to proactively seek and promote continuous and meaningful engagement with all stakeholders in Rhondda Cynon Taf, to shape and improve service delivery. To support this, a Cabinet member has been designated with specific responsibility for community engagement.
- 3.8.2 An annual consultation and engagement plan was in place for 2012/13 following dialogue with services across the Council. The citizen engagement activity covered a range of areas such as homecare services, tourism, library user satisfaction, trading standards and revenue budget consultation, and included face to face and electronic engagement. Results of specific engagement activity were reported to the Cabinet, most notably the results of the Council's annual revenue budget consultation process (Consultation - Revenue Budget). The report demonstrated how citizens' feed back informed the prioritisation of resources and the selection of improvement priority areas.
- 3.8.3 The Council has a Citizen Panel consisting of a cross section of just over 1,000 people and these individuals were invited to provide feed back on a range of services during 2012/13.
- 3.8.4 A collaborative arrangement commenced during 2012/13 with Merthyr Tydfil County Borough Council to establish a joint consultation and engagement project to enable a coordinated partnership approach to consultation activity across the Local Service Boards of both areas.
- 3.8.5 As part of "Delivering Change", a cross-partnership public engagement strategy, "Involving People", was published for consultation during September – December 2012 and approved by the Local Service Board on 19<sup>th</sup> March 2013. This sets out four key principles for the Council and partner organisations to encourage individuals from all sections of the community to engage with the work of the Council and its partners. These include:
- consistency;
  - ensuring engagement is core business;
  - promoting and publicising engagement opportunities and;
  - developing better systems for feedback.

<b>4.</b>	<b>Review of Effectiveness</b>
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4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by the work of Internal Audit and Chief Officers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by recommendations made by the external auditor and other review agencies and inspectorates.

4.2 Throughout 2012/13 the Council has reviewed its system of internal control in a number of ways. These are set out below.

Internal Audit

4.3 During 2012/13 the Council's Internal Audit Service complied with the requirements and principles of the following two Publications:

- CIPFA Code of Practice for Internal Audit 2006 – Service Standards;
- CIPFA Role of Head of Internal Audit in Local Government.

4.4 Internal Audit has completed a programme of work reviewing the Council's internal control environment. Internal Audit also undertook investigative work in respect of fraud / irregularity with the exception of Housing Benefit related fraud and irregularity, which is investigated within the Operational Finance Service of the Financial Services Division.

4.5 The Head of Internal Audit considered that, based on the combination of planned and unplanned assurance and consultancy work undertaken by Internal Audit during 2012/13, the overall System of Internal Control within the Council operated effectively during this period.

External Audit – Wales Audit Office

4.6 The WAO has produced two reports during 2012/13:

- Improvement Assessment Letter (September 2012) WAO - September 2012 – the key information included was:
  - *The Council has discharged its improvement planning duties under the Measure and has acted in accordance with Welsh Government guidance*
  - *I believe that the Council is likely to comply with the requirement to make arrangements to secure continuous improvement during this financial year*
    - *The Council is making good progress in addressing the areas for improvement identified in my previous assessments*
    - *The Council has a robust approach to achieving efficiency and resourcing planned improvements in services*

- *The Council is developing its risk management arrangements although these have yet to be fully implemented*
  - *Corporate arrangements for collecting, reporting and monitoring performance are effective*
  - *The Council's education services for children and young people are adequate and it has adequate prospects for improvement*
  - *No new proposals for improvement are being suggested in this letter. We will continue to monitor and report on the progress made by the Council in implementing the proposals set out in my previous reports and letters.*
- Improvement Assessment (January 2013) WAO - January 2013 – the key information included was:
    - *The Council has discharged its improvement reporting duties under the Measure and has acted in accordance with Welsh Government guidance*
    - *The Annual Delivery Report is comprehensive, fair and balanced with an improved focus on outcomes but it could more clearly evaluate the Council's overall progress in achieving its improvement priorities*
    - *The Council has appropriate arrangements in place to monitor and challenge performance on a quarterly basis but there is limited scrutiny of the Annual Delivery Report prior to its publication*
    - *Some new proposals for improvement are being made in this letter. I will continue to monitor and report on the progress made by the Council in implementing the proposals set out in my previous reports and letters*
      - *Prepare and publish a summary of key achievements and their benefits; and outstanding challenges and the approach to be taken to them, in order to provide citizens with a meaningful evaluation of the Council's overall progress in relation to its improvement priorities*
      - *Further develop arrangements to scrutinise the Annual Delivery Report and Summary prior to their publication*

Regular financial and operational performance up dates to the Council's Corporate Management Team, Executive and Scrutiny Committees

4.7

During the year, this process identified areas that require further attention and improvement, for example, the need to reduce the number of children on the

Child Protection Register and becoming looked after, and the pressure this is placing on service performance for these areas and also school attainment results and attendance. It is considered that although these areas represent a major challenge for the Council, the financial and operational performance information produced is reliable, comprehensive and timely, and is underpinned by robust challenge and support by designated officers and elected members. In addition, the planning arrangements for these areas set out a series of clear actions that will help support improvement into the future. Therefore, from a governance perspective these areas do not represent a significant governance issue for the Council.

- 4.8 The review of financial and operational performance information has identified the need to establish a Strategic Risk Register for the Council, supported by a refreshed Risk Management Strategy, and for this information to be reported publically.

<b>5.</b>	<b>Significant Governance Issues</b>
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5.1 **Definition of Governance:** A series of policies, roles, responsibilities and processes that set the way an organisation is directed, administrated and controlled.

5.2 **Definition of a Significant Governance Issue:** A specific area of the Council's work that requires Senior Management attention to improve how it demonstrates it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner, to support improved outcomes for local people.

5.3 Overall, the anticipated reduction in revenue and capital funding from the Welsh Government represents the most significant challenge to the Council in its drive to help improve outcomes for local people. This outlook will require the Council to transform certain services to continue to meet the changing needs of individuals and communities (including the impact of Welfare reform) throughout the County Borough in an effective and affordable way.

To meet this challenge, the review of governance arrangements for 2012/13 concludes that the Council has robust arrangements in place to enable the business to be effectively and efficiently managed into the medium term, a key part of which embraces collaboration with others. The overall arrangements are supported by a clear plan that sets out the ambition for the County Borough over the next 3 – 5 years, in the form of the Single Integrated Plan "Delivering Change", together with comprehensive and well embedded asset, financial, human resource and performance management processes to direct and support operational service delivery.

5.3 More specifically, from an evaluation of the Council's governance arrangements for 2012/13, the following areas are deemed to be significant governance issues requiring improvement:

5.3.1 Risk Management Strategy – up date, seek approval for and raise elected Councillor and officer awareness and understanding of the strategy. Action to manage this significant governance issue will commence from quarter 1 of 2013/14.

5.3.2 Strategic Risk Register – establish a Strategic Risk Register that identifies the key risks to the achievement of the Council's improvement priorities and the actions to be taken to control / mitigate these, and report up dates publically. As above, action to managing this issue will commence from quarter 1 of 2013/14.

5.3.3 More clearly evaluate the progress the Council is making in achieving its improvement priorities, for example, as set out within the Annual Delivery Report. A draft version of the Annual Delivery Report will be reported to

scrutiny committee during quarter 2 and reported to Full Council by no later than the end of October 2013.

- 5.4 The above areas have been reported to the Corporate Management Team and actions agreed to deliver the required improvement throughout 2013/14.

### **Monitoring**

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements.

## **6. Group Companies**

Rhondda Cynon Taf CBC holds 100% of the voting rights of Amgen Cymru Ltd., who in turn hold 100% of the voting rights of Amgen Rhondda. The Council also holds 100% of the allotted preference shares in Amgen Rhondda Ltd. The principal activities of Amgen Cymru is to provide waste management services and waste disposal facilities. Amgen Rhondda is responsible for the stewardship of the Nant y Gwyddon landfill site.

The directors of the companies are responsible for ensuring there are sound governance arrangements including a robust system of internal control.

The Council removed the "arms length" status of the companies during 2009/10, therefore many of the aspects of the Council's governance arrangements such as policies, processes and controls apply to the companies.

During 2012/13, there have been no significant governance issues that have been identified by the Amgen Company directors, internal auditors or external auditors.

## **7. Pension Fund**

Rhondda Cynon Taf County Borough Council is the Administering Authority for the Rhondda Cynon Taf Pension Fund. Whilst the governance arrangements detailed in this statement apply equally to the Council's responsibilities to the Pension Fund there are further specific requirements for Pension Funds which are detailed in a number of key documents:

- Governance Statement of Compliance which indicates the Fund's position against the Government's best practice standards;
- Governance Policy Statement which provides an overview of the management structure, decision making and employer engagement;
- Communication Policy Statement which details the communication and information services to participating employers and scheme members;
- Pension Fund Administration Strategy which seeks to improve

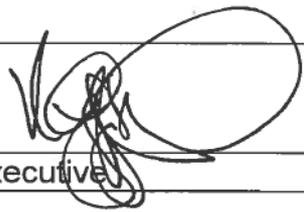
efficiency in the delivery of agreed standards of quality and to ensure compliance with statutory requirements;

- Statement of Investment Principles which details how Fund investments are managed;
- Funding Strategy Statement which provides a summary of how we will fund our pension liabilities.

All of these documents can be found at the following link:

[www.rctpensions.org.uk](http://www.rctpensions.org.uk)

During 2012/13 no significant governance issues have been identified with regard to the Pension Fund.

	
Leader	Chief Executive

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## **Independent auditor's report to the Members of Rhondda Cynon Taf County Borough Council**

As stated in my report dated 30 September 2013,

I have audited the accounting statements and related notes of:

- Rhondda Cynon Taf County Borough Council;
- Rhondda Cynon Taf County Borough Council Group; and
- Rhondda Cynon Taf Pension Fund.

For the year ended 31 March 2013 under Public Audit (Wales) Act 2004.

Rhondda Cynon Taf County Borough Council accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

Rhondda Cynon Taf County Borough Council Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

Rhondda Cynon Taf Pension Fund accounting statements comprise the Fund Account and the Net Assets 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)

### **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 14, the responsible financial officer is responsible for the preparation of the statement of accounts, including Group accounting statements and Pension Fund accounting statements, 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 the Rhondda Cynon Taf County Borough Council's, Rhondda Cynon Taf County Borough Council Group's and Rhondda Cynon Taf Pension Fund'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 became aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

## Opinion on the accounting statements of Rhondda Cynon Taf County Borough Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Rhondda Cynon Taf 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 in 2012-13.

## Opinion on the accounting statements of Rhondda Cynon Taf County Borough Council Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Rhondda Cynon Taf 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.

## Opinion on the accounting statements of Rhondda Cynon Taf Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Rhondda Cynon Taf Pension Fund during the year ended 31 March 2013 and of the amount and disposition of the fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13.

### **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**

My report dated 30 September 2013 contained an audit opinion on the 2012/13 accounts and explained that the audit could not be formally concluded until consideration of an issue regarding Pontypridd Paddling Pool arising from correspondence with an elector has been formally completed. That issue has now been resolved.



**Anthony Barrett**

**Appointed Auditor**

**Wales Audit Office, 24 Cathedral Road, Cardiff, CF11 9LJ**

**Date 20 February 2014**

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

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## Glossary of Terms

**Accrual**

An accrual is a sum shown in the accounts representing income or expenditure for the accounting period but which was not actually received or paid as at the date of the balance sheet.

**Actuary**

An actuary is an individual or organisation that calculates insurance and pension premiums and liabilities.

**Agency Services**

Agency services are services provided by an external organisation, or services that the Council provides for an external organisation.

**Amortisation**

Charges to revenue for the estimated reduction in the value of an asset.

**Audit**

An audit is an independent examination of activities.

**Budget**

A budget (or estimate) is a plan of income and spending, based upon which Council Tax is set. Actual expenditure is subsequently monitored against this plan.

**Capital Expenditure**

Capital expenditure is spending on long-term assets. These are assets that will be used for several years in the provision of services and are items such as buildings, equipment and vehicles.

**Capital Receipt**

Capital receipts are proceeds from the sale of long-term assets such as land or buildings.

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is responsible for issuing financial guidance to public bodies.

**Corporate and Democratic Core (CDC)**

CDC is a service defined by the Service Reporting Code of Practice representing costs relating to Member activity (Democratic Representation and Management) and costs that provide the infrastructure to ensure that services can be provided (Corporate Management).

**Creditor**

A creditor is an organisation/individual owed money by the Council at the end of the financial year for goods/services received.

**Current Assets**

These are short-term assets that are available for the Council to use in the following accounting year.

**Current Liabilities**

These are short-term liabilities that are due for payment by the Council in the following accounting year.

**Debtor**

A debtor is an organisation/individual who owes the Council money at the end of the financial year for goods/services received.

**Debt Management Office (DMO)**

The DMO is an Executive Agency of Her Majesty's Treasury. Its responsibilities include debt and cash management for the UK Government, lending to Local Authorities and managing certain public sector funds.

**Defined Benefit Scheme**

A defined benefit pension scheme is one that bases retirement benefits upon final salary.

**Defined Contribution Scheme**

A defined contribution scheme is a type of retirement plan in which the amount of the employer's annual contribution is specified. Benefits are based on the amounts credited to these accounts (through employer contributions and, if applicable, employee contributions) plus any investment earnings. Only employer contributions to the account are guaranteed, not the future benefits.

**Delegated Schools**

A delegated school is one managed independently. The funds of these schools are held outside of the Council Fund balances.

**Depreciated Historic Cost**

Depreciated Historic Cost is obtained by recording the purchase price of an asset and writing this down over its useful economic life.

**Depreciated Replacement Cost (DRC)**

DRC is an estimation of the market value for existing use plus current gross replacement costs less allowances for deterioration.

**Depreciation**

Depreciation is the estimated loss in value of long-term assets that are presented in the Balance Sheet.

**Earmarked Reserves**

These are reserves set aside for a specific purpose.

**Financial Reporting Standard (FRS)**

Financial regulations to be followed as set by the Accounting Standards Board (ASB).

**Financial Year**

This is the accounting period. For local authorities it starts on 1<sup>st</sup> April and finishes on 31<sup>st</sup> March of the following year.

**HMRC**

Her Majesty's Revenue and Customs.

**Impairment Review**

Impairment occurs when the value of a long-term asset falls below the value it is currently held at in the Balance Sheet and Asset Register.

**International Accounting Standard (IAS)**

Financial Regulations to be followed as set by the International Accounting Standards Board (IASB).

**International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards are produced by the IASB (International Accounting Standards Board) with the aim of ensuring consistency within the countries adopting the standards.

**Inventories**

Inventories are raw materials purchased for day-to-day use. The value of these items that have not been used at the end of the financial year are shown as current assets in the balance sheet.

**Leasing**

This is a method of financing expenditure by paying the owner to use property or equipment for a number of years.

**Lessee**

User or renter of the leased asset or property. In case of capital leases, the lessee is also the 'debtor' to the lessor.

**Lessor**

Owner or the title holder of the leased asset or property. The lessor is also the lender and secured party in case of capital leases and operating leases.

**Liability**

A liability is an obligation to transfer economic benefits as a result of past transactions or events.

**Long-Term Asset**

These are assets that are used in the provision of services (usually for more than one year).

**Minimum Revenue Provision (MRP)**

MRP is a charge against revenue resources representing a repayment of debt. It is a method of paying for Capital Expenditure which was funded by borrowing.

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

The NNDR, or Business Rate, is the charge to occupiers of business premises. NNDR is set by central government and is a percentage of rateable values. The percentage is the same throughout Wales. The total collected is split between individual authorities in proportion to their adult populations.

**Net Realisable Value**

The selling price of an asset, reduced by the relevant (direct) cost of selling it.

**Non-Distributed Costs (NDC)**

NDC is a category of costs defined by the Service Reporting Code of Practice. It includes;

- costs of unused I.T. facilities,
- costs of long-term unused, unrealisable assets,
- certain pension fund costs.

**Open Market Value in Existing Use (OMVEU)**

OMVEU is a basis for valuation of long-term assets.

**Operating Leases**

These are leases where risks of ownership of the asset remain with the owner.

**Pooled Budget**

A pooled budget is a financial mechanism, in which partners, normally statutory public sector bodies, consolidate funding to form a discrete shared fund or 'pool'. This pool is then used to pay for goods, services and activities for a defined client group.

**Post Balance Sheet Events**

Post Balance Sheet items are those that arise after the Balance Sheet date. These are items that did not exist at the time the Balance Sheet was prepared but should be disclosed if they are relevant to the understanding of the accounts.

**Precepts**

This is the amount paid to a non-rating body (for example a community council).

**Prior Year Adjustment**

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors.

**Projected Unit Method**

An actuarial method of calculating the liabilities of a pension scheme which allows for projected future increases in pensionable pay up to retirement or date of leaving service.

**Provision**

A provision is an obligation to transfer economic benefits as a result of past events where a reliable estimate can be made of the obligation, but the amount or timing of which cannot yet be determined accurately.

**Public Works Loan Board (PWLB)**

This is a Government agency that provides loans to local authorities for periods between 1 and 50 years.

**Related Party**

A related party exists where there is control or influence by one party over another.

**SeRCOP**

The Service Reporting Code of Practice for Local Authorities 2012/13.

**Strain on Funds**

When an employee retires early and is immediately paid a pension, without actuarial reduction, the lost contribution income and interest cost arising from the associated earlier increased cash flow is referred to as pension strain cost. The pension strain cost is determined by actuarial calculation.

**Sub-Lessor**

A sub-lease is a lease between a tenant who already holds a lease to a commercial space or property and someone (the sub-lessee) who wants to use part or all of the tenant's space. The tenant is deemed to be a sub-lessor.

**Trust Fund**

Trust funds hold money on behalf of an individual or organisation. Trustees administer the funds for the owners.

**Voluntary Aided School**

Voluntary aided schools are mainly religious or faith schools, although anyone can apply for a place. The governing body employs the staff and sets admissions criteria. School land and buildings are normally owned by a charitable foundation, often a religious organisation, and the governing body contributes to building and maintenance costs.

**Voluntary Controlled School**

Voluntary controlled schools are similar to voluntary aided schools, but are run by the local authority. The local authority employs the school's staff and sets the admissions criteria. School land and buildings are normally owned by a charity, often a religious organisation, which also appoints some of the members of the governing body.

**Welsh Government (WG)**

The Welsh Government is the devolved Government for Wales. The Welsh Government consists of the First minister, Welsh Ministers, the Counsel General and Deputy Ministers. They are supported by Civil Servants who work across devolved areas of public life such as health, education and the environment.