# Statement of Accounts 2011/12

**CYNGOR SIR POWYS**
**POWYS COUNTY COUNCIL**
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**Llandrindod Wells**
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Powys

# EXPLANATORY FOREWORD

## Introduction

The format and content of these accounts are dictated by the 2011 Code of Practice (the Code). The purpose of the Code is to give a reporting framework so that information will appear in the same format to assist users compare between different Local Authorities. The objective of the accounts is to provide information about the financial position, performance and cash flows in a way that meets the 'common needs of most users'. It will explain the financial facts rather than comment on the policies of the Authority and also has the aim of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

This **Statement of Accounts** comprises various sections:

- **Explanatory Foreword** - provides information on the format of this Statement of Accounts together with a review of the financial out turn. The foreword will set out:
    - The financial out turn both for Revenue and Capital.
    - Change in Accounting Policies.
    - Matters of significance.
    - Trust Fund Accounts.
    - Future developments including the 12/13 budget.

- **The Statement of Responsibilities** – this sets out the responsibilities of the Authority and the Chief Finance Officer concerning the Authority's financial affairs.

- **The Audit Opinion and Certificate** – as provided by and reflecting the view of the appointed auditor following the audit of these Statement of Accounts.

- **The Core Financial Statements** – the format and contents of these are prescribed in detail by the Code with little or no allowance for Authorities to steer away from the presentation requirements. The statements required are:

  The Movement In Reserves Statement - This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Council Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The net increase /decrease before the transfers to earmarked reserves line shows the statutory Council Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

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

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

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

The Notes to the Core Financial Statements - These provide further and supporting information to the other Core Financial Statements.

The Pension Fund Accounts - The financial data has been extracted from the 2011/12 Powys County Council Pension Fund annual report and included in these statements. They are independent of the statements above. Powys County Council is the Administering Authority of the Pension Fund. The fund has to be completely separate from Powys County Council's own finances.

The Annual Governance Statement - The Authority is required to carry out an Annual Review of the effectiveness of Corporate Governance and Internal Control. This statement sets out the arrangements in place, the details of the annual review and recommended improvements.

The Housing Revenue Account (HRA) - The HRA shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the movement on the HRA statement.

A glossary of terms is included to aid the user as this is primarily a technical document though effort is made to use plain English.

Should you have any queries or comments on these accounts please contact the Accountancy Manager, Finance Section, Powys County Council, County Hall, Llandrindod Wells, LD1 5LG.

## Revenue Expenditure 2011/12

A Revenue Budget is prepared before the start of each financial year which sets out the proposed annual cost of service provision. The table below represents the management information presented as part of the monthly budgetary control reports. Variances between actual and budgeted expenditure are shown in the table below:

| **Summary** | **Revised Budget £`000** | **Actual Outturn £`000** | **Budget (Under)/ Overspends £`000** |
|---|---|---|---|
| *Care And Wellbeing* | | | |
| Adult and Commissioning | 44,161 | 45,006 | 845 |
| Children's Services | 16,479 | 16,817 | 338 |
| Housing and Regulatory Services | 4,073 | 2,132 | -1,941 |
| *Finance and Infrastructure* | | | |
| Finance and Corporate Performance | 281 | 38 | -243 |
| Local Environmental Services | 29,051 | 26,848 | -2,203 |
| Business Performance Unit | 87 | -468 | -555 |
| *Law And Governance* | | | |
| Legal, Scrutiny and Democratic | 3,387 | 3,175 | -212 |
| Information and Customer Services | 673 | 274 | -399 |
| Human Resources | 540 | 400 | -140 |
| *Skills and Learning* | | | |
| Schools and Inclusion, Schools Delegated | 96,656 | 97,183 | 527 |
| Leisure and Recreation | 13,959 | 13,926 | -33 |
| Regeneration and Development | 4,445 | 4,429 | -16 |
| **Service Area Totals** | **213,792** | **209,760** | **-4,032** |
| Central Activities | 11,171 | 9,236 | -1,935 |
| Levies and Precepts | 7,176 | 7,176 | 0 |
| Interest Payments | 7,407 | 6,896 | -511 |
| Interest Receipts | -868 | -1,154 | -286 |
| Minimum Revenue Provision | 7,371 | 6,610 | -761 |
| **Total Expenditure Reported** | **246,049** | **238,524** | **-7,525** |
| Council Tax | -66,612 | -67,625 | -1,013 |
| Revenue Support Grant | -148,025 | -148,025 | 0 |
| Non Domestic Rates | -31,412 | -31,412 | 0 |
| **NET SPEND** | **0** | **-8,538** | **-8,538** |

The above results are reconciled to the Comprehensive Income and Expenditure Account in note 27. The Budget in the table above includes the base (original) budget adjusted for virements made during the year. It is funded by Council Tax, NNDR and RSG, and also includes other funding such as grants, external income and planned transfers to and from the service area reserves as needed. It should be noted that as the working budget includes planned funding from reserves, the final change in the usable reserves due to the above variances is actually £7,959k.

| Summary | Budget (Under)/ Over spends £`000 | |
|---|---|---|
| **Care And Wellbeing** | | |
| Adult and Commissioning | 845 | The overspend is predominantly due to £645k financial pressure on the Home Care budget and £251k overspend on Mental Health budget due to the cessation of funding from Powys Teaching Health Board. The accounts did include a provision for additional costs the Council may have to pay to providers as a result of a Court judgement. The outturn position was better than reported in January due to a material reduction in provisions for care home fees by, this was due to successful negotiations with providers in agreeing fee rates. Officers continue to work with providers to agree fees, and funding has been allocated in the Medium Term Financial Plan (MTFP) to meet further increases and back dating of costs as they are agreed.<br><br>The Learning Disabilities Service reported a surplus of £471k mainly due to staff slippage and savings on supported tenancy contracts. Mental Health services were overspent by £251K, mainly attributable to the cessation of Section s28 Health Board funding. This funding was underpinning frontline services and staff. Support and Other services report an overspend of £390K. The Powys Change Plan Care Management/Brokerage budget overspent by £129k due to the project slipping. £260k was attributable to the cessation of the Joint Working/ Flexibilities Welsh Government Grant and the associated support costs. |
| Children’s Services | 338 | The overspend is predominantly due to an increase in the number of Looked after Children and Legal costs (£538k).The Fieldwork service area was £228k under spent at year end due to staff slippage from vacancies and maternity leave.<br><br>The Increase in LAC is a significant risk, the demand for Care Orders is increasing and it is forecast, if demand continues that the number of Looked after Children will increase from 80 to 185 by April 2015 at an estimated cost of £828k |
| Housing and Regulatory Services | -1,941 | The under spend is due to an over spend of £97k within the Housing General fund and £2.09m under spend on Housing Revenue Account. This is due to the increase in rental income as a result of Welsh Government guidelines and will be invested to meet the Welsh Housing Quality Standards. |
| **Finance and Infrastructure** | | |

| | | |
|---|---|---|
| Finance and Corporate Performance | -243 | Finance and Corporate Performance reported an under spend of £243k, mainly due to staff slippage in Management Accounts and Revenues and Benefits. The Revenues & Benefits service shared a Manager during the year with Ceredigion Council. |
| Local Environmental Services | -2,203 | The under spend is predominantly due to Environmental Health Service under spending by £2.2m. Public Protection was overspent by £51k mainly due to delays in reconfiguring some services.<br><br>Within the Local Environment Services under spend of £2.2m was:<br><br>• The Waste budget was under spent by £765k mainly due to the redesigned service project slipping, and from the benefit of reduced landfill volumes. The Waste Management and Recycling project is designed to meet Welsh Government targets for recycling and composting, of 52% by 2012/13 and 70% by 2024/25. Failure to meet the challenging targets through remodelling the service will result in significant increased costs in future years.<br><br>• The On Street Services budget under spent by £436k, mainly due to additional grant being received, and significant under spend in Shire Network Management and Safety Maintenance Technical Survey budget as work was not carried out.<br><br>• The Highways and Transportation budget achieved a net under spend of £470k due to increased income for development control and a surplus position for the Highways Design Group. The parking service reported a deficit of £352k with income levels showing a reduction of 18.8% against budget. |
| Business Performance Unit | -555 | The under spend was predominantly due to staff savings as a result of the restructure within the service. |
| **Law and governance** | | |
| Legal, Scrutiny and Democratic Services | -212 | The under spend was largely due to staff vacancies. |
| Information and Customer Services | -399 | The MTFP included funds to deliver the ICT strategy, this under spend is due to the strategy not being delivered in accordance with the plan. An under spend has been reported against the strategy for the last three years. |
| Human Resources | -140 | The budget is underspent mainly due to staff vacancy savings. |
| **Skills and Learning** | | |
| Schools and Inclusion and Schools Delegated | 527 | Schools Inclusion<br><br>The majority of the overspend is due to Home to School and College Transport exceeding the budget by £374k, and severance costs for school based staff being £671k more than the budget. A combination of other smaller factors make up the difference.<br><br>Schools Delegated |

| | | |
|---|---|---|
| | | The Schools budgets were set at the beginning of the year to use £2.4m of reserves, to support their budget plans for the year, the actual use of reserves was £394k. If the Schools had used the reserves as planned the overall balance on School Reserves would have been in a deficit. There are a number of schools with deficit reserves and several schools holding surplus balances in excess of 10% of their budget. |
| Leisure and Recreation | -33 | |
| Regeneration and Development | -16 | Building and development management fee income was underachieved due to the reduction in building development, and Economic Regeneration workshop premises costs exceeded the budget by £135k. These pressures were off set by under spends in other areas such as Marketing and Tourism and transferred from reserves. |
| **Service Area Totals** | -4,032 | |
| Central Activities | -1,935 | The MTFP included a budget of £2.678m to manage growth and cost pressures across the services. Only £494k was called upon during the year. The Council Insurance was re-tendered during the year and a saving of £700k was achieved due to this and a saving on Insurance excess payments. The savings funded £1.334k of one off projects during the year. |
| Levies and Precepts | 0 | |
| Interest Payments | -511 | Rates paid were more favourable than budgeted |
| Interest Receipts | -286 | An accounting adjustment required by accounting standards that will be reversed out over future years. |
| Minimum Revenue Provision | -761 | |
| **Total Expenditure Reported** | -7,525 | |
| Council Tax | -1,013 | See below |
| Revenue Support Grant | 0 | |
| Non Domestic Rates | 0 | |
| **NET SPEND** | -8,538 | |

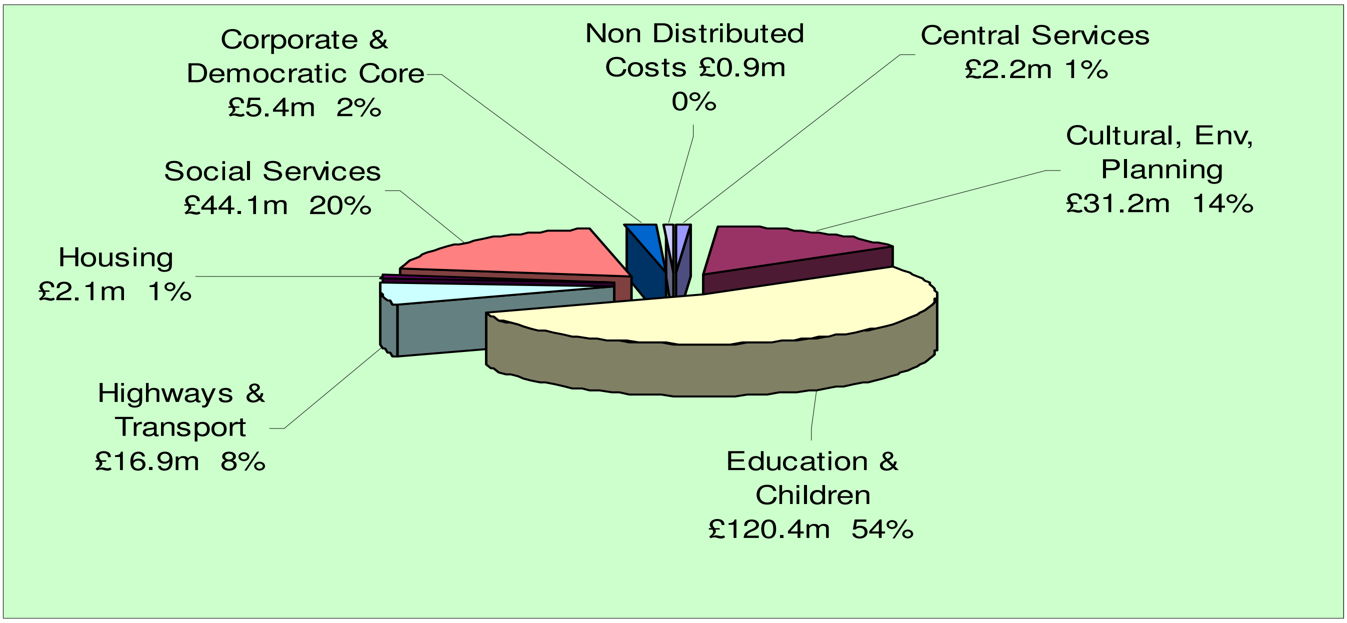
## Council Tax - £1,013k surplus

The Council Tax surplus was as a result of an increase in the number of properties (£320k), a collection rate in excess of 97% plus discounts in respect of single persons have reduced (£230k) due to an all Wales project to check on eligibility for single person discount. Powys achieved the top collection rate in Wales for Business Rates at 98.8% and was 4th highest in Wales for collection of Council Tax, just 0.6% off the highest rate. For both income sources we achieved a significantly higher collection rate than the Wales average during a very challenging year for collecting of monies. Revenue expenditure, including precepts, is financed through local taxation and by government grants, the proportions are:

| | **2010/11 %** | **2011/12 %** |
|---|---|---|
| Central Government (revenue support grant and non domestic rates) | 74 | 74 |
| Council Tax | 26 | 26 |

**2011/12 Net Expenditure:**

This graph details the Net Expenditure using the Service Reporting Code of Practice (SeRCOP) accounting structure. This is the required method for producing the Comprehensive Income and Expenditure Account which is shown on pages 22.




**Revenue Reserves**

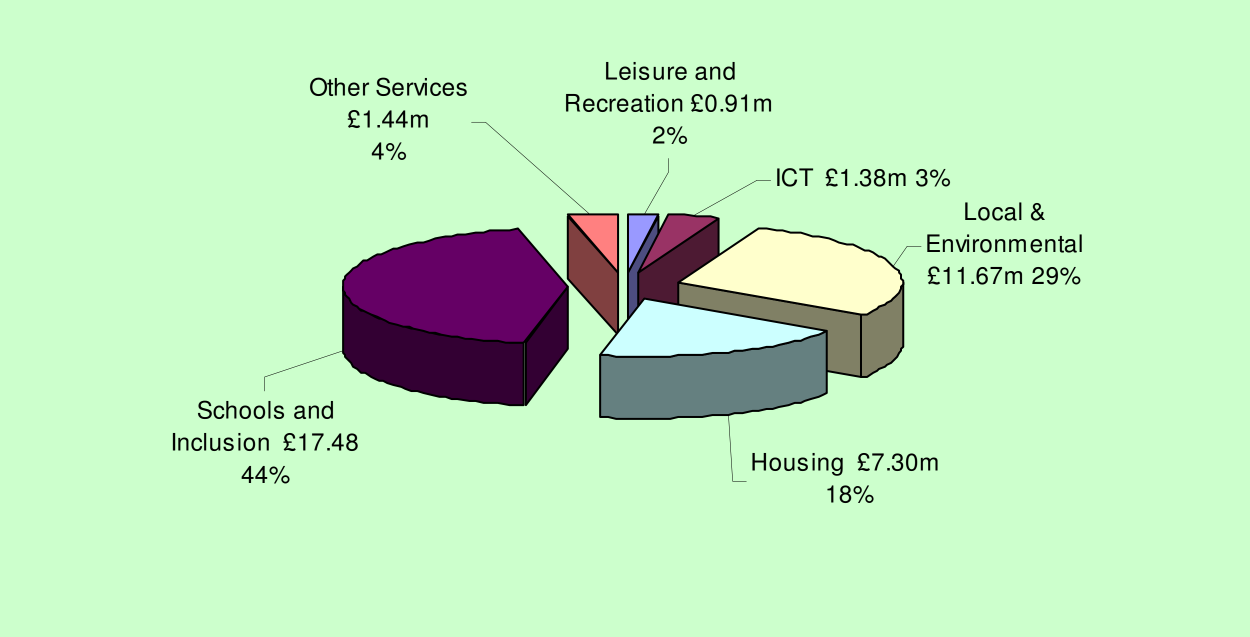
Revenue Reserves represent an accumulation of revenue over and under-spends and sums set aside specifically to meet future expenditure e.g. to replace vehicles, maintain roads in adverse weather conditions. The ring-fenced reserves must be used for the purpose intended. The HRA and school reserves are ring-fenced by statute.

| **Revenue reserves** | **31.03.11 £`000** | **31.03.12 £`000** |
|---|---|---|
| | | |
| **Ring Fenced Or Restricted Use Reserves** | | |
| Schools Reserves | 2,313 | 1,768 |
| Other Specific Reserves | 7,875 | 10,656 |
| **Committee Specific Reserves** | | |
| Other Specific Reserves | 24,493 | 24,405 |
| **TOTAL EARMARKED RESERVES (Note 8)** | 34,681 | 36,829 |
| **Central Or General Reserves** | | |
| Council Fund | 8,388 | 7,909 |
| Housing Revenue Account | 3,575 | 4,423 |
| | 46,644 | 49,161 |

£555k of the committee specific reserves has been committed to finance expenditure in 2012/13. A reserve balance (excluding capital, insurance and other restricted reserves) of 7% of the net budget is considered a prudent level in order to fund future unexpected expenditure and losses to minimise the effect on services and future Council Tax bills. The actual percentage of reserves against expenditure held is 9.01% (2010/11 was 9.9%).

## Capital Expenditure 2011/12

Capital expenditure is the money spent on major assets needed to provide services. It is in addition to the day-to-day Revenue spending. The following graph shows how the 2011/12 Capital expenditure of £40.18m was spent:




**Capital Reserves**

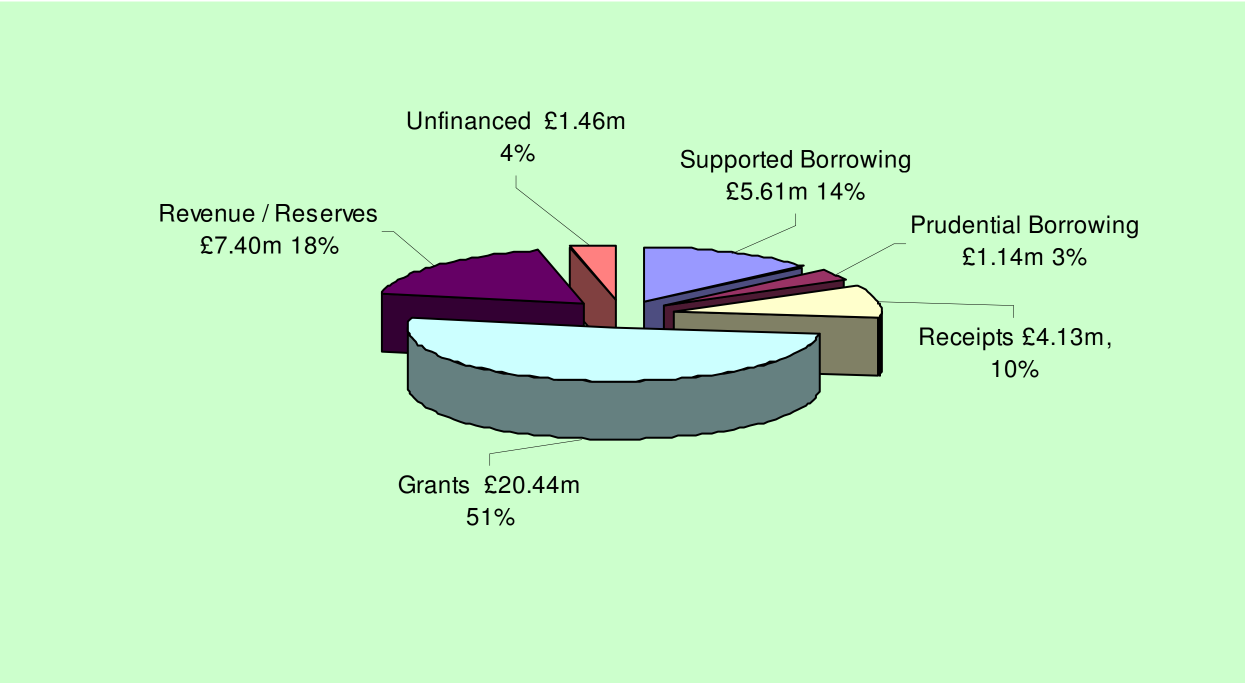
At 31st March 2012 the Authority had Usable Capital Reserves of:

| | **£'000** |
|---|---|
| Capital Grants Unapplied | 6,615 |
| Capital Receipts | 12,737 |
| | 18,810 |

The reserves are available to fund future Capital spend. Sales of Council houses during the year raised £162k and other disposals raised a total of £2,726k.

## Capital Financing 2011/12

The following graph details how the 2011/12 Capital programme was financed:




Unfinanced expenditure represents Capital spend that will be financed through capital grants to be received in 2012/13. These grants are accounted for as a debtor.

## Borrowing Arrangements

Borrowing is the main source of finance for the Authority's Capital spends. The overall borrowing at 31 March 2012 totalled:

| | **£`000** |
|---|---|
| Short Term Borrowing | 1,694 |
| Long Term Borrowing | 146,396 |
| **Total Borrowing** | **148,090** |

Since 2004/05 the Authority has implemented the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code which allows greater freedom for borrowing decisions. The amount of borrowing will not be restricted as long as it can be demonstrated that it is prudent and affordable.

The prudential framework for Local Authority capital investment was introduced through the Local Government Act 2003. This Prudential Code is designed to ensure that the capital investment plans of Local Authorities are affordable, prudent and sustainable. It ensures treasury management decisions are taken in accordance with good professional practice.
All strategic and asset management planning require proper option appraisal and this allows greater alignment with corporate objectives. It allows a greater freedom for decision making on a local level, structured within a professional code, that the Authority believes will benefit future budget decisions by allowing it greater co-ordination between the Revenue and Capital Budget setting processes.
The Authority can spend what is affordable in the current and future years. Each year the Authority is required to produce a set of prudential indicators showing the impact on future years

of decisions taken in the current year. One such indicator is the forward projections of the incremental impact of new capital decisions on Council Tax and Housing Rents. Such indicators are designed to support and record all the decisions taken by the Authority.

**Other Significant Matters**

**Icelandic Banks**

In common with many other Authorities, Powys County Council continues to have some money deposited in Iceland in respect of the original investments as follows:

| Institution | Original Principal Amount Invested £'000 | Payments Received to 31 March 2012 (including interest) £'000 |
|---|---|---|
| Glitnir Bank HF | 2,000 | 1,656 |
| Landsbanki Islands | 2,000 | 607 |

Glitnir's Winding-up Board made a 100% distribution in March 2012 in a basket of currencies. The GBP equivalent of this is shown above. A further element of the distribution was made in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4%. This element has been retained in Iceland due to currency controls currently operating in Iceland.
Landsbanki's Winding-up Board made a distribution of circa one third in February 2012 in a basket of currencies. The GBP equivalent of this is shown above. A further element of the distribution was made in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element has been retained in Iceland due to currency controls currently operating in Iceland.

Further details regarding Iceland are available in note 50.

**Pension Fund Liability/Deficit**

Note 44 details the pension liability of the Authority, the note shows the extent that Pension Fund Actuaries estimate the future liabilities that are unfunded, as calculated under the requirements of IAS 19. Benefits payable from the Pension Fund are in no way affected by this liability. The Authority is committed to the long-term goal of eliminating the Pension Fund deficit through contributions rather than accepting risky alternative investment strategies.

Powys County Council is responsible for producing the accounts for the Powys County Council Pension Fund. The pension accounts detailing the financial information are reproduced in pages 101 to 136.The Pension Fund is valued by its Actuaries every three years. This valuation determines the contributions that must be paid by the employing members of the fund. The most recent valuation was calculated as at 31 March 2010. It concluded that the funding level has fallen from 73% to 71%. The next valuation will be calculated as of 31st March 2013.

**Change in Accounting Policy – Heritage Assets**

The code of practice has required that all heritage assets are valued and recognised in the statement of accounts under non current assets.. A key feature of Heritage assets is that they have cultural, environmental or historical associations that make their preservation for future generations important. Heritage assets are maintained principally for their contribution to knowledge; it is this that distinguishes them from other assets.

Recognising Heritage assets this year for the first time is a change in accounting policy. Since there would be no revenue implications and the carrying value is not material in Balance Sheet terms, it has been deemed that restating previous years is not warranted. Had the policy been reflected last year, there would have been no revenue implications but the Balance Sheet would appear as follows:

| **Balance Sheet** | **Original £'000** | **Restated £'000** |
|---|---|---|
| Non Current Assets | | |
| Heritage Assets | 0 | 1,195 |
| | | |
| Other Assets and Liabilities | 205,355 | 205,355 |
| **NET ASSETS** | 205,355 | 206,550 |
| | | |
| Reserves | | |
| Revaluation Reserve | 123,408 | 124,603 |
| Other Reserves | 81,947 | 81,947 |
| **TOTAL RESERVES** | 205,355 | 206,550 |

The Movement in Reserves Statement would have appeared as:

| | **Original Total Reserves £'000** | **Restated Total Reserves £'000** |
|---|---|---|
| **Reserves Brought Forward** | 152,116 | 152,116 |
| Movements During Year | | |
| Surplus Or (Deficit) On Provision Of Services | 58,221 | 58,221 |
| Other Comprehensive Expenditure And Income | -4,982 | -3,787 |
| Total Comprehensive Expenditure And Income | 53,239 | 54,434 |
| Adjustments Between Accounting Basis And Funding Basis Under Regulations (Note 7) | 0 | 0 |
| Net Increase/Decrease Before Transfers To Earmarked Reserves | 53,239 | 54,434 |
| Transfers To/From Earmarked Reserves | 0 | 0 |
| Increase/Decrease (Movement) In Year | 53,239 | 54,434 |
| **Balance At 31 March 2011 Carried Forward** | 205,355 | 206,550 |

## Impact of the Current Economic Climate

Whilst the economic downturn has had a considerable impact on all aspects of the local economy and across the nation at a macro economic level, Powys C.C. continues to be well placed to cope with the funding and other issues caused.

There is no doubt that the Local Government Settlement over the next few years has placed additional burdens on our Revenue and Capital spending but with careful budgeting and commitment to efficiencies rather than cutting services, Powys C.C. is able to continue to meet the many demands of the services it provides.

The Commentaries on our Revenue and Capital Budgets within this Foreword provides more detailed information on our spending and funding plans.

## Group Accounts

The need for group accounts is not required as the Authority has no such relationship with any external organisation.

## Format of Accounts

The Comprehensive Income and Expenditure Account produced is fully compliant with the Service Reporting Code of Practice (SeRCOP), which is a standard way of showing financial information across Local Authorities and does not necessarily reflect Powys County Council's own internal management arrangements which are shown on page 3.

## Reclassification of Comparatives.

In the previous year, revenues and costs of the Business Performance Unit (BPU) were included in the Net Cost of Services. It has been considered more appropriate to treat these as Trading Accounts as defined by the classification of SeRCOP. This means only the cost of the BPU recharged to the Cost of Services will be included. The 2010/11 accounts have been restated to reflect this. The amounts restated are detailed in note 51.

The lines in the HRA statement for Supervision and Management together with Repairs and Maintenance have been restated to aid the user. The changes are equal and opposite and do not effect the bottom line or anything else in the accounts. Further details are in note 7 to the HRA accounts.

## Trust Fund Accounts

The Authority remains sole trustee for the Welsh Church Acts Fund and Rhayader Leisure Centre. Their accounts are summarised below and do not form part of the Authority's accounts.

## Welsh Church Acts Fund

The Welsh Church Acts Fund was established under the Welsh Church Act of 1914 and is administered by the County Council. Grants are made from the fund to individuals and organisations with charitable status. The unaudited accounts of the Welsh Church Acts Fund are set out below. These accounts do not form part of the Authority's consolidated accounts.

| REVENUE ACCOUNT | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Investment Income | -52 | -54 |
| Rents | -4 | -4 |
| Unrealised (Profit)/Loss On Investments | -76 | 13 |
| Increase In Value Of Land | -15 | -110 |
| **TOTAL INCOME** | -147 | -155 |
| Grants | 27 | 3 |
| Administration | 36 | 39 |
| **TOTAL EXPENDITURE** | 63 | 42 |
| Surplus (-) For The Year | -84 | -113 |
| Fund Balance Brought Forward | -2,008 | -2,092 |
| **FUND BALANCE CARRIED FORWARD** | -2,092 | -2,205 |

| BALANCE SHEET | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Land and Buildings | 278 | 388 |
| Investments | 1,814 | 1,800 |
| **TOTAL FIXED ASSETS** | 2,092 | 2,188 |
| Debtors | 22 | 23 |
| Creditors | -4 | -4 |
| Bank | -18 | -2 |
| **NET ASSETS** | 2,092 | 2,205 |
| **FUND SURPLUS** | 2,092 | 2,205 |

**Rhayader Leisure Centre Trust Fund**

Rhayader Leisure and Community Centre was established as a charitable trust on 1st March, 1994. The full annual report and accounts are published separately and copies are available from the Accountancy Manager. These draft accounts do not form part of the Authority's consolidated accounts.

| | Original 2010/11 £`000 | Revised 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|---|
| Income | -271 | -389 | -414 |
| Expenditure | 275 | 359 | 406 |
| (Surplus)/Deficit For The Year | 4 | -30 | -8 |
| Fund Brought Forward | 9 | 6 | -24 |
| Fund Carried Forward | 13 | -24 | -32 |

The 2010/11 comparatives have been restated to those appearing in the Trust Funds audited accounts to aid comparison. The 11/12 results had not been audited at the time of this report.

The Charities Act 1993 requires there is an independent examination of the Statement of Accounts of the above two trust funds. The audit report at the rear of this Statement of Accounts does not represent a report under the provisions of the Charities Act 1993.

# Future Developments

## 2012/13 Revenue Budget

The budgeted revenue spend for 2012/13 has been set at £233,841k. The approved use of the budget is as follows:

| Summary | 2012/13 Base Budget £`000 | % |
|---|---|---|
| **Care And Well Being** | | |
| Adult Services And Commissioning | 46,162 | 19.6 |
| Children's Services | 16,793 | 7.2 |
| Housing And Public Protection | 4,096 | 1.8 |
| **Communities, Skills, Learning** | | |
| Schools And Inclusion | 97,414 | 41.7 |
| Leisure And Recreation | 13,799 | 5.9 |
| Regeneration And Development | 4,326 | 1.8 |
| **Finance And Infrastructure** | | |
| Business Performance Unit | -32 | 0.0 |
| Finance | 172 | 0.1 |
| Local And Environmental Service | 28,670 | 12.3 |
| Corporate Activities | 17,569 | 7.5 |
| **Law And Governance** | | |
| Legal, Scrutiny And Democratic | 3,631 | 1.6 |
| Information And Customer Service | 680 | 0.3 |
| Human Resources | 561 | 0.2 |
| **TOTAL NET EXPENDITURE** | 233,841 | 100 |

The table above is based on the Service Directorates detailed in the Authority's budget book rather than the SeRCOP classification on page 22.

Copies of the detailed budget book are available from our website at www.powys.gov.uk or can be requested from: Accountancy Manager, Finance Section, Powys County Council, Llandrindod Wells, Powys, LD1 5LG.

## Medium Term Financial Plan

Below is the medium term financial plan as approved by Cabinet. It details the planned investments and savings in the Authority's base budget.

| | | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| **Net Budget for Preceding Year** | | 233,060 | 233,841 | 238,772 | 241,686 |
| **Protection Schools Delegated** | | 1,091 | 1,374 | 845 | 0 |
| **Protection Social Services** | | 952 | 1,353 | 0 | 0 |
| **Impact of Repricing** | | -815 | 2,997 | 3,212 | 2,477 |
| | | 234,288 | 239,565 | 242,830 | 244,163 |
| Transfers from Grants into/(out of) the Settlement | | -146 | 2,399 | | |
| **Investment** | | | | | |
| Landfill Tax | | 21 | 255 | 247 | 291 |
| Affordable Housing | | 0 | 125 | | |
| Homelessness | | 56 | | | |
| Carbon Reduction Commitment | | 240 | | | |
| Children Social Services | | 366 | | | |
| - Service Modernisation | | 25 | | | |
| Adult Social Care | | | | | |
| - Transitions | | 517 | | | |
| - Demographic Change | | 2,320 | 1,197 | 1,264 | |
| - Cessation of Grants | | 406 | | | |
| - CES Board Deficit | | 150 | | | |
| Dyslexia Support | | 35 | 35 | | |
| Asbestos Management | | 55 | | | |
| Capability and Capacity | | 157 | | | |
| Regeneration | | 350 | 105 | | 2 |
| Members' Allowances | | 161 | 15 | | |
| Cleaning Services | | 250 | | | |
| Increasing Primary School Roll | | 90 | 34 | 114 | 166 |
| School Redundancy Costs | | 400 | -400 | | |
| Revenue Funding for Prudential Borrowing | | 46 | 323 | 100 | 98 |
| School Modernisation | | 46 | 323 | 100 | 98 |
| | | | | | |
| **Savings** | | | | | |
| Falling Secondary School Roll | | -572 | -520 | -608 | -645 |
| Headcount Reduction | | -600 | 0 | 0 | 0 |
| Top 50 Suppliers | | -706 | 0 | 0 | 0 |
| Voluntary Redundancy Scheme | | -250 | 0 | 0 | 0 |
| Head of Service Savings | | -924 | -1,018 | -164 | 0 |
| Lease Car Scheme Changes | | -150 | -150 | 0 | 0 |
| LD Resettlement | | 0 | -800 | 0 | 0 |
| Paperless Powys | | -8 | -39 | -71 | 0 |
| School Modernisation | | -92 | -645 | -200 | -196 |
| Capability and Capacity | | -157 | 0 | 0 | 0 |
| Fire Levy | | -18 | 0 | 0 | 0 |
| Insurance | | -213 | -99 | 0 | 0 |
| Capital Financing | | -440 | 0 | 0 | 0 |
| Pay Award 11/12 reversed | | -601 | 0 | 0 | 0 |
| Council Restructure & Pipeline Projects | | 0 | -1,708 | -1,896 | 0 |
| Other Corporate Savings | | -1,261 | -225 | -30 | 0 |
| | | | | | |
| | | 233,841 | 238,772 | 241,686 | 243,977 |

| | | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| Funded by: | | | | | |
| Funding from Welsh Government | | 177,982 | 181,262 | 181,881 | 183,700 |
| Council Tax | | 55,304 | 57,510 | 59,805 | 62,191 |
| Appropriation from Reserves | | 555 | | | |
| | | 233,841 | 238,772 | 241,686 | 245,891 |
| Surplus/(Deficit) | | 0 | 0 | 0 | 1,914 |

**Inflation**

No provision has been made for inflationary pressures. An assumption has been made that the Government's pay freeze for public sector workers will prevail through 2012/13. It is recognised there are areas of inflation which are currently very high, notably energy, fuel and food. However, the assumption is that services will apply downward pressure on suppliers to mitigate inflation, given the funding reduction facing the Council. To counter balance this a little, no provision has been made for an increase in discretionary income.

**Medium Term Financial Plan**

In total the budget for 2012/13 has increased by £781k to meet cost pressures, unavoidable demand and service developments, but this is also net of significant efficiencies and savings.

Government continues to impose new legislative and policy pressures, backed by tougher regulatory and inspection regimes. These do not always accord with local priorities and pressures. Demographic changes interact with these priorities to create increased demands on resources well in excess of funding available. The Council takes a longer term view to balance the budget over a 4 year period. Investment over this period has been aligned with the Corporate Improvement Plan and known cost pressures.

The approved funding for 2012/13 of £5,689k includes the following:

- £3,392k Adult Social Care
- £391k Children's Services LAC
- £350k Regeneration
- £400k School redundancy costs
- £240k Carbon reduction
- £250k Cleaning services
- £161k Members allowances
- £157k Capability and capacity in workforce
- £348k Other investment <£100k each

Within the settlement announcement, the Welsh Government (WG) indicated that it expects Councils to protect funding for Schools and Social Services at 1.58% above the level of the settlement that it received from London. In 2012/13, this protection is equivalent to £1,091k for Schools and £952k for Social Services.

**Efficiencies and Savings**

The overall funding from WG and Council Tax and one off use of reserves is not sufficient to deliver the level of additional funding as set out above.

Efficiencies and Savings of £5,992k have been identified as follows on the next page:

- £572k Falling School Roll
- £600k Headcount reduction
- £601k 2011/12 Pay award adjustment
- £707k Top 50 Suppliers
- £250k Voluntary Redundancy Scheme
- £924k Head of Service Savings
- £150k Lease Car Scheme Changes
- £157k Funding for capability and capacity
- £440k Capital financing
- £213k Insurance
- £1,378k Miscellaneous

The Finance Business Plan has placed strong emphasis on ensuring these efficiencies are delivered and performance will be measured throughout the year.

**Budget Summary**
The table below summarises the Council's base budget for 2012/13.

| | **£'000** |
|---|---|
| **Base Budget B/F** | 233,062 |
| Inflation And Repricing | -815 |
| Protection of School budgets | 1,091 |
| Protection of Adult Services budgets | 952 |
| Grant Transfers Into Budget | -146 |
| Investments / Growth | 5,689 |
| Efficiencies And Savings | -5,992 |
| Total 2011/12 Base Budget | 233,841 |
| **Funded By** | |
| Aggregate External Funding | 177,982 |
| Council Tax | 55,304 |
| Reserves | 555 |
| | 233,841 |

## Capital Budget Overview 2012/13

The Council has sought to protect the level of capital investment in the County. It is important that the Council continues to renew its core infrastructure, such as schools and housing, in spite of large cuts by central government. The Council is also aware that much of its capital investment is spent with businesses within Powys or its near neighbours. Maintaining the capital programme has a significant regeneration impact on the economy of Powys alongside the direct effect of better infrastructure to deliver services from.

The Council receives a core capital allocation from WG. This allocation has fallen to £9.3m in 2012/13, a reduction of 7% from the 2011/12 budget. This is in line with an indicated fall of 40% capital funding from WG up to 2013-14 which has been factored into the capital programme. Nevertheless, the capital programme for next year shows a spend in excess of £63m. This includes £22m for the build of the 4 new primary schools and refurbishment of the secondary school in Ystradgynlais. It also includes in excess of £18m investment in our own housing stock as part of the business plan to meet the Welsh Housing Quality Standard. The impact of this programme, both on the infrastructure of the County and its economy cannot be under-estimated.

## Overall Funding

For 2012/13 the capital programme will be funded by using £15.6m supported borrowing, £12.7m unsupported borrowing, £18.2m Grants, £4.5m Capital receipts and £12.2m from capital reserves and revenue.

The main items in the capital programme over the four year period are as follows:

- £67.2m Schools Modernisation
- £50.9m Housing Revenue Account to enable the housing stock to reach the Welsh Housing Quality Standard
- £11.3m Private Sector Housing, including Disabled Facilities Grants, CO2 Home Energy Efficiency and Landlord Grants/Loans
- £12.4m Local Environmental Services
- £13.0m To renew vehicles
- £2.6m ICT modernisation in line with the Council's ICT Strategy
- £4.8m Adults and Childrens Services
- £3.6m Sports and Leisure Services
- £5.2m Regeneration and Development
- £7.2m To be allocated for Local Capital Schemes

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

**The Authority's Responsibilities**
The Authority is required to:

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

These accounts were approved by Audit Committee on the

Signature

Audit Committee Chairman

**Strategic Director of Finance and Infrastructure Responsibilities**
The Strategic Director - Finance and Infrastructure is responsible for the preparation of the Authority's Statement of Accounts and Pension Fund Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice"). These accounts are 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 Strategic Director - Finance and Infrastructure has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and consistent.
- Complied with the Code of Practice.

The Strategic Director - Finance and Infrastructure has also:

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

**Certificate of the Strategic Director - Finance and Infrastructure on the Accounts of Powys County Council and Powys County Council Pension Fund for 2011/12.**
I certify that the accounts set out on pages 1 to 140 present a true and fair view of the financial position of Powys County Council and the Powys County Council Pension Fund as at 31st March 2012 and its income and expenditure for the year then ended.

Signature: Date: 29th June 2012

G Petty Strategic Director – Finance and Infrastructure

# MOVEMENT IN RESERVES STATEMENT

| | Council Fund | Earmarked Reserves (Note 8) | HRA | Capital Receipts | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves (Note 26) | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 31 March 2010** | **7,013** | **30,576** | **2,128** | **15,349** | **1,292** | **56,358** | **95,758** | **152,116** |
| **Movement In Reserves During 2010/11** | | | | | | | | |
| Surplus Or (Deficit) On Provision Of Services | 58,221 | | | | | 58,221 | | 58,221 |
| Other Comprehensive Expenditure And Income | | | | | | | -4,982 | -4,982 |
| Total Comprehensive Expenditure And Income | 58,221 | 0 | 0 | 0 | 0 | 58,221 | -4,982 | 53,239 |
| Adjustments Between Accounting Basis And Funding Basis Under Regulations (Note 7) | -49,975 | | -2,263 | 348 | 397 | -51,493 | 51,493 | 0 |
| Net Increase/Decrease Before Transfers To Earmarked Reserves | 8,246 | 0 | -2,263 | 348 | 397 | 6,728 | 46,511 | 53,239 |
| Transfers To/From Earmarked Reserves | -6,871 | 4,105 | 3,710 | -944 | | 0 | 0 | 0 |
| Increase/Decrease (Movement) In Year | 1,375 | 4,105 | 1,447 | -596 | 397 | 6,728 | 46,511 | 53,239 |
| **Balance At 31 March 2011 Carried Forward** | **8,388** | **34,681** | **3,575** | **14,753** | **1,689** | **63,086** | **142,269** | **205,355** |
| **Movement In Reserves During 2011/12** | | | | | | | | |
| Surplus Or (Deficit) On Provision Of Services | 20,270 | | | | | 20,270 | | 20,270 |
| Other Comprehensive Expenditure And Income | | | | | | 0 | -44,295 | -44,295 |
| Total Comprehensive Expenditure And Income | 20,270 | 0 | 0 | 0 | 0 | 20,270 | -44,295 | -24,025 |
| Adjustments Between Accounting Basis And Funding Basis Under Regulations (Note 7) | -16,944 | 0 | -1,537 | -1,288 | 4,926 | -14,843 | 14,843 | 0 |
| Net Increase/Decrease Before Transfers To Earmarked Reserves | 3,326 | 0 | -1,537 | -1,288 | 4,926 | 5,427 | -29,452 | -24,025 |
| Transfers To/From Earmarked Reserves | -3,805 | 2,148 | 2,385 | -728 | 0 | 0 | 0 | 0 |
| Increase/Decrease (Movement) In Year | -479 | 2,148 | 848 | -2,016 | 4,926 | 5,427 | -29,452 | -24,025 |
| **Balance At 31 March 2012 Carried Forward** | **7,909** | **36,829** | **4,423** | **12,737** | **6,615** | **68,513** | **112,817** | **181,330** |

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2011/12

| Restated 2010/11 (see note 51) | | | | 2011/12 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £`000 | £`000 | £`000 | | £`000 | £`000 | £`000 |
| 11,736 | -9,528 | 2,208 | Central Services To The Public | 11,968 | -9,779 | 2,189 |
| 51,835 | -20,093 | 31,742 | Cultural, Environmental And Planning | 52,057 | -20,885 | 31,172 |
| 157,657 | -38,934 | 118,723 | Education And Children's Services | 156,636 | -36,454 | 120,182 |
| 38,955 | -23,311 | 15,644 | Highways Roads And Transport | 39,221 | -22,371 | 16,850 |
| | | | Housing Services: | | | |
| 32,549 | -29,986 | 2,563 | - General | 33,145 | -31,406 | 1,739 |
| 18,823 | -18,674 | 149 | - Housing Revenue Account | 20,051 | -19,698 | 353 |
| 64,237 | -22,795 | 41,442 | Adult Social Services | 66,865 | -22,767 | 44,098 |
| 18,850 | -8,306 | 10,544 | Corporate And Democratic Core | 13,948 | -8,584 | 5,363 |
| -54,718 | -1,131 | -55,849 | Non Distributed Costs | 3,173 | -2,238 | 935 |
| 335,796 | -168,630 | 167,166 | **Cost Of Services** | 397,064 | -174,182 | 222,881 |
| | | 18,166 | Other Operating Expenditure (Note 9) | | | 19,060 |
| | | 13,511 | Financing and Investment Income and Expenditure (Note 10) | | | 10,425 |
| | | -257,064 | Taxation and Non Specific Grant Income Operations Not Included in Net Cost Of Services (Note 11) | | | -272,636 |
| | | -58,221 | **(Surplus)On Provision Of Services** | | | -20,270 |
| | | 4,081 | Deficit on Revaluation of Property, Plant And Equipment Assets (Note 26) | | | 579 |
| | | 101 | Deficit on Revaluation of Available For Sale Financial Assets | | | 6 |
| | | 800 | Actuarial Losses on Pension Assets/Liabilities (Note 26) | | | 43,710 |
| | | 4,982 | **Other Comprehensive Income And Expenditure** | | | 44,295 |
| | | -53,239 | **Total Comprehensive Income And Expenditure** | | | 24,025 |

# BALANCE SHEET

| | Note | 31 March 2011 £`000 | 31 March 2012 £`000 |
|---|---|---|---|
| Property, Plant And Equipment | 12 | 513,718 | 530,950 |
| Heritage Assets | 13 | 0 | 1,340 |
| Investment Property | 14 | 477 | 376 |
| Intangible Assets | 15 | 1,991 | 2,431 |
| Long Term Investments | 18 | 4,305 | 3,865 |
| Long Term Debtors | 18 | 482 | 684 |
| **LONG TERM ASSETS** | | 520,973 | 539,646 |
| Short Term Investments | 18 | 26,924 | 29,956 |
| Assets Held For Sale | 22 | 509 | 48 |
| Inventories | 19 | 1,732 | 1,307 |
| Short Term Debtors | 20 | 21,547 | 28,006 |
| Cash And Cash Equivalents | 21 | 10,553 | 13,826 |
| **CURRENT ASSETS** | | 61,265 | 73,143 |
| Bank Overdraft | 21 | -5,738 | -8,798 |
| Short Term Borrowing | 18 | -1,551 | -1,694 |
| Short Term Creditors | 23 | -30,582 | -34,444 |
| Capital Grant Receipts In Advance | 38 | -1,032 | -3,583 |
| **CURRENT LIABILITIES** | | -38,903 | -48,519 |
| Provisions | 24 | -10,025 | -10,464 |
| Long Term Borrowing | 18 | -146,575 | -146,396 |
| Liability Related To Defined Benefit Pension | 44 | -181,380 | -226,080 |
| **LONG TERM LIABILITIES** | | -337,980 | -382,940 |
| **NET ASSETS** | | 205,355 | 181,330 |
| Usable Reserves | 25 | 63,086 | 68,513 |
| Unusable Reserves | 26 | 142,269 | 112,817 |
| **TOTAL RESERVES** | | 205,355 | 181,330 |

# CASH FLOW STATEMENT

| | Note | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Cash Outflows** | | | |
| Cash Paid To And On Behalf Of Employees | | 167,493 | 166,210 |
| Other Operating Cash Payments | | 135,367 | 111,037 |
| Housing Benefit Paid Out | | 14,980 | 15,405 |
| Precepts And Levies Paid | | 19,754 | 20,167 |
| Interest Paid | | 7,053 | 6,874 |
| Premiums Paid On Rescheduled Debt | | 0 | 0 |
| | | 344,647 | 319,693 |
| **Cash Inflows** | | | |
| Rents (After Rebates) | | -8,275 | -8,507 |
| Council Tax Income | | -57,741 | -59,478 |
| National Non-Domestic Rate Receipts From Pool | | -37,625 | -31,412 |
| Revenue Support Grant | | -143,529 | -148,025 |
| DWP Grants For Benefits | | -24,708 | -24,093 |
| Other Government Grants | 30 | -58,033 | -48,807 |
| Cash Received For Goods And Services | | -38,166 | -21,052 |
| Interest Received | | -558 | -554 |
| | | -368,635 | -341,928 |
| **NET CASH (INFLOW) FROM OPERATING ACTIVITIES** | | -23,988 | -22,235 |
| **INVESTING ACTIVITIES** | 28 | 10,919 | 43,969 |
| **FINANCING ACTIVITIES** | 29 | 6,551 | -21,946 |
| **(DECREASE)/INCREASE IN CASH** | | 6,518 | 212 |
| **Cash at 01 April** | | -1,703 | 4,815 |
| **Cash Balance at 31 March** | 21 | 4,815 | 5,028 |

# 1. ACCOUNTING POLICIES

## i. General principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012 on a going concern basis. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2005, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS).

The objective of the accounts is to provide information about the financial position, performance and cash flows in a way that meets the 'common needs of most users'. It will explain the financial facts rather than comment on the policies of the Authority and also has the aim of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

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

## ii. Accruals of income and expenditure

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

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

- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

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

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made to revenue for the income that might not be collected.

**iii. Acquisitions and discontinued operations**
No such transactions took place.

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management. No loans, long term deposits or investments have been included in the opening or closing cash balances. These are separately disclosed.

Powys, under its Treasury Management Strategy, can hold fairly substantial amounts in call accounts and Money Market Funds at any one time but not all of this would be to meet short term cash flow requirements. As such, an appropriate split the total between cash/cash equivalents and investments is made based on short term needs.

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

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

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

**vii. 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 fixed 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 fixed assets attributable to the service.

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

**viii. Employee benefits**

**Benefits payable during employment**
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of the holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision Of Services, but then reversed out through the Movement In Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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

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

**Post Employment Benefits**

Employees of the Authority are members of two separate pension schemes, The Local Government Pensions Scheme and the Teachers Pension Scheme. The accounting policies for these are provided in Notes 44 & 45.

**Actuarial gains and losses**
Actuarial gains and losses arising from the Authority's Pension Fund obligations are recognised in the Comprehensive Income and Expenditure Account in the year in which they arise.

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

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events

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

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

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

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

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

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

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

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

**xiii. Interests in companies and other entities**
The Authority has no material interests in companies and no other entities that have the nature of subsidiaries, associates and jointly controlled entities.

**xiv. Inventories and long term contracts**
Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First in First Out costing formula.

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the value of works and services received under the contract during the financial year.

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

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

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the Council Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Council Fund balance. The gains and losses are therefore reversed out of the Council Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the capital receipts reserve for any sale proceeds greater than £10,000.

**xvi. Jointly controlled operations and jointly controlled assets**
Jointly controlled operations are activities undertaken by the authority in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs. It also debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other ventures, with the assets being used to obtain benefits for the ventures. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

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

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

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

**The authority as lessee:**

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

**The authority as lessor:**

**Finance leases**
Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal

(i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

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

**xviii. 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.

**Capitalisation**
All assets falling into the following categories are capitalised:

Intangible assets which can be valued, are capable of being used in the Council's activities for more than one year and have a cost equal to or greater than £10,000.

Intangible non-current assets held for operational use are valued at historical cost and are amortised over the estimated life of the asset on a straight line basis. The carrying value of the intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Purchased computer licences are capitalised as intangible non-current assets where expenditure of at least £10,000 is incurred. They are amortised over the shorter of the term of the licence and their useful economic life.

Tangible assets which are capable of being used for a period which exceeds one year and which:

- Individually have a cost equal or greater than £10,000
- Collectively have a cost equal or greater than £10,000 and individually have a cost more than £250, where the assets are functionally interdependent, they have broadly simultaneous purchase dates and are anticipated to have simultaneous disposal dates; and are under single managerial control; or
- Form part of the initial equipping and setting up cost for a new building irrespective of their individual or collective cost; or
- Form part of an IT network which collectively has a cost of more than £10,000 and individually have a cost of more than £250.

**Depreciation & Amortisation**

All tangible fixed assets other than land have been depreciated on a straight line basis using the following methods:

| | Years |
|---|---|
| Operational Buildings | 50 |
| Garages | 40 |
| Mobile Offices/Portacabins | 20 |
| Council Dwellings | 50 |
| Vehicles, plant, equipment and fittings | 5,7,10 |
| Infrastructure | 50 |
| Surplus | 50 |
| Intangible | 7 |

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

In 2011/12 there was a change in the calculation of vehicle depreciation. This is now treated as all other assets and is not depreciated in the year of acquisition. The charge would have been £237k.

**Valuation**

Intangible non-current assets held for operational use are valued at historical cost. Infrastructure, community assets and assets under construction are measured at historic cost. Assets under construction include any existing land and buildings under the control of a contractor. All other tangible non current assets are measured at fair value. If there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, the depreciated replacement cost approach is used to estimate the fair value.

## Impairment

The value of each category of fixed assets is reviewed at the year end to establish if there has been a material change in value during the period. If an impairment loss on a fixed asset occurs it will be recognised and treated in accordance to the treatment prescribed by the Code of Practice. This treatment is:

(i) Where there is a balance of revaluation gains on the Revaluation Reserve for the relevant asset, the impairment loss is charged against that balance until it is used up. The loss debited to the Revaluation Reserve is recognised in Other Comprehensive Income and Expenditure as a reduction in the net worth of the Authority, and is presented in the Comprehensive Income and Expenditure Statement.

(ii) Thereafter, or if there is no balance of revaluation gain (ie the asset is being carried at depreciated historical cost), the impairment loss is charged against the relevant service line(s) in the Surplus or Deficit on the provision of Services in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

**Heritage Assets**

The code of practice has required that all heritage assets are valued and recognised in the statement of accounts under non current assets as far as it is practicable to establish a valuation for the asset. A key feature of Heritage assets is that they have cultural, environmental or historical associations that make their preservation for future generations important. Heritage assets are maintained principally for their contribution to knowledge; it is this that distinguishes them from other assets.

The significant items held in the museums are recorded in the Authority's Asset Register. The values are based on a valuation undertaken in 2008/09. A number of Memorials are also recorded in the Asset Register and are valued on a 5 year rolling cycle.

Heritage Assets are not depreciated because the assets do not wear out over time. The assets will be considered for any economic impairment from deterioration as part of the impairment review.

Some assets have not been included in the Statement of Accounts. These include:

| | |
|---|---|
| Ancient Monuments | 7 |
| War Memorials | 11 |
| Clock Towers | 3 |

The ownership of these assets is uncertain. However, they are on the Authority's land and therefore should be disclosed.

Change in Accounting Policy

Recognising Heritage assets this year for the first time is a change in accounting policy. Since there would be no revenue implications and the carrying value is not material in Balance Sheet terms, it has been deemed that re-stating previous years is not warranted. Had the policy been reflected last year there would have been no revenue implications but the Balance Sheet would appear as follows:

| **Balance Sheet** | **Original £'000** | **Restated £'000** |
|---|---|---|
| Non Current Assets | | |
| Heritage Assets | 0 | 1,195 |
| | | |
| Other Assets and Liabilities | 205,355 | 205,355 |
| **NET ASSETS** | 205,355 | 206,550 |
| | | |
| Reserves | | |
| Revaluation Reserve | 123,408 | 124,603 |
| Other Reserves | 81,947 | 81,947 |
| **TOTAL RESERVES** | 205,355 | 206,550 |

The Movement in Reserves Statement would have appeared as:

| | **Original Total Reserves £'000** | **Restated Total Reserves £'000** |
|---|---|---|
| **Reserves Brought Forward** | **152,116** | **152,116** |
| Movements During Year | | |
| Surplus Or (Deficit) On Provision Of Services | 58,221 | 58,221 |
| Other Comprehensive Expenditure And Income | -4,982 | -3,787 |
| Total Comprehensive Expenditure And Income | 53,239 | 54,434 |
| Adjustments Between Accounting Basis And Funding Basis Under Regulations (Note 7) | 0 | 0 |
| Net Increase/Decrease Before Transfers To Earmarked Reserves | 53,239 | 54,434 |
| Transfers To/From Earmarked Reserves | 0 | 0 |
| Increase/Decrease (Movement) In Year | 53,239 | 54,434 |
| **Balance At 31 March 2011 Carried Forward** | 205,355 | 206,550 |

## Componentisation

Land and building are separate assets and will always be accounted for separately, even when they are acquired together. Three factors will be taken into account to determine whether a separate valuation of components is to be recognised in the accounts.

1. Materiality with regards to the Council's financial statements. Componentisation will only be considered for individual non land assets that represent more than 1% of the opening gross book value of total fixed assets.
2. Significance of component:
   For individual assets meeting the above threshold, where services within a building (boilers / heating / lighting / ventilation etc..) or items of fixed equipment (kitchens / cupboards) is a material component of the cost of that asset (> 50%) then those services / equipment will be valued separately on a component basis.
3. Difference in rate or method of depreciation compared to the overall asset:
   Only those elements that normally depreciate at a significantly different rate from the non land element as a whole, or that require a different method of depreciation will be identified for componentisation.

Assets that fall below the de-minimis levels and tests above can be disregarded for componentisation on the basis that any adjustment to depreciation charges would not result in a material mis-statement in the accounts.
Where assets are material and to be reviewed for significant components, it is recommended that the minimum level of apportionment for the non-land element of assets (that are not classified as social housing) is:

- Plant and equipment and engineering services.
- Structure.

Professional judgement will be used in establishing materiality levels; the significance of components, useful lives, depreciation methods and apportioning asset values over recognised components.

Revaluations of the Council's property assets will continue to be undertaken on a 5 yearly rolling programme basis, at which point the revaluation takes into account the value and condition of the assets, relevant components and also de-recognition where relevant. Where there is a major refurbishment of an asset, a new valuation will be sought in the year of completion and a revision to the useful life. Where it is not current practice, individual buildings and material facilities on a site will be valued separately and depreciated based on their advised useful average life, rather than aggregating values for properties on a single site. Such a useful life will need to take into account the estimated life and condition of major components based on professional judgement. These actions will assist in providing an accurate depreciation charge.

**xix. Private finance initiative (PFI) and similar contacts**
The Authority has no such arrangements.

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

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

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

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

**Provision for back pay arising from unequal pay claims**
The Authority has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Authority implemented its equal pay strategy.

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

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

**xxi. VAT**
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.

**xxii. Overhead and support services**
The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice. The total absorption costing principle is used and the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate And Democratic Core – costs relating to the council's status as a multi functional democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Account as part of the Net Cost Of Services.

**xxiii. Reserves**
Amounts set aside for purposes falling outside the definition of provisions are considered reserves. Expenditure is not charged directly to a reserve but is first recognised in either the revenue account or capital accounts.

Capital reserves are not available for revenue purposes. Certain capital reserves can be used only for statutory purposes, these include:

- Revaluation Reserve
- Usable Capital Receipts
- Capital Adjustment Account

Revenue reserves arise from events which have allowed for monies to be set aside, surpluses or decisions causing anticipated expenditure to be delayed.

**xxiv. 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.

**Loans and receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.
For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Account is the amount receivable for the year in the loan agreement.

When soft loans are made, a loss is recorded in the income and expenditure account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the Council Fund balance is included in the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Account to the net gain required against the Council Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the Council Fund Balance.

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

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

**Available-for-sale assets**

These are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Account when it becomes receivable by the Authority.

Assets would be maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value would be balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred - these would be debited to the Comprehensive Income and Expenditure Statement along with any net gain/loss for the asset accumulated in the reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Comprehensive Income and Expenditure Account.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the surplus or deficit on the provision of services along with any accumulated gains/losses previously recognised in the STRGL. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

**xxv. Provision for repayment of external loans**
The Council is not required to raise Council Tax or housing rents to cover depreciation, impairment losses or amortisations but it is required to make provision from revenue for the repayment of debt as measured by the Capital Financing Requirement. The only requirement of the regulations is that the provision is prudent. There is a required minimum of 2% of outstanding debt in respect of council housing and 4% in respect of other debt (the minimum revenue provision). The Authority met this requirement.

**xxvi. Financial liabilities**
Examples of Liabilities are creditors and borrowings from third parties.

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Account for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Account, regulations allow the impact on the Council Fund balance to be spread over future years. The following rules apply in respect of this:-

- Premia is spread over the longer of the outstanding term of the replaced loan or the term of the replacement loan, although authorities are able to choose a shorter period.

- Discounts are spread over a minimum period equal to the outstanding term on the replaced loan or 10 years if shorter.

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

The Authority does not give financial guarantees to make specified payments to reimburse the holder of debt.

**xxvii. Calculating fair value for financial instruments**

The fair value of an instrument is determined by calculating the net present value (NPV) of future cash flows which provides an estimate of the value of payments in the future in today's terms. This is the widely accepted valuation technique commonly used by the private sector. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation for an instrument with the same duration i.e. equal to the outstanding period from valuation date to maturity. The structure and terms of the comparable instrument should be the same, although for complex structures it is sometimes difficult to obtain the rate for an instrument with identical features in an active market. In such cases, the prevailing rate of a similar instrument with a published market rate would be used as the discount factor.

<u>Complexities of the NPV calculation</u>

It is unlikely that the future cash instalments of an instrument will fall in equal time periods from the date of valuation, and there is likely to be a "broken" period from the valuation date to the next instalment. This means that an adjustment needs to be made to each discount factor in order to take account of the timing inequality.

<u>Evaluation of PWLB debt</u>

We have used the new borrowing rate, as opposed to the premature repayment rate, as the discount factor for all PWLB borrowing. This is because the premature repayment rate includes a margin which represents the lender's profit as a result of rescheduling the loan which is not included in the fair value calculation since any motivation other than securing a fair price should be ignored. LAAP 73 states that PWLB will be using the premature repayment rate in their calculations. It is at the Authority's own discretion which set of values it chooses to disclose.

<u>Inclusion of accrued interest</u>

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this will include accrued interest as at the Balance Sheet date, we have also included accrued interest in the fair value calculation. This figure will be calculated up to and including the valuation date.

<u>Discount rates used in NPV calculation</u>

The rates used were obtained by our advisors from the market on 31st March using bid prices where applicable.

<u>Assumptions</u>

The following assumptions are made but do not have a material effect on the fair value of the instrument:

- Interest is calculated using the most common market convention, ACT/365.
- For fixed term deposits it is assumed that interest is received annually or on maturity if duration is less than one year.

**xxviii. Debtors and creditors**

The revenue accounts are prepared on the basis of income due and converted payments. The only exceptions are periodic payments in respect of fuel which will not necessarily correspond exactly with the year of account. Capital accounts are prepared on the basis of receipts and payments during the year, with accruals for significant outstanding items and provision for certain grants receivable at year end.

**xxix. Revenue expenditure funded from capital under statute**
Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

**xxx. Grants, contributions and donated assets**
Under the code, grants and contributions are recognised as income when they become receivable. Unspent grants and contributions are transferred to usable reserves when there are no conditions attached. Grants and contributions unspent that have conditions attached that will require repayment are treated as a liability.

**xxxi. Non Current assets held for sale**
If an asset is actively marketed for disposal, is available for immediate disposal and there is a high probability that it will be disposed then a non current asset will be transferred from its current classification to assets held for sale. If it is highly probable that the capital receipt will be received within one year, then the asset will be classified under current assets. The value transferred will be the lower of the carrying amount and fair value less the costs to sell. Depreciation is not charged.

**xxxii. Landfill Allowances**
Landfill allowances, whether allocated or purchased, are recognised as current assets and valued at fair value. Allowances allocated by Government are accounted for as a Government Grant. After initial recognition, allowances are measured at the lower of cost and net realisable value.
As allowance is used, a liability and expense is recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty (or by a combination of both). The liability is discharged at the best estimate of the expenditure required to meet the obligation; normally the market price of the number of allowances required to meet the liability at the reporting date. Any penalty will be measured at the cost of the penalty.

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

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October) 2010 by the code will result in a change in accounting policy that requires disclosure.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but we are not required by the code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Authority’s financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the Council.

## 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The IAS19 pension cost calculations in note 44 involve placing present values on future benefit payments to individuals many years into the future. These benefits will be linked to pay increases whilst individuals are active members of the Fund and will be linked to statutory pension increase orders (inflation) in deferment and in retirement. Assumptions are made for the rates at which the benefits will increase in the future (inflation and salary increases) and the rate at which these future cashflows will be discounted to a present value at the accounting date to arrive at the present value of the defined benefit obligation. The resulting position will therefore be sensitive to the assumptions used. The present value of defined benefit obligations is linked to yields of high quality corporate bonds whereas, for the LGPS funded arrangements, the majority of the assets of the fund are usually invested in equities or other real assets. Fluctuations in investment markets in conjunction with discount rate volatility will lead to volatility in the funded status of the fund and thus to volatility in the net pension asset on the Balance Sheet and in other Comprehensive Income and Expenditure. To a lesser extent this will also lead to volatility in the pension expense in the surplus or deficit on the provision of services.

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

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

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

| **Item** | **Uncertainty** | **Effect if assumptions differ from actual** |
|---|---|---|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings within Land and Buildings would increase by £186k for every year that useful lives had to be reduced. |
| Provisions | The Authority has made a provision for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Authority or that precedents set by other authorities in the settlement of claims will be applicable. | An increase over the forthcoming year, in either the total number of claims, or the estimated average settlement would each have the effect of adding to the provision needed. |
| Pension Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting Actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £46.26m. However, the assumptions interact in complex ways. During 2011/12, the Authority's Actuaries advised that the net pension's liability had increased by £4.04m as a result of estimates being corrected as a result of experience and increased by £37.7m attributable to updating of the assumptions. |
| Arrears | At 31 March 2012, the Authority had a balance of sundry debtors invoiced of £4.4m A review of significant balances suggested that an impairment of doubtful debts of £1.8m was appropriate. Council Tax arrears stand at £3.4m. A review of significant balances suggested that an impairment of doubtful debts of £0.7m was appropriate based on the stage the arrears are within the recovery process. However, in the current economic climate it is not certain that such an allowance would be sufficient. | If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £2.5m to be set aside as an allowance. However, very little debt is historically written off as disclosed in note 48. |

## 5. MATERIAL ITEMS OF INCOME AND EXPENSE

£2,448k (2010/11 £1,510k) was paid in redundancy costs with an additional £480k (2010/11 £483k) paid to the Pension Fund to cover the cost of early retirement.

## 6. EVENTS AFTER THE BALANCE SHEET DATE

The Draft Statement of Accounts was authorised for issue by the Strategic Director - Finance and Infrastructure on 29th June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. However, no such events existed at the Balance Sheet date.

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

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

| 2011/12 Transactions | Usable Reserves | | | | |
|---|---|---|---|---|---|
| | Council Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Capital Grants Unapplied | Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | |
| Charges for depreciation | -10,279 | -2,279 | | | 12,558 |
| Amortisation of Intangible Assets | -442 | | | | 442 |
| Impairment | -1,386 | -1,319 | | | 2,705 |
| Capital grants and contributions applied | 16,414 | 3,713 | | | -20,127 |
| Revenue expenditure funded from capital under statute | -2,178 | | | | 2,178 |
| Revaluation losses on Property Plant and Equipment | -2,812 | | | | 2,812 |
| Change in Market Value Investment Property | -101 | | | | 101 |
| 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 | -1,978 | -123 | | | 2,101 |
| **Insertion of items not debited or credited to the Comprehensive Income And Expenditure Statement:** | | | | | |
| Statutory provision for the financing of capital investment | 6,315 | 295 | | | -6,610 |
| Capital expenditure charged against the Council Fund and HRA balances | 5,901 | 1,337 | | | -7,238 |
| **Adjustments primarily involving the capital grants unapplied account:** | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income And Expenditure Statement | 5,133 | | | -5,133 | 0 |
| Transferred from Capital Grants in advance | 802 | | | -802 | |
| Grants Applied | | | | 1,009 | -1,009 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income And Expenditure Statement | 2,731 | 212 | -2,813 | | -130 |
| Use of the capital receipts reserve to finance new capital expenditure | | | 4,126 | | -4,126 |
| Contribution from the capital receipts | | -50 | 50 | | 0 |

| | | | | | |
|---|---|---|---|---|---|
| reserve towards administrative costs of non current asset disposals | | | | | |

| **2011/12 Transactions** | **Usable Reserves** | | | | |
|---|---|---|---|---|---|
| | **Council Fund Balance** | **Housing Revenue Account** | **Capital Receipts Reserve** | **Capital Grants Unapplied** | **Unusable Reserves** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Deferred Capital Receipts upon receipt of cash | | | -75 | | 75 |
| **Adjustments primarily involving the capital receipts reserve:** | | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to The Comprehensive Income And Expenditure Statement | 322 | | | | -322 |
| **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | | |
| Amount by which finance costs charged to the Comprehensive Income And Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | -48 | -239 | | | 287 |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income And Expenditure Statement (see note 43) | -16,989 | -342 | | | 17,331 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 16,005 | 335 | | | -16,340 |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income And Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | -466 | -3 | | | 469 |
| **Total Adjustments** | 16,944 | 1,537 | 1,288 | -4,926 | -14,843 |

| 2010/11 Transactions | Usable Reserves | | | | |
|---|---|---|---|---|---|
| | Council Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Capital Grants Unapplied | Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | |
| Charges for depreciation | -10,522 | -2680 | | | 13,202 |
| Impairment | -6,241 | | | | 6,241 |
| Capital grants and contributions applied | 6,583 | 3700 | | | -10,283 |
| Revenue expenditure funded from capital under statute | -1,398 | | | | 1,398 |
| 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 | -1,498 | | | | 1,498 |
| **Insertion of items not debited or credited to the Comprehensive Income And Expenditure Statement:** | | | | | |
| Statutory provision for the financing of capital investment | 6,270 | 309 | | | -6,579 |
| Capital expenditure charged against the Council Fund and HRA balances | 1,815 | | | | -1,815 |
| **Adjustments primarily involving the capital grants unapplied account:** | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income And Expenditure Statement | 413 | | | -413 | |
| Grants Applied | | | | 16 | -16 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income And Expenditure Statement | 2,429 | 272 | -2,683 | | -18 |
| Use of the capital receipts reserve to finance new capital expenditure | | | 1,970 | | -1,970 |
| Contribution from the capital receipts reserve towards administrative costs of non current asset disposals | | -85 | 84 | | |
| Deferred Capital Receipts upon receipt of cash | | | 311 | | -311 |

| **2010/11 Transactions** | **Usable Reserves** | | | | |
|---|---|---|---|---|---|
| | **Council Fund Balance** | **Housing Revenue Account** | **Capital Receipts Reserve** | **Capital Grants Unapplied** | **Unusable Reserves** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Adjustments primarily involving the capital receipts reserve:** | | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to The Comprehensive Income And Expenditure Statement | 384 | | -30 | | -354 |
| **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | | |
| Amount by which finance costs charged to the Comprehensive Income And Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | -337 | -142 | | | 479 |
| Funding Icelandic impairment | 805 | | | | -805 |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income And Expenditure Statement (see note 43) | 35,038 | 902 | | | -35,940 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 16,330 | | | | -16,330 |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income And Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | -97 | -13 | | | 110 |
| **Total Adjustments** | 49,975 | 2,263 | -348 | -397 | -51,493 |

## 8. TRANSFERS TO/FROM EARMARKED RESERVES

| Reserve Name | At 01.04.10 | Transfers Between Reserves | Transfer to/ (from) Reserves | At 31.03.11 | Transfers Between Reserves | Transfer to/ (from) Reserves | At 31.03.12 |
|---|---|---|---|---|---|---|---|
| | **£`000** | **£`000** | **£`000** | **£`000** | **£`000** | **£`000** | **£`000** |
| **Restricted Use And Non Transferable** | | | | | | | |
| Schools Reserve | 2,514 | 0 | -201 | 2,313 | 0 | -545 | 1,768 |
| Insurance Reserve | 2,286 | 0 | 137 | 2,423 | 0 | 521 | 2,944 |
| Corporate Initiative Reserve | 8,602 | -78 | -3,072 | 5,452 | 0 | 2,260 | 7,712 |
| | **13,402** | **-78** | **-3,136** | **10,188** | **0** | **2,236** | **12,424** |
| | | | | | | | |
| **Committee Specific Reserves** | | | | | | | |
| Carried Forward Reserves | 8,199 | -1,038 | 7,533 | 14,694 | -1,731 | -2,171 | 10,792 |
| Repairs And Renewals Revenues | 290 | 384 | -35 | 639 | -451 | -170 | 18 |
| Revenue Grants Unapplied | 902 | 0 | -233 | 669 | 0 | 212 | 881 |
| 21st Century Schools | 0 | 0 | 0 | 0 | 7,091 | 0 | 7,091 |
| Transport Reserve | 5,961 | 0 | -152 | 5,809 | 0 | -2,207 | 3,602 |
| Economic Development Fund | -43 | 23 | 198 | 178 | -38 | 29 | 169 |
| Invest To Save | 753 | 151 | 218 | 1,122 | -349 | -373 | 400 |
| Other Reserves | 932 | -151 | -4 | 777 | 0 | -89 | 688 |
| Business Rates Revaluation | 180 | 0 | 425 | 605 | 0 | 159 | 764 |
| | **17,174** | **-631** | **7,950** | **24,493** | **4,522** | **-4,610** | **24,405** |
| | **30,576** | **-709** | **4,814** | **34,681** | **4,522** | **-2,374** | **36,829** |

**Business Rates Revaluation Reserve**
Monies built up from appeals made and then refunded against rates paid on our corporate buildings.

**Carried Forward Reserves**
Accumulated balances that are Committee specific and not available for general purposes. These reserves finance variances in annual spending patterns from the Councils target. Conversely any over spends are carried forward for recoupment in future years. Each reserve must have a business case with a timetable of planned use that justifies its inclusion as a carry forward.

**Corporate Initiative Reserve**
Balance of unspent money for specific initiatives and one off Authority wide projects and costs. Currently, this mainly comprises money set aside to fund the Authorities Job Evaluation exercise which is expected to be finalised by 1st April 2013.

**Economic Development Fund**
Specifically to fund economic development within Powys.

**Insurance Reserve**
To mitigate the effect of large claims against the Authority

**Invest To Save**
Funds can be borrowed by departments to fund money saving schemes.

**Other Reserves**
A total of accumulated balance made up from smaller reserves.

**Repairs and Renewals**
Reserves set up by Directorates to fund future repairs expenditure.

**Revenue Grants Unapplied**
Grants received but that have not been utilised that do not have to be repaid to the Grantor.

**School Reserves**
Total representing the funds available and ringfenced to specific schools.

**21st Century Schools**
Specifically to help finance the Schools Modernisation Programme.

**Transport Reserve**
Specifically to fund vehicle replacement.

## 9. OTHER OPERATING EXPENDITURE

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| **Precepts** | | |
| Community Council Precepts | 1,873 | 1,918 |
| Dyfed Powys Police Precept | 10,568 | 11,073 |
| Brecon Beacons National Park | 647 | 630 |
| Mid And West Wales Fire Authority | 6,628 | 6,507 |
| **Levies** | | |
| Powysland Internal Drainage Board | 38 | 39 |
| | | |
| Gains On The Disposal Of Non-Current Assets | -1,204 | -785 |
| Transfer To Deferred Credits - Landlord Loans (see below) | -384 | -322 |
| | 18,166 | 19,060 |

Landlord loans have been classified in Capital Grants, Receipts and Advances this year.

## 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| | 2010/11 Restated (note 51) £`000 | 2011/12 £`000 |
|---|---|---|
| Interest Payable And Similar Charges | 7,068 | 6,905 |
| Pensions Interest Cost And Expected Return On Pensions Assets | 8,550 | 4,910 |
| Interest Receivable And Similar Income | -684 | -852 |
| Impairment Of Financial Instruments | 111 | 0 |
| Income And Expenditure In Relation To Investment Properties And Changes In Their Fair Value (Note 14) | 2 | 28 |
| Surplus Or Deficit On Trading Accounts (Note 31) | -1,536 | -566 |
| | 13,511 | 10,425 |

## 11. TAXATION AND NON SPECIFIC GRANT INCOMES

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Council Tax Income | 65,062 | 67,625 |
| Non Domestic Rates | 37,625 | 31,412 |
| Non-Ringfenced Government Grants | 143,679 | 148,025 |
| Capital Grants And Contributions | 10,698 | 25,574 |
| | 257,064 | 272,636 |

## 12. PROPERTY, PLANT AND EQUIPMENT

| Movement In 2011/12 | Council Dwellings | Other Land and Buildings | Vehicles Plant and Equipment | Infrastructure | Community Assets | Surplus Assets | Assets Under Construction | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | | | | | |
| **At 01 April 2011** | **156,124** | **296,650** | **58,055** | **93,828** | **1,507** | **2,606** | **4,661** | **613,431** |
| Additions | 6,450 | 4,861 | 6,541 | 4,394 | 38 | | 16,528 | 38,812 |
| Donations | | | | | | | | |
| Accumulated Dep'n & Impairments Written Off to GCA | | -3,034 | | | -1 | -50 | | -3,085 |
| Revaluation increases recognised in the revaluation reserve | | 5,051 | | 1 | 1,068 | 325 | | 6,445 |
| Revaluation decreases recognised in the revaluation reserve | | -151 | | | -35 | -44 | | -230 |
| Revaluation increases recognised in the surplus on the provision of services | | 231 | | | 13 | 55 | | 299 |
| Revaluation decreases recognised in the surplus on the provision of services | | -2,949 | | -9 | -8 | -145 | | -3,111 |
| Derecognition - disposals | -125 | -1,047 | -2,293 | | | -323 | | -3788 |
| Derecognition - other | | | | | | | | 0 |
| Reclassification (to)/from held for sale | | | | | | 10 | | 10 |
| Other movements | | -445 | -1 | 408 | -1,356 | 1,927 | -1,884 | **-1,351** |
| **At 31 March 2012** | **162,449** | **299,167** | **62,302** | **98,622** | **1,226** | **4,361** | **19,305** | **647,432** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Accumulated Depreciation** | | | | | | | | |
| **At 01 April 2011** | **-6,868** | **-14,820** | **-46,704** | **-11,930** | **-154** | **-87** | **0** | **-80,563** |
| Depreciation charge | -2,278 | -5,664 | -2,708 | -1,845 | | -63 | | -12,558 |
| Depreciation written through revaluation reserve | | 1,702 | | | | 42 | | 1,744 |
| Depreciation written through deficit on the Provision of Services | | 427 | | | | 7 | | 434 |
| Derecognition – disposals depreciation | 4 | 84 | 1,990 | | | 17 | | 2,095 |
| Derecognition – other depreciation | | | | | | | | |
| Reclassified (to)/from held for sale | | | | | | | | |
| Other movements | | 52 | | 1 | 154 | -52 | | 155 |
| **At 31 March 2012** | **-9,142** | **-18,219** | **-47,422** | **-13,774** | **0** | **-136** | **0** | **-88,693** |
| | | | | | | | | |

| Movement In 2011/12 | Council Dwellings | Other Land and Buildings | Vehicles Plant and Equipment | Infrastructure | Community Assets | Surplus Assets | Assets Under Construction | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Accumulated Impairment** | | | | | | | | |
| **At 01 April 2011** | **-12,498** | **-6,607** | **-14** | **-29** | **0** | **-2** | **0** | **-19,150** |
| Impairment reversals recognised in the revaluation reserve | | 733 | | | 1 | 1 | | 735 |
| Impairment reversals (revaluation) recognised in the surplus on the provision of services | | 172 | | | | | | 172 |
| Impairment losses recognised in the Revaluation Reserve | -5,132 | -1,768 | | | | | | -6,900 |
| Impairment losses recognised in the surplus on the provision of services | -1,318 | -1,386 | | | | | | -2,704 |
| Derecognition – disposals Impairment | 14 | 44 | | | | | | 58 |
| **Other movements** | | **1** | | | **-1** | | | **0** |
| **At 31 March 2012** | **-18,934** | **-8,811** | **-14** | **-29** | **0** | **-1** | **0** | **-27,789** |
| | | | | | | | | |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2012** | **134,373** | **272,137** | **14,866** | **84,819** | **1,226** | **4,224** | **19,305** | **530,950** |
| **At 31 March 2011** | **136,758** | **275,223** | **11,337** | **81,869** | **1,353** | **2,517** | **4,661** | **513,718** |

## Comparative Movements in 2010/11:

| Movement In 2010/11 | Council Dwellings | Other Land and Buildings | Vehicles Plant and Equipment | Infrastructure | Community Assets | Surplus Assets | Assets Under Construction | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | | | | | |
| **At 01 April 2010** | **152,205** | **301,211** | **55,645** | **87,540** | **1,735** | **2,582** | **3,620** | **604,538** |
| Additions | 4,145 | 4,463 | 2,795 | 3,580 | 25 | 0 | 3,696 | 18,704 |
| Donations | | | | | | | | 0 |
| Revaluation increases recognised in the revaluation reserve | | 4,058 | | | 50 | 112 | | 4,220 |
| Revaluation decreases recognised in the revaluation reserve | | -7,097 | | | | | | -7,097 |
| Revaluation decreases recognised in the surplus/deficit on the provision of services | | -5,189 | | | | -5 | -38 | -5,232 |
| Derecognition - | -226 | -967 | -385 | | | -31 | | -1,609 |

| **Movement In 2010/11** | **Council Dwellings** | **Other Land and Buildings** | **Vehicles Plant and Equipment** | **Infrastructure** | **Community Assets** | **Surplus Assets** | **Assets Under Construction** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| disposals | | | | | | | | |
| Derecognition - other | | | | | | | | 0 |
| Reclassification (to)/from held for sale | | -41 | | | | -52 | | -93 |
| Other movements | | 212 | | 2,708 | -303 | | -2,617 | **0** |
| **At 31 March 2011** | **156,124** | **296,650** | **58,055** | **93,828** | **1,507** | **2,606** | **4,661** | **613,431** |
| | | | | | | | | |
| **Accumulated Depreciation** | | | | | | | | |
| **At 01 April 2010** | **-4,589** | **-12,011** | **-43,911** | **-10,165** | **-141** | **-60** | **0** | **-70,877** |
| Depreciation charge | -2,286 | -5,608 | -3,161 | -1,765 | -13 | -31 | 0 | -12,864 |
| Depreciation written through revaluation reserve | | 2,756 | | | | | | 2,756 |
| Depreciation written through deficit on the Provision of Services | | -42 | | | | | | -42 |
| Derecognition – disposals depreciation | 8 | 84 | 367 | | | 1 | | 460 |
| Derecognition – other depreciation | | | | | | | | 0 |
| Reclassified (to)/from held for sale | | 1 | | | | 3 | | 4 |
| Other movements | -1 | | 1 | | | | | 0 |
| **At 31 March 2011** | **-6,868** | **-14,820** | **-46,704** | **-11,930** | **-154** | **-87** | **0** | **-80,563** |
| | | | | | | | | |
| **Accumulated Impairment** | | | | | | | | |
| **At 01 April 2010** | **-8,359** | **-5,790** | **-14** | **-29** | **0** | **-1** | **0** | **-14,193** |
| Impairment charge (revaluation) recognised in the revaluation reserve | -3,624 | -1,388 | | | | | | -5,012 |
| Impairment charge (revaluation) recognised in the surplus on the provision of services | -521 | -967 | | | | | | -1,488 |
| Impairment reversals recognised in the Revaluation Reserve | | 1,101 | | | | | | 1,101 |
| Impairment losses/(reversals) recognised in the surplus on the provision of services | | 437 | | | | | | 437 |
| Derecognition – disposals Impairment | 6 | | | | | -1 | | 5 |
| **At 31 March 2011** | **-12,498** | **-6,607** | **-14** | **-29** | **0** | **-2** | **0** | **-19,150** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2011** | **136,758** | **275,223** | **11,337** | **81,869** | **1,353** | **2,517** | **4,661** | **513,718** |
| **At 31 March 2010** | **139,257** | **283,410** | **11,720** | **77,346** | **1,594** | **2,521** | **3,620** | **519,468** |

The non-current assets above do not include the 20 controlled faith schools or the 10 aided faith schools. £906k of assets transferred to surplus in 2012 were declared surplus in the previous year.

**Depreciation**
The following useful lives and depreciation rates have been used in the calculation of depreciation:

- council dwellings – 60 years
- other land and buildings – 50 years
- vehicles, plant, furniture & equipment – 10% to 35% of carrying amount
- infrastructure – 50 years

**Capital Commitments**

At 31st March 2012, the Authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2012/13 and future years budgeted to cost £21,414k. Similar commitments at 31st March 2011 were £2,625K. The major commitments are:

| | **£`000s** |
|---|---|
| Phase 3 Maesydderwen High School | 4,689 |
| Abercrave School | 1,592 |
| Penrhos School | 2,337 |
| Glanrhyd School | 2,018 |
| Brynderi School | 3,968 |
| Cwm Wanderers School | 163 |
| Ysgol Pennant | 56 |
| Builth Integrated Health & Social Care Facility | 4,244 |
| Aberfachan Bridge | 326 |
| County Hall Renewable | 369 |
| PSBA Year 1 Capital Cost | 123 |
| Paperless Powys | 69 |
| Vehicle Purchases | 1,461 |
| | |
| | 21,415 |

In addition, there was an outstanding commitment of £501k in respect of private sector housing at 31st March 2012.

**Revaluations**

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

A number of assets were not classified as surplus in the 2010/11 accounts. These amounted to £906k.

The fair values of Property, Plant and Equipment:

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture and Equipment | Infra-structure | Community | Surplus Assets | Assets Under Construc-tion | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Historical cost | | | 62,302 | 98,622 | 1,226 | | 19,305 | 181,455 |
| Valued at fair value: | | | | | | | | |
| 31-Mar-12 | 6,450 | 29,050 | | | | 137 | | 35,637 |
| 31-Mar-11 | | 52,173 | | | | 1,309 | | 53,482 |
| 31-Mar-10 | | 107,208 | | | | 185 | | 107,393 |
| 31-Mar-09 | 155,999 | 50,850 | | | | 768 | | 207,617 |
| 31-Mar-08 | | 59,886 | | | | 1,962 | | 61,848 |
| | | | | | | | | |
| | 162,449 | 299,167 | 62,302 | 98,622 | 1,226 | 4,361 | 19,305 | 647,432 |

## 13. HERITAGE ASSETS -Tangible

| | Art Collection | Statues | Museum Artefacts | Civic Regalia | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | |
| At 01 Apr 2011 | | | | | 0 |
| Additions | | 40 | | | 40 |
| Revaluations – Revaluation Reserve | 90 | | 15 | | 105 |
| Reclassified | 468 | 7 | 780 | 93 | 1,348 |
| **At 31 March 2012** | 558 | 47 | 795 | 93 | 1,493 |
| | | | | | |
| **Impairments** | | | | | |
| At 01 Apr 2011 | | | | | 0 |
| Reclassified | -73 | | -80 | | -153 |
| **At 31 March 2012** | -73 | | -80 | | -153 |
| | | | | | |
| **Net Book Value** | | | | | |
| **At 31 March 2012** | **485** | **47** | **715** | **93** | **1,340** |
| **At 31 March 2011** | **0** | **0** | **0** | **0** | **0** |

All the heritage assets have been valued in the Balance Sheet at Insurance Valuation which is based on market value. The significant items held in the museums are recorded in the Authority's Asset Register. The values are based on a 2008/09 valuation by Jeremy Rye and Co., Fine Art Agents and Valuers. Limits on the usefulness of any valuations include:

- they are held for perpetuity to further knowledge;
- the most recent valuation was for insurance purposes though is based on market value;
- there may not be a market for many of the assets held.

A number of Memorials are also recorded in the Asset Register and are valued on a 5 year rolling cycle. Heritage Assets are not depreciated because the assets do not wear out over time. The assets will be considered for any economic impairment from deterioration as part of the impairment review.

There has been no spend for the previous 4 years.
There are a number of assets which have not been included in the Statement of Accounts as the ownership is uncertain, however they are on the Authority's land and should be disclosed. These include:

| | |
|---|---|
| Ancient Monuments | 7 |
| War Memorials | 11 |
| Clock Towers | 3 |

Change in Accounting Policy

Recognising Heritage assets this year for the first time is a change in accounting policy. The implications of this are explained in the Explanatory Foreword and in Accounting Policy.

**14. INVESTMENT PROPERTIES**

The following items of income and expense have been accounted for in the finance and investment income and expenditure line in the Comprehensive Income and Expenditure statement:

| | 2010/11 | 2011/12 |
|---|---|---|
| | £'000 | £'000 |
| Rental Income | -5 | -9 |
| Direct Operating Expense | 7 | 37 |
| | 2 | 28 |

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

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

| | 2010/11 | 2011/12 |
|---|---|---|
| | £'000 | £'000 |
| Balance At Start Of Year | 532 | 477 |
| Disposals | -55 | |
| Changes In Fair Value | 0 | -101 |
| Balance At End Of Year | 477 | 376 |

**15. INTANGIBLE ASSETS**

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. All software is given a finite useful life of 7 years, based on assessments of the period that the software is expected to be of use to the Authority.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £442k charged to revenue in 2011/12 was mostly charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the net expenditure of services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading. There are no Contractual commitments.

The movement on intangible assets is as follows:

| | | | 2010/11 | | | 2011/12 |
|---|---|---|---|---|---|---|
| | Internally Generated | Other | Total | Internally Generated | Other | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost At 1st April | | 2,691 | 2,691 | | 3,487 | 3,487 |
| Accumulated Amortisation 1st April | | -1,127 | -1,127 | | -1,474 | -1,474 |
| Accumulated Impairment 1st April | | -22 | -22 | | -22 | -22 |
| **Net Carrying Amount At 1st April** | | 1,542 | 1,542 | | 1,991 | 1,991 |
| Additions: | | | | | | |
| - Internally Developed | | | | | | |
| - Purchase | | 796 | 796 | | 881 | 881 |
| Other Disposals | | | | | | |
| Impairment Losses Recognised In The Surplus/Deficit On The Provision Of Services | | | | | | |
| Amortisation For The Period | | -347 | -347 | | -442 | -442 |
| Other Changes | | | | | 1 | 1 |
| **Net Carrying Amount At 31st March** | | 1,991 | 1,991 | | 2,431 | 2,431 |
| | | | | | | |
| Comprising | | | | | | |
| Cost At 31st March | | 3,487 | 3,487 | | 4,368 | 4,368 |
| **Accumulated Amortisation 31st March** | | -1,474 | -1,474 | | -1,915 | -1,915 |
| **Accumulated Impairment 31st March** | | -22 | -22 | | -22 | -22 |

## 16. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| **Opening Capital Financing Requirement** | 193,400 | 193,310 |
| Capital Investment | | |
| Property, Plant And Equipment | 18,705 | 37,804 |
| Assets Held for Sale | 1 | 0 |
| Investment Properties | 0 | 0 |
| Heritage Assets | 0 | 40 |
| Intangible Assets | 796 | 881 |
| Revenue Expenditure Funded From Capital Under Statute | 8,885 | 7,407 |
| | | |
| *Less Sources Of Finance:* | | |
| Capital Receipts | 2,914 | 4,822 |

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Government Grants And Other Contributions | 16,799 | 24,967 |
| Sums Set Aside From Revenue: | | |
| Direct Revenue Contributions | 1,838 | 7,411 |
| Capital Receipts Set Aside | 347 | 142 |
| Minimum Revenue Provision (MRP) | 6,579 | 6,610 |
| **Closing Capital Financing Requirement** | 193,310 | 195,490 |
| | | |
| **Explanation Of Movement In Year** | | |
| Increase In Underlying Need To Borrow (Supported By Government Financial Assistance) | -147 | 945 |
| Increase In Underlying Need To Borrow (Unsupported By Government Financial Assistance) | 0 | 1,235 |
| Assets Acquired Under Finance Leases | 57 | 0 |
| **Increase/(Decrease) In Capital Financing Requirement** | -90 | 2,180 |

## 17. IMPAIRMENT LOSSES

During 2011/12 the Authority has recognised an impairment loss of £9.6m (£6.5m 2010/11) in relation to Capital expenditure spent on council dwellings and other land and buildings, which does not change the value of the asset as it is considered non-enhancing.

## 18. FINANCIAL INSTRUMENTS

The Authority had the following categories of financial instruments in the Balance Sheet:

| **Long-term** | **2011** | **2012** |
|---|---|---|
| | **£'000** | **£'000** |
| **Investments** | | |
| Loans And Receivables | 1,208 | 791 |
| Available For Sale Financial Assets | 3,097 | 3,074 |
| Total Investments | 4,305 | 3,865 |
| | | |
| **Debtors** | | |
| Loans And Receivables | 482 | 684 |
| Financial Assets Carried At Contract Amount | 0 | 0 |
| Total Debtors | 482 | 684 |
| | | |
| **Borrowings** | | |
| Financial Liabilities At Amortised Cost | 146,551 | 146,395 |
| Finance Leases | 24 | 1 |
| Total Borrowings | 146,575 | 146,396 |
| | | |
| **Creditors** | | |
| Financial Liabilities At Amortised Cost | 515 | 216 |
| Financial Liabilities Carried At Contract Amount | 9,510 | 7,608 |
| Total Creditors | 10,025 | 7,824 |

| Current | 2011 | 2012 |
|---|---|---|
| | £'000 | £'000 |
| **Investments** | | |
| Loans And Receivables | 26,924 | 29,956 |
| Available For Sale Financial Assets | 0 | 0 |
| Total Investments | 26,924 | 29,956 |
| | | |
| **Debtors** | | |
| Loans And Receivables | 0 | 0 |
| Financial Assets Carried At Contract Amount | 21,547 | 26,731 |
| Total Debtors | 21,547 | 26,731 |
| | | |
| **Borrowings** | | |
| Financial Liabilities At Amortised Cost | 1,488 | 1,673 |
| Finance Leases | 63 | 21 |
| Total Borrowings | 1,551 | 1,694 |
| | | |
| **Creditors** | | |
| Financial Liabilities At Amortised Cost | 0 | 298 |
| Financial Liabilities Carried At Contract Amount | 30,582 | 34,362 |
| Total Creditors | 30,582 | 34,660 |

| | 2011 | 2011 | 2011 | 2011 | 2012 | 2012 | 2012 | 2012 |
|---|---|---|---|---|---|---|---|---|
| | **Financial Liabilities at Amortised Cost** | **Financial Assets: Loans and Receivable** | **Financial Assets: Available for Sale Assets** | **Total** | **Financial Liabilities at Amortised Cost** | **Financial Assets: Loans and Receivable** | **Financial Assets: Available for Sale Assets** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Interest Expense | 7,068 | | | 7,068 | 6,905 | | | 6,905 |
| Reductions In Fair Values | | | | | | | | |
| Impairment Loss | | 111 | | 111 | | | | |
| Fee Expense | | | | | | | | |
| **Total Expense In Deficit On The Provision Of Services** | **7,068** | **111** | **0** | **7,179** | **6,905** | | **0** | **6,905** |
| | | | | | | | | |
| Interest Income | | -433 | | -433 | | -602 | | -602 |
| Gains On Derecognition | | | | | | | | |
| Fee Income | | | | | | | | |
| Interest Income Accrued On Impaired Financial Assets | | -251 | | -251 | | -280 | | -280 |
| **Total Income In Deficit On The Provision Of Services** | | **-684** | | **-684** | | **-882** | | **-882** |
| | | | | | | | | |
| Gains On Revaluation | | | -102 | -102 | | | -6 | -6 |
| **Surplus/Deficit Arising On Revaluation Of Financial Assets In Other Comprehensive Income And Expenditure** | | | **-102** | **-102** | | | **-6** | **-6** |
| | | | | | | | | |
| **Net (Gain)/Loss For The Year** | **7,068** | **-573** | **-102** | **6,393** | **6,905** | **-882** | **-6** | **6,017** |

## Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. 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:

- estimated ranges of interest rates at 31 March 2012 of 1.28% to 4.37% for loans from the PWLB and 4.29% to 4.73% for other loans receivable and payable, based on new lending rates for equivalent loans at that date.
- no early repayment or impairment is recognised.
- where an instrument will mature in the next 12 months, carrying amount is assumed approximate to fair value.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.
- accrued interest has been included in the fair value calculation since it is included in the carrying value of loans in the Balance Sheet.

The fair values calculated are as follows:

| | 31 March 2011 | | 31 March 2012 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Liabilities | 148,126 | 144,302 | 149,090 | 155,043 |
| Long-Term Creditors | 11,422 | 11,422 | 7,824 | 7,824 |

The fair value of the liabilities is greater than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

| | 31 March 2011 | | 31 March 2012 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £'000 | £'000 | £'000 | £'000 |
| Loans And Receivables | 24,574 | 24,552 | 29,956 | 29,972 |
| Long-Term Debtors | 482 | 482 | 684 | 684 |

Note: A fair value for the remaining Icelandic investments is unavailable so has been excluded. Further information on the Icelandic Debt can be found in Note 50. The fair value of the assets is higher than the carrying amount because the Authority's portfolio of investments includes a number where the interest rate receivable is higher than the rates estimated to be available for similar investments at the Balance Sheet date.

<u>Low Cost Housing (available for sale assets)</u>
Under this scheme the Council bought properties and sold them at a discount to eligible purchasers. The debtor sums reflect the amounts repayable to the Council when those properties are sold and are measured at market value.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

**19. INVENTORIES**

Inventories are stated at the lowest of cost and net realisable value. All inventories from the previous year are expended through the accounts. The balances are those held as at 31st March.

| | 2011<br>£`000 | 2012<br>£`000 |
|---|---|---|
| Building Materials, Vehicle Parts Etc | 531 | 655 |
| Road Salt | 1,150 | 577 |
| Other | 51 | 75 |
| | 1,732 | 1,307 |

**20. SHORT TERM DEBTORS**

Short term debtors are amounts owed to the Authority that are due for collection within one year from 31st March and shown net of provisions for bad debts.

| | 2011<br>£`000 | 2012<br>£`000 |
|---|---|---|
| **Central government** | | |
| Welsh Government | 5,373 | 8,891 |
| European Community | 2,491 | 1,403 |
| VAT – HMRC | 2,164 | 5,177 |
| Countryside Commission for Wales | 3 | 50 |
| Department for Works and Pensions | 0 | 1,921 |
| Home Office | 4 | 0 |
| National Education Council | 128 | 0 |
| Sports Council | 12 | 0 |
| | | |
| **Other local authorities** | | |
| Ceredigion Council | 49 | 0 |
| Other education authorities | 622 | 656 |
| Shropshire County Council | 257 | 9 |
| **NHS bodies** | | |
| Powys Teaching Health Board | 563 | 713 |
| | | |
| **Debts other than government** | | |
| Council Tax | 2,780 | 2,734 |
| Housing tenants | 224 | 235 |
| Employees | 204 | 108 |
| Other short term debtors | 4,550 | 4,610 |
| Payments in advance | 2,123 | 1,499 |
| | 21,547 | 28,006 |

**21. CASH AND BANK ACCOUNTS**

Cash was held in the following categories as at 31 March:

| | 2011<br>£`000 | 2012<br>£`000 |
|---|---|---|
| Cash Held By The Authority | 10,553 | 13,826 |
| Bank Current Accounts | -5,738 | -8798 |
| | 4,815 | 5,028 |

## 22. ASSETS HELD FOR SALE

| | Current | |
|---|---|---|
| | 2010/11 | 2011/12 |
| | £'000 | £'000 |
| Balance At Start Of Year | 718 | 509 |
| Revaluation Loss | | -2 |
| Assets Newly Classified As Held For Sale: | | |
| - Property, Plant And Equipment | 90 | -10 |
| Assets Sold | -299 | -449 |
| Balance At End Of Year | 509 | 48 |

## 23. SHORT TERM CREDITORS

Short term creditors are amounts owed by the Authority that are due for payments within one year from 31st March:

| | 2011 £`000 | 2012 £`000 |
|---|---|---|
| **Central Government Bodies** | | |
| Welsh Government | 10 | 1,822 |
| HM Revenues And Customs | 3,045 | 2,940 |
| Department of Works and Pensions | 0 | 0 |
| **Local Authorities** | | |
| Ceredigion C.C | 0 | 1,489 |
| **NHS Bodies** | | |
| Powys Teaching Health Board | 0 | 183 |
| **Non Government Creditors** | | |
| Sundry Creditors | 14,775 | 16,278 |
| Wages And Salaries | 2,417 | 2,188 |
| Payments Received In Advance | 1,701 | 609 |
| Deposits – Section 40 Advance | 505 | 545 |
| Deposits – Section 106 Deposit | 991 | 1,349 |
| Commuted Sums – Land Drainage | 364 | 438 |
| Council Tax Credits | 1,490 | 975 |
| Insurance Provisions | 1,397 | 1,273 |
| Provision For Holiday Accrual | 3,887 | 4,355 |
| | 30,582 | 34,444 |

## 24. PROVISIONS

| | At 01.04.11 £`000 | Payments Paid in year £`000 | Change During Year £`000 | At 31.03.12 £`000 |
|---|---|---|---|---|
| Other Provisions | 10,025 | 0 | 439 | 10,464 |
| | 10,025 | 0 | 439 | 10,464 |

Other Provisions includes amounts set aside for equal pay. There are no material unfunded risks. The £439k change in the year includes £216k reclassified as a short-term creditor.

## 25. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the movement in reserves statement, including the Council Fund and HRA.

## 26. UNUSABLE RESERVES

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| | £'000 | £'000 |
| Revaluation Reserve | 123,408 | 119,951 |
| Available For Sale Financial Instruments | 1,779 | 1,766 |
| Capital Adjustment Account | 199,890 | 219,128 |
| Financial Instruments Adjustment Account | 1,965 | 1,678 |
| Pensions Reserve | -181,380 | -226,080 |
| Deferred Capital Receipts | 493 | 729 |
| Accumulating Balances Adjustment Account | -3,886 | -4,355 |
| | 142,269 | 112,817 |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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:

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

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

| | 2010/11 £`000 | 2010/11 £`000 | 2011/12 £`000 | 2011/12 £`000 |
|---|---|---|---|---|
| Balance as at 01 April | | 130,587 | | 123,408 |
| Upward revaluation of assets | 5,191 | | 6,563 | |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit On The Provision of Services | -9,272 | | -7,142 | |
| Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services | | -4,081 | | -579 |
| | | | | |
| Difference between fair value depreciation and historical cost deprecation | -2,426 | | -2,403 | |
| Accumulated gains on assets sold or scrapped | -672 | | -475 | |
| Amount written off to the Capital Adjustment Account | | -3,098 | | -2,878 |
| Balance at 31 March | | 123,408 | | 119,951 |

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost
- Disposed of and the gains are realised.

| | 2010/11 | 2011/12 |
|---|---|---|
| | £'000 | £'000 |
| Balance at 1 April | 1,881 | 1,779 |
| Downward revaluation of investments | 0 | -7 |
| Downward revaluation of investments not charged to the Surplus/Deficit On The Provision Of Services | -102 | -6 |
| Balance at 31 March | 1,779 | 1,766 |

**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 Authority as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Authority. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| | 2010/11 | 2010/11 | 2011/12 | 2011/12 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April | | 198,121 | | 199,890 |
| **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income And Expenditure Statement:** | | | | |
| Charges for depreciation of non current assets | -13,202 | | -12,558 | |
| Amortisation of Intangible Assets | 0 | | -442 | |
| Revaluation losses on Property, Plant And Equipment | -4,837 | | -2,812 | |
| Impairment due to economic consumption | -1,404 | | -2,705 | |
| Revenue expenditure funded from capital under statute | -1,398 | | -2,178 | |
| Amounts of non-current assets written off on disposal or sale as part of the gains/loss on disposal to the Comprehensive Income And Expenditure Statement | -826 | -21,667 | -1,619 | -22,314 |
| Depreciation transfer to Revaluation Reserve | | 2,426 | | 2,403 |
| **Net written out of the cost of non current assets consumed in the year** | | -19,241 | | -19,911 |
| **Capital financing applied in the year** | | | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 1,970 | | 4,126 | |
| Capital grants and contributions credited to the Comprehensive Income And Expenditure Statement that have been applied to capital financing | 9,594 | | 20,127 | |

| | 2010/11 | 2010/11 | 2011/12 | 2011/12 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Application of grants to capital financing from the Capital Grants Unapplied Account | 689 | | 1,009 | |
| Capital expenditure charged against the Council Fund and HRA balances | 1,815 | | 7,237 | |
| Statutory provision for the financing of capital investment charged against the Council Fund and HRA balances | 6,579 | 20,647 | 6,610 | 39,109 |
| Movement in the market value of Investment Properties debited or credited to the Comprehensive Income And Expenditure Statement | | 0 | | -101 |
| Deferred credits transfer | | 34 | | 11 |
| Reserved capital receipts | | 329 | | 130 |
| Balance at 31 March | | 199,890 | | 219,128 |

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses, relating to certain financial instruments and for bearing losses, or benefiting from gains, per statutory provisions. The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the Council Fund Balance to the account in the movement in reserves statement. Over time, the expense is posted back to the Council Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at 31 March 2012 will be charged to the Council Fund over the remaining life of repaid loans.

| | 2010/11 | 2011/12 |
|---|---|---|
| | £'000 | £'000 |
| Balance at 1 April | 1,639 | 1,965 |
| Discounts paid from rescheduling of debt | 0 | 0 |
| Soft loans adjustment | -59 | 32 |
| Proportion of premiums incurred in previous financial years to be charged against the Council Fund balance in accordance with statutory requirements | -288 | -289 |
| Invest to save loans | -21 | -30 |
| Icelandic impairments transferred to Council Fund | 805 | 0 |
| Impairment of Icelandic debt | -111 | 0 |
| Balance at 31 March | 1,965 | 1,678 |

## Pensions Reserve

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

| | 2010/11 | 2011/12 |
|---|---|---|
| | £'000 | £'000 |
| Balance at 1 April | -232,850 | -181,380 |
| Actuarial gains or losses on pensions assets and liabilities | -800 | -43,710 |
| 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 | 35,940 | -17,330 |
| Employer's pensions contributions | 16,330 | 16,340 |
| Balance at 31 March | -181,380 | -226,080 |

**Deferred Capital Receipts Reserve**

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

| | 2010/11 | 2011/12 |
|---|---|---|
| | £'000 | £'000 |
| Balance at 1 April | 157 | 493 |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | -18 | -11 |
| Landlord Loans | 384 | 322 |
| Transfer to the Capital Receipts Reserve upon receipt of cash | -30 | -75 |
| Balance at 31 March | 493 | 729 |

**Accumulated Absences Account**

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

| | 2010/11 | 2011/12 |
|---|---|---|
| | £'000 | £'000 |
| Balance at 1 April | -3,777 | -3,886 |
| Settlement or cancellation of accrual made at the end of the preceding year | 3,777 | 3,886 |
| Amounts accrued at the end of the current year | -3,886 | -4,355 |
| Balance at 31 March | -3,886 | -4,355 |

**27. 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 *Services Reporting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Board on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (where as depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income And Expenditure Statement).
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

| **2011/12 Net expenditure by directorate** | **Total £'000** |
|---|---|
| *Care And Wellbeing* | |
| Adult And Commissioning | 45,006 |
| Children's Services | 16,817 |
| Housing And Regulatory Services | 2,132 |
| *Finance And Infrastructure* | |
| Finance And Corporate Performance | 38 |
| Local Environmental Services | 26,848 |
| Business Performance Unit | -468 |
| *Law And Governance* | |
| Legal, Scrutiny And Democratic | 3,175 |
| Information And Customer Services | 274 |
| Human Resources | 400 |
| *Skills And Learning* | |
| School And Inclusion | 97,183 |
| Leisure And Recreation | 13,926 |
| Regeneration And Development | 4,429 |
| | |
| **SERVICE AREA TOTALS** | 209,760 |
| Corporate Activities | 28,764 |
| **Total** | 238,524 |
| Council Tax | -67,625 |
| Revenue Support Grant | -148,025 |
| Non Domestic Rates | -31,412 |
| **Net Expenditure In The Directorate Analysis** | -8,538 |
| Net expenditure not included in the analysis | 8,918 |
| Amounts in the Comprehensive Income And Expenditure Statement not reported to management in the analysis | -20,650 |
| **Surplus on Services In Comprehensive Income And Expenditure Statement** | -20,270 |

| **2010/11 Net expenditure by directorate** | **Total £'000** |
|---|---|
| *Care And Wellbeing* | |
| Adult And Commissioning | 41,652 |
| Children's Services | 15,270 |
| Housing And Regulatory Services | 3,089 |
| *Finance And Infrastructure* | |
| Finance And Corporate Performance | 4,742 |
| Local Environmental Services | 25,358 |
| Business Performance Unit | 7,962 |
| *Law And Governance* | |
| Legal, Scrutiny And Democratic | 3,163 |
| Information And Customer Services | 4,270 |

| **2010/11 Net expenditure by directorate** | **Total £'000** |
|---|---|
| Human Resources | 2,863 |
| *Skills And Learning* | |
| School And Inclusion | 97,915 |
| Leisure And Recreation | 13,773 |
| Regeneration And Development | 3,737 |
| *Performance, Partnerships & Modernisation* | 2,278 |
| **SERVICE AREA TOTALS** | 226,072 |
| Central Activities | 30,933 |
| **Total** | 257,005 |
| Council Tax | -65,062 |
| Revenue Support Grant | -143,679 |
| Non Domestic Rates | -37,625 |
| **Net Expenditure In The Directorate Analysis** | 10,639 |
| Adjustment for reserves and recharges included in spend | -34,873 |
| Actual Spend | -24,234 |
| Net expenditure not included in the analysis | 1,680 |
| Amounts in the Comprehensive Income And Expenditure Statement not reported to management in the analysis | -35,667 |
| **Cost Of Services In Comprehensive Income And Expenditure Statement** | -58,221 |

### Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of directorate net expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

| **2011/12** | **Per Directorates analysis** | **Amounts not reported to management for decision making** | **Amounts not included in income and expenditure** | **Per the surplus from the provision of services** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Grants | -90,295 | -4,454 | -24,344 | -119,094 |
| Generated Income | -89,310 | 0 | 762 | -88,548 |
| Internal Recharges | -50,050 | -12,380 | 0 | -62,430 |
| Profit on Disposal of Assets | 0 | 0 | -785 | -785 |
| Council Tax | -67,625 | 0 | 0 | -67,625 |
| Non Domestic Rates | -31,412 | 0 | 0 | -31,412 |
| Revenue Support Grant | -148,025 | 0 | 0 | -148,025 |
| **Total Income** | -476,717 | -16,834 | -24,367 | -517,920 |
| | | | | |
| Employee Costs | 171,289 | 0 | -3,636 | 167,653 |
| Premises Costs | 26,806 | 0 | -159 | 26,647 |
| Transport Costs | 25,595 | 0 | -71 | 25,524 |
| Supplies And Services | 33,409 | 0 | -449 | 32,960 |
| Depreciation And Impairment | 0 | 0 | 19,252 | 19,252 |
| Refcus | 0 | 7,329 | 0 | 7,329 |
| Agency Fees | 86,811 | 0 | 1 | 86,812 |
| Precepts And Levies | 20,167 | 0 | 0 | 20,167 |

| 2011/12 | Per Directorates analysis | Amounts not reported to management for decision making | Amounts not included in income and expenditure | Per the surplus from the provision of services |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Transfer Payments | 43,565 | 0 | 0 | 43,565 |
| Central Recharges | 38,917 | 16,137 | -2,913 | 52,141 |
| Interest And Similar Charges | 21,620 | 0 | -13,688 | 7,932 |
| Pension Interest Costs | 0 | 0 | 4,910 | 4,910 |
| IAS19 Past Service Costs | 0 | 0 | 470 | 470 |
| Insurance | 0 | 2,287 | 0 | 2,287 |
| **Total Expenditure** | 468,179 | 25,753 | 3,718 | 497,649 |
| | | | | |
| **Net Expenditure** | -8,538 | 8,919 | -20,650 | -20,270 |

| 2010/11 | Per Directorates analysis | Amounts not reported to management for decision making | Amounts not included in income and expenditure | Per the surplus from the provision of services |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Grants | -102,036 | 0 | -669 | -102,705 |
| Generated Income | -93,189 | 0 | 19 | -93,170 |
| Internal Recharges | -9,757 | -46,518 | -316 | -56,591 |
| Council Tax | -65,062 | 0 | 0 | -65,062 |
| Non Domestic Rates | -37,625 | 0 | -1 | -37,626 |
| Revenue Support Grant | -143,679 | 0 | 0 | -143,679 |
| **Total Income** | -451,348 | -46,518 | -967 | -498,833 |
| | | | | |
| Employee Costs | 171,782 | 0 | -3,595 | 168,187 |
| Premises Costs | 26,751 | 0 | 134 | 26,885 |
| Transport Costs | 25,105 | 0 | 0 | 25,105 |
| Supplies And Services | 38,771 | 321 | 83 | 39,175 |
| Depreciation And Impairment | 0 | 19,443 | 0 | 19,443 |
| Refcus | 0 | 2,233 | 0 | 2,233 |
| Agency Fees | 85,221 | 0 | 1 | 85,222 |
| Precepts And Levies | 19,763 | 0 | 0 | 19,763 |
| Transfer Payments | 41,095 | 0 | -1 | 41,094 |
| Central Recharges | 2,582 | 46,493 | 6,347 | 55,422 |
| Interest And Similar Charges | 16,044 | -20,861 | 10,449 | 5,632 |
| Pension Interest Costs | 0 | 0 | 8,550 | 8,550 |
| IAS19 Past Service Costs | 0 | 0 | -56,890 | -56,890 |
| Insurance | 0 | 2,080 | 0 | 2,080 |
| Loss on Disposal of Assets | 0 | -1,289 | 0 | -1,289 |
| **Total Expenditure** | 427,114 | 48,420 | -34,922 | 440,612 |
| | | | | |
| **Net Expenditure** | -24,234 | 1,902 | -35,889 | -58,221 |

## 28. CASHFLOW STATEMENT – INVESTING ACTIVITIES

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Purchase of property, plant and equipment, investment property and intangible assets | 19,202 | 39,646 |
| Purchase of short and long term investments | 298,290 | 357,340 |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | -2,638 | -2,912 |
| Proceeds from the sale of short and long term investments | -303,935 | -350,105 |
| **Net Cash Flows From Investing Activities** | 10,919 | 43,969 |

## 29. CASHFLOW STATEMENT – FINANCING ACTIVITIES

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Other receipts from investing activities | -10,532 | -25,270 |
| Cash payments relating to the reduction of the outstanding liabilities on finance leases | 196 | 72 |
| Repayments of short and long term borrowing | 14,011 | 12 |
| Other payments for financing activities | 2,876 | 3,240 |
| **Net Cash Flows From Financing Activities** | 6,551 | -21,946 |

## 30. ANALYSIS OF GOVERNMENT GRANTS

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Housing Grants | 11,237 | 10,523 |
| Other Housing | 30 | 0 |
| Other Social Services (Primarily Mental Handicap Strategy) | 6,968 | 4,785 |
| Supporting People | 4,645 | 4,583 |
| Other Transport Grants (Including Concessionary Travel) | 3,851 | 2,338 |
| Waste Disposal And Recycling Grants | 4,307 | 3,174 |
| Education Grants | 16,449 | 15,292 |
| Welsh Language Grant | 96 | 0 |
| PIG Policy Agreements | 1,063 | 1,426 |
| Rural Development Grant | 258 | 0 |
| Regeneration and Development | 0 | 392 |
| Built Heritage ReFCUS | 0 | 100 |
| CESF Grant | 0 | 230 |
| Economic And Community Regeneration | 560 | 0 |
| Miscellaneous | 1,606 | 376 |
| Safer Communities Fund | 277 | 205 |
| Housing Benefit Local Housing Allowance Rollout | 55 | 46 |
| Communities First | 492 | 471 |
| Work Based Learning | 1,749 | 799 |
| ReFCUS | 2,918 | 2,619 |
| Community Regeneration | 64 | 0 |
| Public Protection | 210 | 43 |
| Sports Council | 284 | 667 |
| Animal Welfare | 61 | 165 |
| Leisure & Recreation | 406 | 313 |
| Welsh Arts Council | 323 | 137 |
| Nutrition In Schools/Appetite For Life | 124 | 123 |
| | 58,033 | 48,807 |

## 31. TRADING OPERATIONS

The SeRCOP defines trading operations as services provided for users on a basis other than a straight forward recharge of cost. Services can be provided for external and internal users, but the vast majority of activity is internal.  Significant areas of trading activities during 2011/12 were:

| | 2010/11 Restated (Surplus)/Deficit £`000 | 2011/12 Expenditure £`000 | 2011/12 Income £`000 | 2011/12 (Surplus)/Deficit £`000 |
|---|---|---|---|---|
| Building Cleaning | 407 | 3,187 | -3,120 | 67 |
| Building Maintenance | 28 | 1,141 | -1,255 | -114 |
| Catering | 119 | 5,086 | -5,010 | 76 |
| Central Administration | 25 | 26,031 | -25,284 | 747 |
| Engineering And Building Design | -470 | 7,842 | -8,390 | -548 |
| Highways Maintenance | 415 | 844 | -669 | 175 |
| Information Technology Dept | -78 | 3,519 | -3,878 | -359 |
| Internal Insurance | -169 | 1,581 | -1,577 | 4 |
| Refuse Collection | -58 | | | |
| Vehicle Maintenance And Transport | -92 | 8,374 | -8,248 | 126 |
| Pension Deficit Funding On Trading Accounts | -807 | | -913 | -913 |
| Performance And Communications | 232 | 420 | -248 | 172 |
| | -448 | 58,026 | -58,592 | -566 |

Please see Note 51 for the details of the restated 2010/11 comparatives. All internal trading activities of the Council continues to be reviewed to establish if an internal market is still an appropriate method of accounting for costs.

Refuse Collection has been recorded as aTrading operation in previous years, this has been reviewed and is now not considered to be appropriate, the income and expenditure associated with this  has been removed from this section and is now included within Culture Environmental and Planning within the Comprehensive Income & Expenditure Statement

## 32. AGENCY SERVICES

The Council carries out work on an agency basis for other organisations for which it is fully reimbursed.  These amounts are excluded from the Authority's results. The significant agency services provided were:

| Agency | Description | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|---|
| Welsh Government | Trunk roads maintenance and improvement | 18,455 | 16,762 |

## 33. POOLED BUDGETS AND JOINT ARRANGEMENTS

### (Section 31 Health Act 1999)

Powys Teaching Health Board (PTHB) and Powys County Council have entered into a partnership agreement in accordance with Section 31 of the Health Act 1999. The health related function which is subject to these arrangements is the provision of care by a registered nurse in care homes, which is a service provided by the NHS Body under Section 2 of the National Health Service Act 1977. In accordance with the Social Care Act 2001 Section 49 care from a registered nurse is funded by the NHS regardless of the setting in which it is delivered. (Circular 12/2003).

The agreement will not affect the liability of the parties for the exercise of their respective statutory functions and obligations. The partnership agreement operates in accordance with the Welsh Assembly Government Guidance NHS Funded Nursing Care 2004. The allocation received for 2011/12 for free nursing care was £1,942k (2010/11 £1,942k), which is now within the PTHB base allocation from WG.

Powys County Council paid to Care Homes:

| | 2010/11 £'000 | 2011/12 £'000 | 2011/12 £'000 | 2011/12 £'000 |
|---|---|---|---|---|
| **Gross Funding** | **Total** | **Staff** | **Other** | **Total** |
| Powys County Council | 1,064 | 0 | 1,064 | 1,064 |
| Powys Teaching Health Board | 878 | 0 | 878 | 878 |
| **Total Funding** | 1,942 | 0 | 1,942 | 1,942 |
| **Expenditure** | | | | |
| Monies spent in accordance with pooled budget arrangement | 1,880 | 218 | 1,715 | 1,933 |
| **Total Expenditure** | 1,880 | 218 | 1,715 | 1,933 |
| **Net Underspend** | 62 | -218 | 227 | 9 |

| | 2011/12 £'000 | 2011/12 £'000 |
|---|---|---|
| Net underspend – held | **£'000** | **£'000** |
| Powys County Council | 0 | 0 |
| Powys Teaching Health Board | 62 | 9 |
| | 62 | 9 |

The above memorandum account is subject to the audit of Powys County Council.

### Pooled Budgets

Powys County Council and Powys Teaching Health Board have entered into a partnership agreement in accordance with Section 33 of the Health Act 1999. The agreement will not affect the liability of the parties from the exercise of their respective statutory functions and obligations.

The gross funding agreed by both parties is detailed on the following page:-

| | | 2010/11 £'000 | 2011/12 £'000 |
|---|---|---|---|
| **Gross Funding** | | | |
| Powys County Council | | 384 | 384 |
| Powys Teaching Health Board | | 341 | 334 |
| Other | | 95 | 95 |
| **Total Funding** | | 820 | 813 |
| **Expenditure** | | | |
| Management costs | | 30 | 33 |
| Equipment purchase | | 456 | 393 |
| Maintenance and Inspection | | 179 | 182 |
| Delivery, Cleaning and Collection Charges | | 339 | 371 |
| **Total Expenditure** | | 1,104 | 979 |
| **Net (Over) Spend** | | -184 | -166 |

The above memorandum account is subject to the audit of Powys County Council.

## 34. ACCOUNTING FOR JOINT ARRANGEMENTS WHICH ARE NOT ENTITIES (JANE'S)

The Council works in partnership with many other Local Authorities in the joint provision of services. Traditionally one Authority acts as lead in these arrangements and will incur all expenditure for the service with the other authorities making a contribution for a calculated or negotiated share of the costs. Where contributions in cash during the year are less than or exceed the final amount due a debtor/creditor is kept in the lead Authority's books to add/deduct from the next years contribution.

Within the 2011 SORP there is a requirement that for these joint arrangements:-

1) Lead Authorities no longer record such over/underpayments as debtors and creditors but rather transfer any balances to an earmarked reserve (the joint arrangement reserve)
2) The Lead Authority would then have to recognise only its part of the over/under spend in the reserve with entries through the revenue account being required to create debtors/creditors in respect of participating Authority's share of the reserves.
3) All these entries would effectively be reversed on 1st April of the following year.

In respect of this Authority we have identified the following JANE's to which these accounting entries could be applied:- South and Mid Wales Consortium (SWAMWAC) – Education support. Since the amounts would be reversed on 1st April and are not significant no actual entries have been made for these arrangements other than the direct expenditure and income applicable to each scheme. The following reflects the potential entries that could be made (none of which impact on the general reserves position of the Council):-

| **Income and Expenditure Account** | **Expenditure £'000** | **Income £'000** |
|---|---|---|
| Net cost of Services – Education | | 40 |
| Net transfer To Joint Arrangement Reserve | 40 | |
| | 40 | 40 |
| **Balance Sheet** | **Assets £'000** | **Reserve £'000** |
| Debtors | 47 | |
| Earmarked reserves | | 47 |
| | 47 | 47 |

## 35. MEMBERS ALLOWANCES

A total of £1,087k was paid to Councillors in basic and special responsibility allowances (£1,088k in 2010/11). Councillors are also reimbursed travel and subsistence expenses in accordance with regulations.

## 36. SENIOR OFFICERS EMOLUMENTS

Senior officer posts that attracted remuneration of at least £60k were:

| 2011/12 | Note | Salary (inc fees & allowances) | Benefits in kind | Compensation for loss of office | Total Remuneration Excluding Pension Contribution | Pension Contribution | Total Remuneration including Pension Contribution |
|---|---|---|---|---|---|---|---|
| **Post Title** | | **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** |
| Chief Executive | | 130 | | | 130 | 30 | 160 |
| Strategic Director - Finance and Infrastructure | | 101 | | | 101 | 23 | 124 |
| Strategic Director - Law and Governance | | 101 | | | 101 | 23 | 124 |
| Strategic Director - Communities, Skills and Learning | | 94 | 1 | | 95 | 22 | 117 |
| Director - Performance, Partnerships and Communications | 1 | 21 | 2 | | 23 | 5 | 28 |
| Head of Adult Services and Commissioning | | 78 | | | 78 | 18 | 96 |
| Head of Housing and Public Protection | | 78 | 1 | | 79 | 18 | 97 |
| Head of ICT and Customer Services | | 81 | | | 81 | 19 | 100 |
| Head of Schools Service | | 78 | 6 | | 84 | 18 | 102 |
| Head of Local and Environmental Services | | 78 | | | 78 | 18 | 96 |
| Head of Children's Services | | 78 | | | 78 | 18 | 96 |
| Head of Regeneration and Development | | 77 | | | 77 | 18 | 95 |
| Head of Business and Performance Unit | | 76 | 3 | | 79 | 18 | 97 |
| Head of Human Resources | | 76 | 1 | | 77 | 18 | 95 |
| Head of Leisure and Recreation | | 67 | 2 | | 69 | 16 | 85 |
| Head of Legal and Democratic Services | | 67 | | | 67 | 16 | 83 |
| Head of Finance | | 66 | | | 66 | 15 | 81 |

**Note 1** - The role of Director - Performance, Partnerships and Communications ceased in June 2011 as a result of changes to the Corporate Strategy following the Wales Audit Office Corporate Assessment.

| 2010/11 | Note | Salary (inc fees & allowances) | Benefits in kind | Compensation for loss of office | Total Remuneration Excluding Pension Contribution | Pension Contribution | Total Remuneration including Pension Contribution |
|---|---|---|---|---|---|---|---|
| **Post Title** | | **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** |
| Chief Executive | | 127 | | | 127 | 30 | 157 |
| Strategic Director - Finance and Infrastructure | | 98 | | | 98 | 23 | 121 |
| Strategic Director - Law and Governance | | 98 | | | 98 | 23 | 121 |
| Strategic Director - Communities, Skills and Learning | | 91 | 2 | | 93 | 21 | 114 |
| Director - Performance, Partnerships and Communications | | 81 | 2 | | 83 | 19 | 102 |
| Head of Adult Services and Commissioning | | 79 | | | 79 | 18 | 97 |
| Head of Housing and Public Protection | | 78 | 1 | | 79 | 18 | 97 |
| Head of ICT and Customer Services | | 78 | | | 78 | 18 | 96 |
| Head of Schools Service | 1 | 78 | | | 78 | 18 | 96 |
| Head of Local and Environmental Services | | 78 | | | 78 | 18 | 96 |
| Head of Children's Services | | 76 | | | 76 | 18 | 94 |
| Head of Regeneration and Development | | 76 | | | 76 | 18 | 94 |
| Head of Business and Performance Unit | 2 | 73 | 2 | | 75 | 17 | 92 |
| Interim Head of Human Resources | | 73 | 2 | | 75 | 17 | 92 |
| Head of Leisure and Recreation | | 64 | 3 | | 67 | 15 | 82 |
| Interim Head of Legal and Democratic Services | | 65 | | | 65 | 15 | 80 |
| Interim Strategic Director - Care and Well-Being | 3& 4 | 42 | | 23 | 65 | 9 | 74 |
| Acting Head of Adult Services and Commissioning | 5 | 16 | | | 16 | 4 | 20 |
| Head of Finance | 6 | 3 | | | 3 | 0 | 3 |

**Note 1** - The Head of Schools Services commencement date was 01/09/2010. Their previous position was Head of Schools and Inclusion which carried the same salary.
**Note 2** - The Head of Business and Performance Unit commencement date was 01/02/2011. Their previous position was Interim Head of Business and Performance Unit which carried the same salary.
**Note 3** - The Interim Strategic Director - Care and Well-Being left position on 31/08/2010. The annualised salary was £91,761.
**Note 4** - A consultant filled the role of Interim Strategic Director - Care and Well Being and Interim Head of Adult Social Services. The cost to the Authority for 2011/12 was £102K

**Note 5** - The Acting Head of Adult Services and Commissioning was appointed on 10/01/2011. The annualised salary was £71,390.
**Note 6** - The Head of Finance was appointed on 14/03/2011. The annualised salary was £65,092.

The following number of higher paid officers, excluding senior officers, of the County Council received emoluments in excess of £60,000 in the year. Remuneration bands exclude employer's pension contributions:

| Remuneration Band | 2010/11 No | 2011/12 No |
|---|---|---|
| £60,000 - £64,999 | 15 | 12 |
| £65,000 - £69,999 | 7 | 6 |
| £70,000 - £74,999 | 3 | 4 |
| £75,000 - £79,999 | 2 | 1 |
| £80,000 - £84,999 | 1 | 2 |
| £85,000 - £89,999 | 1 | 1 |

Note 43 details termination benefits

### 37. AUDIT COSTS

During the year the Auditor General for Wales was paid for the following work performed:

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Accounts | 160 | 183 |
| Performance audit | 75 | 158 |
| Grant claims | 97 | 109 |
| Other | 4 | 1 |
| | 336 | 451 |

### 38. TAXATION AND NON SPECIFIC GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

| Credited to Taxation and Non Specific Grant Income | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Council Tax | 65,062 | 67,625 |
| Revenue Support Grant | 143,529 | 148,025 |
| Non Domestic Rates Redistribution | 37,625 | 31,412 |
| Other Non Specific Grants | 150 | 0 |
| | 246,366 | 247,062 |

NNDR is organised on a national basis. The Welsh Government (WG) specifies an amount for the rate (42.8p in 2011/12 and 40.9p in 2010/11) and, subject to the effects of transitory arrangements, local businesses pay rates calculated by multiplying their rateable value by this amount. The Council pays the rates it collects to a pool administered by WG. WG redistributes the sums payable back to Local Authorities on the basis of a fixed amount per head of population.

The Authority also receives specific grants to be credited directly to services:

| Grants | 2010/11 £'000 | 2011/12 £'000 |
|---|---|---|
| Benefit Administration Grant | 892 | 867 |
| Council Tax Benefit Take Up | 38 | 20 |
| Central Government Other | 260 | 139 |
| Contribution From TEC | 1,679 | 1,634 |
| Council Tax Benefit Grant | 7,586 | 7,931 |
| European Agricultural Fund for Rural Development | 2,034 | 1,106 |
| Education Support Grants | 44 | 953 |
| Flying Start | 995 | 992 |
| Grants for Education Support and Training | | 1,051 |
| Highways General Maintenance | 1,219 | 0 |
| HRA Subsidy | 10,564 | 10,862 |
| Lottery Grant | 143 | 77 |
| Mental Handicap Strategy | 2,378 | 2,400 |
| NNDR Collection Grant | 319 | 319 |
| Other Grants | 3,217 | 2,071 |
| PIG Policy Agreements | 1,315 | 1,423 |
| Powys Renewal - Refcus | 0 | 0 |
| Primary Schools - Unallocable | 3,010 | 3,610 |
| Recycling-Welsh Assembly Directive | 4,394 | 4,232 |
| Rent Allowance Grant | 14,577 | 16,163 |
| Schools - ReFCUS | 3,273 | 0 |
| Secondary Schools Unallocable | 7,390 | 7,277 |
| Social Services Training Supplement | 349 | 348 |
| Sports Council | 529 | 556 |
| Supporting People | 4,876 | 4,583 |
| Trunk Road Improvements | 1,565 | 727 |
| Trunk Road Maintenance | 827 | 973 |
| Welsh Development Agency Grants | 654 | 664 |
| 14-19 Revenue Grant | 944 | 0 |
| Welsh Government Other | 13,051 | 11,792 |
| | 88,122 | 82,770 |

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

| Capital grants received in advance | 2010/11 £`000 | 2011/12 £'000 |
|---|---|---|
| Balance at 01 April | 1,294 | 1,032 |
| Grants Receivable | 124 | 174 |
| Grants not received at 31st March | 339 | 3,215 |
| Transfer to Capital Grants Unapplied | | -838 |
| Capital | -674 | |
| Refcus | -51 | |
| | 1,032 | 3,583 |

## 39. COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties which have been classified into ten valuation bands based on the draft valuation list prepared by the Valuation Office that came into effect 1st April 2006. Charges are calculated by taking the amount of Council Tax income required by the County Council, Dyfed Powys Police and Community Councils for the forthcoming year and dividing this amount by the Council Tax base. The Council Tax base is the number of properties in each band adjusted by a proportion to convert the number to a band D equivalent and adjusted for discounts. The tax base used for the calculation of Council Tax in 2011/12 was 58,556 (58,246 in 2010/11).

The basic charge of £915.76 (£889.17 in 2010/11), for a band D property in 2011/12 for County Council purposes is multiplied by the proportion specified for the particular band to give the amount due for each individual property. A similar exercise is done for Dyfed Powys Police Authority and Community Council purposes to arrive at the total Council Tax charge per property.

Council Tax bills were based on the following multipliers for bands A to I.

| **Band** | **A*** | **A** | **B** | **C** | **D** | **E** | **F** | **G** | **H** | **I** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Multiplier** | 5/9 | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 | 21/9 |
| **Number of properties in band** | 4 | 2,853 | 5,771 | 9,473 | 8,505 | 12,649 | 11,695 | 6,103 | 1,107 | 396 |

| | **2010/11 £`000** | **2011/12 £`000** |
|---|---|---|
| Council tax income | 65,068 | 67,737 |
| Miscellaneous write offs | -6 | -112 |
| Net Proceeds From Council Tax | 65,062 | 67,625 |

## 40. RELATED PARTIES

The Authority is required to disclose material transactions with related parties i.e. 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 with the Authority.

### Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 27 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 38. Revenue grants outstanding are within the short term creditors note balances, Note 23.

### Members

As required by law the Authority holds a Register of Members` Interests which Members are required to maintain. In addition Members declare interests where they are involved in Authority decisions affecting that interest. Note 35 shows the allowances paid to members. The only significant transactions with companies in which members had an interest were:

| | | **£,000** |
|---|---|---|
| Banwy Fuels | Cllr W.B Thomas | 53 |
| Mid Wales Manufacturing | Cllr J H Brunt | 74 |
| School Transport | Cllr G P Vaughan | 28 |
| Wynnstay & Clwyd Farmers | Cllr Mrs E M Jones | 2 |

Some members of Powys County Council are also associated members of: Dyfed Powys Police Authority, Mid and West Wales Fire Authority and Brecon Beacons National Park.

Chief and Senior Officers and their Close Families

Senior Officers of the Council maintain a register of gifts received and are asked annually to declare any relevant interests. No material transactions took place in 2011/12.

**Other Public Bodies [subject to common control by central government]**

The Authority has two pooled budget arrangements with Powys THB for the provision of health services. Transactions and balances outstanding are detailed in note 33.

The following officers are joint working:

| Position | Purpose | Authority | Billed to PTHB/Ceredigion | Unpaid at 31 March 2012 |
|---|---|---|---|---|
| | | | £'000 | £'000 |
| Senior Director – Care and Well Being | Joint Post – Social Services | Ceredigion | 67 | 0 |
| Head of ICT | ICT Management | Powys tHB | 5 | 0 |
| Senior Partnership Manager | Joint Working – Health/Social Services | Powys tHB | 40 | 40 |
| Interim Joint Passenger Transport Manager | Bus Transport Management | Ceredigion | 12 | 12 |
| Revenues and Benefits Manager | Interim Joint Post | Ceredigion | 19 | 0 |
| Streetworks Manager | Joint Working – CWIC | Ceredigion | 27 | 27 |
| Senior Project Manager | Joint Working – CWIC | Ceredigion | 10 | 10 |
| Other - CWIC | Joint Working – CWIC | Ceredigion | 1 | 1 |

**TRACC**

Established in 2003, Trafnidiaeth Canolbarth Cymru (TraCC) is the transport Consortium for the Mid Wales Region and is a partnership between Powys and Ceredigion County Councils and Gwynedd Council. The purpose of TraCC is to bring together the highways and public transport functions of the three Mid Wales Local Authorities to identify and deliver integrated and environmentally sustainable transport solutions for the Mid Wales region. Transactions with TraCC included within the accounts are as follows:

| | **2010/11 Income** | **2010/11 Expenditure** | **2011/12 Income** | **2011/12 Expenditure** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |

| | | | | |
|---|---|---|---|---|
| Revenue | 161 | 161 | 167 | 167 |
| Capital | 225 | 225 | 496 | 496 |
| Capital – other | 0 | 0 | 7 | 0 |

**The Powys Pension Fund**

As well as making employer contributions to the fund the County Council also provides administrative services for the fund. In 2011/12 the Council was paid £677k for these services (£661k for 2010/2011). Any amounts outstanding to or from related parties are disclosed in notes 20 and 23.

## 41. LEASES

### Authority as Lessee

Operating Leases

Various services use assets financed by operating lease. The lease costs form part of each service's revenue expenditure. Total operating lease rentals paid in the year were £1,618k (£1,565k in 2010/11) and the total outstanding commitment on operating leases at the 31st March 2012 was £2,178k (£1,661k at 31st March 2011).

| | £'000 |
|---|---|
| Leases expiring in 2011/12 | 405 |
| Leases expiring between 2012/13 and 2016/17 | 1,773 |
| | 2,178 |

Finance Leases

The Council has acquired some equipment under finance leases. There are no Sub Leases relating to theses assets. The assets acquired under these leases are carried as property, plant and equipment in the Balance Sheet at the following net amounts:

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Property, Plant And Equipment | 84 | 24 |

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

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Finance lease liabilities | | |
| - current | 67 | 21 |
| - non current | 42 | 1 |
| Finance costs payable in future years | -22 | 0 |
| Minimum lease payments | 87 | 22 |

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|---|---|---|---|
| | 31 March 2011 | 31 March 2012 | 31 March 2011 | 31 March 2012 |
| | £'000 | £'000 | £'000 | £'000 |
| Not later than one year | 63 | 21 | 67 | 21 |

| | | | | |
|---|---|---|---|---|
| Later than one year and not later than five years | 24 | 1 | 42 | 1 |
| Later than five years | 0 | 0 | 0 | 0 |
| | 87 | 22 | 109 | 22 |

**Authority as Lessor**

Operating Leases

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

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. The increase in the minimum lease payments receivable under non-cancellable leases in future years below is because of the inclusion of more arrangements in the calculation, not because new ones have been signed:

| **Minimum Lease Payments** | | |
|---|---|---|
| | **31 March 2011** | **31 March 2012** |
| | **£'000** | **£'000** |
| Not later than one year | 179 | 1,056 |
| Later than one year and not later than five years | 356 | 2,480 |
| Later than five years | 437 | 3,444 |
| | 972 | 6,980 |

## 42. OBLIGATIONS UNDER LONG TERM CONTRACTS

Obligations under a contract with BUPA to purchase a minimum number of beds amounts to £10.5m. The contract expires in 2014 but options are in place to extend this period.
In addition, Powys County Council had a contract with Veolia Transport for the provision of a bus service which expired on 31st March 2012. This has been extended until a new provider is appointed following a tendering exercise currently underway.
There were no other significant long term obligations.

## 43. TERMINATION BENEFITS

The Authority had the following Redundancy Costs:

| **Range** | **2010/11 £'000** | **2011/12 £`000** |
|---|---|---|
| £0 - £20,000 | 614 | 705 |
| £20,001 - £40,000 | 668 | 1,149 |
| £40,001 - £60,000 | 488 | 571 |
| £60,001 - £80,000 | 142 | 195 |
| £80,001 - £100,000 | 81 | 0 |
| £100,001 - £160,000 | 0 | 308 |
| | 1,993 | 2,928 |

| | **2010/11 £`000** | **2011/12 £`000** |
|---|---|---|

| | | |
|---|---:|---:|
| Redundancy | 1,487 | 2,378 |
| Pension Strain | 483 | 480 |
| Loss of Office | 23 | 70 |
| | 1,993 | 2,928 |

## 44. DEFINED BENEFIT PENSION SCHEMES

The Powys County Council Pension Fund is a final salary defined benefit Local Government Pension Scheme administered by Powys County Council. As part of the terms and conditions of employment of its employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has the commitment to make the payments it needs to be disclosed at the time that employees earn their future entitlement. In accordance with IAS 19 the Council is required to disclose the following information. The information in the remainder of this note on the following pages only relates to Powys County Council's share of the fund. Further information relating to the benefit plans and changes to those plans can be found within the Pension Fund accounts on pages 101 to 136.

## Disclosures under IAS 19 (LGPS Funded Benefits) Transactions Relating to Retirement Benefits

We recognise the cost of retirement benefits in the net 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 retirement benefits is reversed out in the statement of movement in the Council Fund balance during the year:

| Comprehensive Income And Expenditure Statement | **2010/11 Unfunded** | **2010/11 Funded** | **2010/11 Total** | **2011/12 Funded** | **2011/12 Total** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Cost of services | | | | | |
| Current service cost | | -12.40 | -12.40 | -11.95 | -11.95 |
| Past service costs | 1.29 | 55.60 | 56.89 | -0.47 | -0.47 |
| | | | | | |
| Financing And Investment Income And Expenditure | | | | | |
| Interest cost | -0.76 | -25.64 | -26.40 | -26.84 | -26.84 |
| Expected return on assets in the scheme | | 17.85 | 17.85 | 21.93 | 21.93 |
| | | | | | |
| Total post employment benefit charged to the surplus or deficit on the provision of services | 0.53 | 35.41 | 35.94 | -17.33 | -17.33 |
| Other post employment benefit charged to the Comprehensive Income And Expenditure Statement | | | | | |
| Actuarial gains and losses | 2.9 | -3.7 | -0.80 | -43.70 | -43.70 |
| Total post employment benefit charged to the Comprehensive Income And Expenditure Statement | 3.43 | 31.71 | 35.14 | -61.03 | -61.03 |
| Movement In Reserves Statement | | | | | |
| Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code | -0.53 | -35.41 | -35.94 | 17.33 | 17.33 |
| | | | | | |
| Actual amount charged against the Council Fund balance during the year: | | | | | |
| - employers contributions payable to scheme | 0.00 | 15.57 | 15.57 | 16.34 | 16.34 |

The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement to the 31st March 2012 is a loss of £43,710k.

Asset and Liabilities in Relation to Retirement Benefits
The underlying assets and liabilities for retirement benefits attributable at 31 March are as follows:

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Funded** | | | | | |
| Present value of liabilities | -344.33 | -363.53 | -508.61 | -498.15 | -564.44 |
| Notional value of the assets | 264.31 | 234.26 | 291.01 | 316.77 | 338.36 |
| **Net Liability** | -80.02 | -129.27 | -217.60 | -181.38 | -226.08 |
| | | | | | |
| **Unfunded** | | | | | |
| Present value of liabilities | -13.21 | -13.57 | -15.25 | 0 | 0 |
| Notional value of the assets | 0 | 0 | 0 | 0 | 0 |
| **Net Liability** | -13.21 | -13.57 | -15.25 | 0 | 0 |
| | | | | | |
| **Total** | | | | | |
| Present value of liabilities | -357.54 | -377.10 | -523.86 | -498.15 | -564.44 |
| Notional value of the assets | 264.31 | 234.26 | 291.01 | 316.77 | 338.36 |
| **Net Liability** | -93.23 | -142.84 | -232.85 | -181.38 | -226.08 |

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £226m has a substantial impact upon the net worth of the Authority as recorded in the Balance Sheet, resulting in an overall balance of £183m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

The deficit on the scheme will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary. Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

In accordance with guidance the assets for the current period and previous three periods are measured at current bid price.

Restriction of Asset
IFRIC 14 is an interpretation of paragraph 58 of the IAS 19 accounting standard, published by the IASB, which addresses the recent emergence of diverging treatment by employers with defined benefit pension schemes of:

- The recognition of surplus; and
- Allowance for minimum funding (contribution) requirements.

IFRIC 14 could impact on accounting figures in different ways:

- Employers with an IAS 19 surplus may not be able to recognise that surplus in full, if at all, and / or
- Employers paying deficit contributions may have to recognise an additional liability on the Balance Sheet.

IFRIC 14 is compulsory for accounting periods beginning on or after 1 January 2008. CIPFA has indicated that it does not believe that an asset restriction under paragraph 58 will apply to the bodies that it governs. We agree with this view, providing the Employer is expected to be a long term body within the Fund. Our view is that, unless a significant surplus exists on the balance sheet, these long term employers will be able to obtain economic benefit from a surplus in the form of reduced future service contributions. Under CIPFA guidance the Authority believes it's participation in the Fund is not finite and so the disclosures are compliant with the IAS 19 accounting standard.

A reconciliation of the present value of the scheme liabilities is as follows:

| **Pension Scheme Liabilities** | **2010 Unfunded** | **2010 Funded** | **2011 Unfunded** | **2011 Funded** | **2012 Funded** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Brought forward 01 April | 13.57 | 363.53 | 15.25 | 508.61 | 498.15 |
| Current service cost | 0.00 | 8.28 | 0 | 12.4 | 11.95 |
| Interest cost | 0.88 | 24.26 | 0.76 | 25.64 | 26.84 |
| Contributions by participants | | 4.44 | | 4.42 | 4.39 |
| Actuarial (gains)/losses | 1.61 | 123.70 | -2.9 | 7.8 | 41.74 |
| Net benefits paid out | -0.81 | -16.39 | -0.76 | -16.29 | -19.1 |
| Past service cost | | 0.79 | -1.29 | -55.6 | 0.47 |
| Business combinations | | | -11.06 | 11.17 | 0 |
| Carried Forward 31 March | 15.25 | 508.61 | 0 | 498.15 | 564.44 |

In 2010/11 the employer agreed to convert the majority of its unfunded pensions into pensions paid from the Pension Fund. The other unfunded pensions continue to be paid as they have been previously. There has therefore been a significant reduction in the unfunded liability from the previous year's figures, and a corresponding increase in funded liability. In the disclosure notes we have allowed for these changes in liability as 'business combinations', meaning that they do not impact on the surplus or deficit on the provision of services.

An analysis of the changes to the fair value of assets for the year can be shown as:

| **Pension Scheme Assets** | **2009/10** | **2010/11** | **2011/12** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Brought forward 01 April | 234.26 | 291.01 | 316.77 |
| Expected return on assets | 12.88 | 17.85 | 21.93 |
| Actuarial gains | 39.91 | 4.21 | -1.97 |
| Contributions by the employer | 15.91 | 15.57 | 16.34 |
| Contributions by participants | 4.44 | 4.42 | 4.39 |
| Net benefits paid out | -16.39 | -16.29 | -19.10 |
| Carried Forward 31 March | 291.01 | 316.77 | 338.36 |

| **Actual Return on Assets** | **2009/10** | **2010/11** | **2011/12** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Expected return on assets | 12.88 | 17.85 | 21.93 |
| Actuarial loss / (gain) on assets | 39.91 | 4.21 | -1.97 |
| Actual Return On Assets | 52.79 | 22.06 | 19.96 |

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. Employer Contributions in the region of £16m are expected next year.

## Basis for Estimating Assets and Liabilities

Liabilities are valued 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 valuations have been carried out as of 31st March 2010 and updated for following years by AON limited the independent Actuaries to the fund. Under the projected unit method the current service cost will increase as the members of the scheme approach retirement (for schemes where the age profile of the active membership is significantly rising).

The following are the main assumptions used by the Actuaries in their calculations to 31st March:

| | **2010 %** | **2011 %** | **2012 %** |
|---|---|---|---|
| Inflation – RPI | 3.9 | 3.7 | 3.5 |
| Inflation – CPI | n/a | 2.8 | 2.5 |
| Rate of general increase in salaries | 5.4 | 5.2 | 5.0 |
| Rate of increase to pensions in payment | 3.9 | 2.8 | 2.5 |
| Rate of increase to deferred pensions | 3.9 | 2.8 | 2.5 |
| Discount rate | 5.5 | 5.4 | 4.7 |

The Principal Demographic Assumptions are:

| **Post Retirement Mortality** | **31.03.10** | **31.03.11** | **31.03.12** |
|---|---|---|---|
| Males | | | |
| Base table (in 2007) | PNMA00 With Allowance For MC Improvement Factors To 2007 | Standard SAPS Normal Health All Amounts | Standard SAPS Normal Health All Amounts |
| Scaling to above base table rates | 130% | 110% | 110% |
| Cohort improvement factors (from 2007) | 80% of LC | CMI_2009 | CMI_2009 |
| Minimum underpin to improvement factors | 1.25% | 1.25% | 1.25% |
| Future lifetime from age 65 (currently aged 65) | 20.9 | 21.5 | 21.6 |
| Future lifetime from age 65 (currently aged 45) | 23.1 | 23.3 | 23.4 |
| Females | | | |
| Base table (in 2007) | PNFA00 With Allowance For MC Improvement Factors To 2007 | Standard SAPS Normal Health All Amounts | Standard SAPS Normal Health All Amounts |
| Scaling to above base table rates | 130% | 110% | 110% |
| Cohort improvement factors (from 2007) | 60% of LC | CMI_2009 | CMI_2009 |
| Minimum underpin to improvement factors | 1.25% | 1.25% | 1.25% |
| Future lifetime from age 65 (currently aged 65) | 22.9 | 23.7 | 23.8 |
| Future lifetime from age 65 (currently aged 45) | 25.1 | 25.6 | 25.7 |

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| Commutation | Each member assumed to exchange 35% of the maximum amount permitted of their past service pension rights on retirement, for additional lump sum.<br>Each member assumed to exchange 70% of the maximum amount permitted of their future service pension rights on retirement, for additional lump sum. | Each member assumed to exchange 35% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum.<br>Each member assumed to exchange 70% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum. |

Assets in the Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories by proportion of total assets held by the fund:

| | **2010 Long Term return %** | **% 0f Assets 31.03.10** | **2011 Long Term return %** | **% 0f Assets 31.03.11** | **2012 Long Term return %** | **% 0f Assets 31.03.12** |
|---|---|---|---|---|---|---|
| Equity Investments | 8.0 | 48.4 | 8.4 | 53.7 | 8.1 | 53.0 |
| Property | 8.5 | 6.8 | 7.9 | 6.5 | 7.6 | 7.2 |
| Government Bonds | 4.5 | 21.2 | 4.4 | 19.5 | 3.1 | 16.2 |
| Corporate Bonds | 5.5 | 14.4 | 5.1 | 10.6 | 3.7 | 11.2 |
| Cash | 0.7 | 9.2 | 1.5 | 2.6 | 1.8 | 4.3 |
| Other | 0 | 0.0 | 8.4 | 7.1 | 8.1 | 8.1 |
| | 6.3 | 100.0 | 7.1 | 100 | 6.5 | 100 |

Powys County Council 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 at 31st March 2012. Other holdings include hedge funds, currency holdings, asset allocation futures and other. The actuary assumed these will get a return in line with equities.

In 2010/11 the Actuaries allowed for the impact of the change to CPI indexation of pension increases as a benefit change and therefore recognised this as a (negative) past service cost reflecting the reduction in the constructive obligation. The past service cost appears in the charges to surplus or deficit on the provision of services for 2010/11. Our Actuaries valued the change at the date of the government's announcement on 22 June 2010 and measured the (negative) past service cost using the assumptions applicable at the previous accounting date.

This had the effect of reducing the Authority’s liabilities in the Powys Pension Fund by £56,890k and was been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change was considered to be a change in benefit entitlement. There was no impact upon the Council Fund or Housing Revenue Account.

History of Experience Gains and Losses

| | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m |
|---|---|---|---|---|---|
| **Funded** | | | | | |
| Experience gains / (losses) on liabilities | -1.96 | -1.53 | 4.31 | -5.70 | -4.04 |
| Experience gains / (losses) on assets | -16.05 | -53.82 | 39.91 | 4.21 | -1.97 |
| | -18.01 | -55.35 | 44.22 | -1.49 | -6.01 |
| **Unfunded** | | | | | |
| Experience gains / (losses) on liabilities | -0.10 | -0.17 | 0.45 | 1.76 | 0 |
| | -0.10 | -0.17 | 0.45 | 1.76 | 0 |
| **Total** | | | | | |
| Experience gains / (losses) on liabilities | -2.06 | -1.70 | 4.76 | -3.94 | -4.04 |
| Experience gains / (losses) on assets | -16.05 | -53.82 | 39.91 | 4.21 | -1.97 |
| | -18.11 | -55.52 | 44.67 | 0.27 | -6.01 |

| | | | | | |
|---|---|---|---|---|---|
| **As a Percentage Of Liabilities / Assets** | | | | | |
| Experience gains / (losses) on liabilities - funded | | | 0.8% | -1.1% | -0.7% |
| Experience gains / (losses) on assets - funded | | | 13.7% | 1.3% | -0.6% |
| Experience gains / (losses) on liabilities – unfunded | | | 3% | 161.5% | |

Volatility of results

The IAS19 Pension cost calculations involve placing present values on future benefit payments to individuals many years into the future. These benefits will be linked to pay increases whilst individuals are active members of the Fund and will be linked to statutory pension increase orders (inflation) in deferment and in retirement. Assumptions are made for the rates at which the benefits will increase in the future (inflation and salary increases) and the rate at which these future cashflows will be discounted to a present value at the accounting date to arrive at the present value of the defined benefit obligation. The resulting position will therefore be sensitive to the assumptions used. The present value of defined benefit obligations is linked to yields of high quality corporate bonds whereas, for the LGPS funded arrangements, the majority of the assets of the Fund are usually invested in equities or other real assets. Fluctuations in investment markets in conjunction with discount rate volatility will lead to volatility in the funded status of the Fund and thus to volatility in the net pension assets on the Balance Sheet and in other comprehensive income and expenditure. To a lesser extent this will also lead to volatility in the pension expense in the surplus or deficit on the provision of services.

## 45. TEACHER PENSION COSTS

In 2011/12 the County Council paid £6.4m to the Department for Education and Skills in respect of teacher's pension costs which represents 14.1% of teacher's pensionable pay, (£6.4m, 14.1% in 2010/11). These contributions are set in relation to the current period only. In addition, the County Council is responsible for all pension payments relating to added years it has awarded, together with an actuarially calculated percentage of any early retirements awarded after 1st September 1998. It is also responsible for any related increases on these awards. In 2011/12 payments made in relation to added years amounted to £1.3m, representing 2.95% of pensionable pay, (£1.1m, 2.39% in 2010/11).

## 46. CONTINGENT LIABILITIES

Under the Equal Pay Act (Amendment) Regulations 2003 the Council must complete and implement a local pay review. As a result there is a possibility that compensation claims could be raised in relation to equal pay for work of equal value. Any settlement is uncertain at this stage so the provision set aside may not be sufficient.

## 47. CONTINGENT ASSETS

No such assets were known to exist at 31 March 2012.

## 48. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

The Authority’s overall risk management procedures focus on the unpredictability of financial markets and are structured to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a treasury team under policies approved by Full Council in the Treasury Management Policy Statement, the annual Treasury Management Strategy Statement and Annual Investment Strategy. The Policy and Strategy provide written principles for areas such as interest rate risk, credit risk and the investment of surplus cash.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority’s customers. The Authority has an investment list of banks and other financial institutions which is based on current credit ratings, credit default swap data and other relevant financial information. The ratings determine the maximum amount that can be invested with a particular institution and the length of time for which it may be invested. The Authority has a policy of not lending more than £20m of its surplus balances to one institution at any one time.

Customers are not currently assessed for their creditworthiness or individual credit limits set. No financial assets have had their terms renegotiated that would otherwise have been past due or impaired. The analysis on the next page summarises the Authority’s potential maximum exposure to credit risk, based on experience of default and collectability over the last five financial years, adjusted to reflect current market conditions:

| | Amount At 31 March 2012 £000's | Actual Provision For Bad Debts Made £000's | Bad Debt Written Off In Year £000's | Other Impairments In Year £000's |
|---|---|---|---|---|
| Deposits With Banks And Financial Institutions | 29,956 | 0 | 0 | 0 |
| Customers | | | | |
| Council Tax | 3,412 | -679 | -112 | 0 |
| Housing Rents | 852 | -618 | -4 | 0 |
| Sundry Debtors | 26,921 | -1,882 | -33 | 0 |
| | 31,185 | -3,179 | -149 | 0 |

No collateral is held as security on Financial Assets.

The Authority does not generally allow credit for Customers. The past due date can be analysed by age as follows:

| | 3 to 6 Months £000's | 6 to 9 Months £000's | Over 9 Months £000's | Total £000's |
|---|---|---|---|---|
| Debtors Ledger Control | 298 | 221 | 997 | 1,516 |

| | 1 –2 Years £'000 | 2- 5 Years £'000 | Over 5 Years £'000 | Total £'000 |
|---|---|---|---|---|
| Council Tax | 1,646 | 1,031 | 161 | 2,839 |

The carrying value of deposits and loans in default is:

| | 2011 | 2012 |
|---|---|---|
| | £'000 | £'000 |
| Glitnir Bank HF | 2,007 | 0 |
| Landsbanki Islands | 1,551 | 1,183 |

There were no defaults during 2011/12 or 2010/11.

**Liquidity Risk**

The Authority manages its liquidity position through the risk management procedures of the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available if and when needed. The Authority has ready access to borrowings from the money markets to cover any day-to-day cash flow need and from the Public Works Loans Board and money markets for access to longer term funds. The Authority is also required to provide a balanced budget through 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.

The maturity analysis of financial liabilities in cash terms is as follows.

| | 2011 | 2012 |
|---|---|---|
| | £'000 | £'000 |
| Within a year | 12 | 12 |
| Between 1-2 years | 12 | 14 |
| Between 2-5 years | 45 | 49 |
| Between 5-10 years | 7,106 | 11,637 |
| Over 10 years | 138,667 | 134,118 |
| **Total** | 145,842 | 145,830 |

**Refinancing and Maturity Risk**

The Authority maintains a significant debt and investment portfolio. Whilst the cash flow procedures mentioned above are considered against the refinancing risk procedures, longer-term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. The following approved treasury indicators are the key parameters used to address this risk.

- The upper and lower limits for the maturity structure of borrowings are:

| | Upper Limit | Lower Limit |
|---|---|---|
| Under 12 months | 40% | 0% |
| 12 months and within 24 months | 40% | 0% |
| 24 months and within 5 years | 50% | 0% |
| 5 years and within 10 years | 50% | 0% |
| 10 years and above | 100% | 40% |

- The maximum principal sum invested for periods longer than 364 days is £10M.

**Market Risk**

Interest Rate Risk
The Authority is exposed to significant risk in terms of exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure account will rise

- Borrowings at fixed rates – the fair value of the liabilities will fall

- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise

- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services or other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services and affect the Council Fund balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the other comprehensive income and expenditure.

The Authority has a number of strategies for managing interest rate risk. As stated in the prudential indicators report, it is policy to aim to keep a maximum of 60% of net outstanding principals in variable rate exposures. During periods of falling interest rates and where economic circumstances make it favorable, fixed rate loans will be repaid early to limit exposure to losses.

The Treasury Management Team actively assesses interest rate exposure and feeds the projected figures for interest payable and receivable into the annual and quarterly budgets. This allows variances to be accommodated. The team also advises whether new borrowing is taken out and whether it should be fixed or variable.

To highlight the sensitivity of rises, if interest rates had been 1% higher during 2011/12 with all other variables constant, the financial effect would be:

| | £000's |
|---|---|
| Increase In Interest Payable On Variable Rate Borrowings | 350 |
| Increase In Interest Receivable On Variable Rate Investments | -712 |
| Increase In Surplus Of Income And Expenditure Account | -362 |
| Share Of Overall Impact Debited To The HRA | 0 |

The impact of a 1% fall in interest rates would be as above but with the movements reversed.

**Price Risk**

The Authority only holds equity instruments in respect of the Pension Fund. It is therefore exposed to an element of risk in relation to movements in the price of equities. This is mitigated by investing in a diverse portfolio.

**Foreign Exchange Risk**

The Authority's only financial assets or liabilities denominated in foreign currencies are those in relation to the Icelandic deposits (apart from in respect of the Pension Fund):

<u>Foreign Exchange Risk in relation to Icelandic deposits</u>

The Authority has foreign exchange exposure in respect of the foreign currency bank accounts it holds for receipt of Icelandic monies. These accounts are as follows:-

- Euros
- US Dollars
- Canadian Dollars
- Norwegian Krone

Monies received in these accounts are transferred to GBP as soon as is practicable.

The Authority also has foreign exchange exposure resulting from an element of the monies received being in Icelandic Kroner. These monies are currently held in interest bearing escrow accounts in Iceland due to the current imposition of currency controls.

## 49. ANALYSIS OF THE NET ASSETS EMPLOYED

| | 2011 £`000 | 2012 £`000 |
|---|---|---|
| Council Fund | 86,102 | 117,158 |
| Housing Revenue Account | 119,253 | 66,270 |
| | 205,355 | 183,428 |

The total IAS19 pension liability of £226m has a substantial impact upon the net worth of the Authority as recorded in the Balance Sheet.

## 50. ICELANDIC BANKS

In October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Authority had £4m deposited across 2 of these institutions, with varying maturity dates and interest rates as follows:

| Institution | Amount Invested £'000 | Type | Rate |
|---|---|---|---|
| Landsbanki Islands | 1,000 | Fixed 05/03/09 | 6.01 |
| Landsbanki Islands | 1,000 | Fixed 25/06/09 | 6.41 |
| Glitnir Bank HF | 2,000 | Fixed 25/06/09 | 6.36 |

### Landsbanki

Landsbanki Islands HF is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a Resolution Committee. Following the Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in February 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk over which the Authority has no control.

A further distribution in GBP was made in May 2012.

The current position on estimated future payouts is as shown in the table below and this Authority has used these estimates to calculate the impairment based on recovering 100p in the £.

| Date | Repayment | Date | Repayment |
|---|---|---|---|
| December 2012 | 8.0% | December 2016 | 8.0% |
| December 2013 | 8.0% | December 2017 | 8.0% |
| December 2014 | 8.0% | December 2018 | 22.0% |
| December 2015 | 8.0% | | |

**Glitnir Bank HF**

Glitnir Bank HF is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Following the Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in March 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk over which the Authority has no control.

The distribution has been made in full settlement, representing 100% of the claim.

**Accounting for Impairment**

The total impairment (principal plus interest not received) recognised in the Income and Expenditure Account in 2011/12 has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the Authority until monies are recovered. Adjustments to the assumptions will be made in future accounts as more information becomes available.

The expiry of the regulations allowing impairments to be charged to the FIAA means future impairments will be charged to the General Fund but will be offset against the notional interest that has been credited to the General Fund.

## 51. RECLASSIFICATION OF COMPARITIVES.

In the previous year revenues and costs of the Business Performance Unit (BPU) were shown within the results of the Individual results of the headings shown in the Cost of Services. It has been considered more appropriate to treat these as Trading Accounts as defined by the classification of SerCOP. This means only the cost of the BPU recharged to the Cost of Services will be included. The 2010/11 amounts have been restated to reflect this as follows:

| 2010/11 Original | | | | 2010/11 Revised | | |
|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £`000 | £`000 | £`000 | | £`000 | £`000 | £`000 |
| 11,736 | -9,528 | 2,208 | Central Services To The Public | 11,736 | -9,528 | 2,208 |
| 53,715 | -21,973 | 31,742 | Cultural, Environmental And Planning | 53,715 | -21,973 | 31,742 |
| 154,680 | -35,957 | 118,723 | Education And Children's Services | 154,680 | -35,957 | 118,723 |
| 42,392 | -27,117 | 15,275 | Highways Roads And Transport | 38,955 | -23,311 | 15,644 |
| | | | Housing Services: | | | |
| 32,577 | -29,989 | 2,588 | - General | 32,524 | -29,961 | 2,563 |
| 18,823 | -18,674 | 149 | - Housing Revenue Account | 18,823 | -18,674 | 149 |
| 67,614 | -26,916 | 40,698 | Adult Social Services | 61,231 | -19,789 | 41,442 |
| 18,850 | -8,306 | 10,544 | Corporate And Democratic Core | 18,850 | -8,306 | 10,544 |
| -54,718 | -1,131 | -55,849 | Non Distributed Costs | -54,718 | -1,131 | -55,849 |
| 345,669 | -179,591 | 166,078 | **Cost Of Services** | 335,796 | -168,630 | 167,166 |
| | | 18,166 | Other Operating Expenditure (Note 9) | | | 18,166 |
| | | 14,599 | Financing and Investment Income and Expenditure (Note 10) | | | 13,511 |
| | | -257,064 | Taxation and Non Specific Grant Income Operations Not Included in Net Cost Of Services (Note 11) | | | -257,064 |
| | | -58,221 | **(Surplus)/Deficit On Provision Of Services** | | | -58,221 |

There are no implications for the overall results for the Authority. Changes to the above are detailed over the page.

| | Highways | Housing General Fund | Adult Social Services | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Original Expenditure | 42,392 | 32,577 | 67,614 | 142,583 |
| Moved to BPU | -3,437 | -53 | -6,383 | -9,873 |
| Revised Expenditure | 38,955 | 32,524 | 61,231 | 132,710 |
| | | | | |
| Original Income | -27,117 | -29,989 | -26,916 | -84,022 |
| Moved to BPU | 3,806 | 28 | 7,127 | 10,961 |
| Revised Income | -23,311 | -29,961 | -19,789 | -73,061 |
| | | | | |
| Net Effect to Cost of Services | | | | 1,088 |
| Original Cost of Services | | | | 166,078 |
| Revised Cost of Services | | | | 167,166 |
| | | | | |
| Original Financing and Investment Income and Expenditure | | | | 14,599 |
| From Cost of Services | | | | -1,088 |
| Revised Financing and Investment Income and Expenditure | | | | 13,511 |

| **Restating the Finance and Investment Note 10** | **Original 2010/11 £`000** | **Change £`000** | **Revised 2010/11 £`000** |
|---|---|---|---|
| Interest Payable and Similar Charges | 7,068 | | 7,068 |
| Pensions Interest Cost and Expected Return on Pensions Assets | 8,550 | | 8,550 |
| Interest Receivable and Similar Income | -684 | | -684 |
| Impairment of Financial Instruments | 111 | | 111 |
| Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value | 2 | | 2 |
| Surplus or Deficit on Trading Accounts (Note 30) | -448 | -1,088 | -1,536 |
| | 14,599 | -1,088 | 13,511 |

| **Trading Note 30 will be revised** : | **Original 2010/11 (Surplus)/ Deficit £`000** | **Change £`000** | **Revised 2010/11 (Surplus)/ Deficit £`000** |
|---|---|---|---|
| Building Cleaning | 407 | | 407 |
| Building Maintenance | 28 | | 28 |
| Catering | 119 | | 119 |
| Central Administration | 25 | -1,088 | -1,063 |
| Engineering And Building Design | -470 | | -470 |
| Highways Maintenance | 415 | | 415 |
| Information Technology Dept | -78 | | -78 |
| Internal Insurance | -169 | | -169 |
| Refuse Collection | -58 | | -58 |
| Vehicle Maintenance And Transport | -92 | | -92 |
| Pension Deficit Funding On Trading Accounts | -807 | | -807 |
| Performance And Communications | 232 | | 232 |
| | -448 | -1,088 | -1,536 |

# HOUSING REVENUE ACCOUNT

## Income and Expenditure Account

| | Note | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|---|
| **Expenditure** | | | |
| Supervision And Management | 7 | 4,111 | 4,276 |
| Repair And Maintenance | 7 | 6,077 | 5,900 |
| Subsidy Payable | | 5,647 | 5,756 |
| Rent And Rates | | 24 | 38 |
| Movement In Allowance For Bad And Doubtful Debts | | 76 | 90 |
| Voids | | 155 | 339 |
| Depreciation And Impairment Of Non Current Assets | | 2,680 | 3,598 |
| Debt Management Expenses | | 54 | 54 |
| **TOTAL SERVICE EXPENDITURE** | | 18,824 | 20,051 |
| **Income** | | | |
| Dwelling Rents | | -17,865 | -18,918 |
| Non Dwelling Rents | | -523 | -473 |
| Other Charges For Services And Facilities | | -273 | -288 |
| Contributions Towards Expenditure | | -13 | -19 |
| Housing Grant | | 0 | 0 |
| **TOTAL SERVICE INCOME** | | -18,674 | -19,698 |
| **Net Cost Of Services as Included in the Comprehensive Income and Expenditure Account** | | 150 | 353 |
| HRA Services Share Of Corporate And Democratic Core | | -859 | 118 |
| **Net Cost Of HRA Services** | | -709 | 471 |
| **HRA Share Of The Operating Income And Expenditure Included In The Comprehensive Income And Expenditure Statement** | | | |
| Contribution From Other Committee | | 0 | -37 |
| (Gain) On Sale Of HRA Non Current Assets | | -272 | -89 |
| Interest Payable And Similar Charges | | 756 | 659 |
| Amortisation Of Premiums And Discounts | | 142 | 239 |
| Pensions Interest Cost And Expected Return On Assets | | 145 | 101 |
| HRA Investment Income | | -100 | -16 |
| Taxation And Non Specific Grant Income | | -3,700 | -3,713 |
| **(SURPLUS) FOR THE YEAR ON HRA SERVICES** | | -3,738 | -2,385 |

# HOUSING REVENUE ACCOUNT

## Movement in Reserves Statement

| | Note | HRA |
|---|---|---|
| **2010/11** | | **£`000** |
| Balance At 01 April | | -2,128 |
| (Surplus) For The Year On The HRA | | -3,738 |
| Adjustments Between Accounting Basis And Funding Basis Under Statute | 5 | 2,291 |
| (Increase) In The HRA Balance Before Transfers To Or From Reserves | | -1,447 |
| Transfer To Reserves | | 0 |
| (Increase) In The HRA Balance | | -1,447 |
| Balance At 31 March | | -3,575 |
| | | |
| **2011/12** | | |
| (Surplus) For The Year On The HRA | | -2,385 |
| Adjustments Between Accounting Basis And Funding Basis Under Statute | 5 | 1,537 |
| (Increase)In The HRA Balance Before Transfers To Or From Reserves | | -848 |
| Transfer To Reserves | | 0 |
| (Increase) In The HRA Balance | | -848 |
| Balance At 31 March | | -4,423 |

# NOTES TO THE HOUSING REVENUE ACCOUNTS

## 1. Housing Stock

| | Number Of Bedrooms 2010/11 Total | 1 | 2 | 3 | 4 | 5 | 6 | 2011/12 Total |
|---|---|---|---|---|---|---|---|---|
| Detached house/bungalow | 50 | 4 | 33 | 10 | 3 | 0 | 0 | 50 |
| Semi detached house/ bungalow | 2,161 | 271 | 811 | 1,036 | 39 | 3 | 0 | 2,160 |
| Terraced house | 2,142 | 208 | 719 | 1,141 | 67 | 5 | 1 | 2,141 |
| Flats | 1,061 | 323 | 688 | 49 | 0 | 0 | 0 | 1,060 |
| Bedsits | 21 | 21 | 0 | 0 | 0 | 0 | 0 | 21 |
| | 5,435 | 827 | 2,251 | 2,236 | 109 | 8 | 1 | 5,432 |

## 2. Arrears and Provision for Housing Bad Debts at 31 March

| | 2011 £`000 | 2012 £`000 |
|---|---|---|
| Current tenant arrears | 330 | 350 |
| Former tenant arrears | 519 | 503 |
| Total arrears | 849 | 853 |
| Bad debts | 76 | 90 |
| Provision for bad debt | 625 | 618 |

## 3. Housing Revenue Account Capital Expenditure

During the year the Authority incurred the following expenditure on Housing Revenue Assets:

| Capital Expenditure | Total £`000 | Dwellings £`000 | Other Land and Buildings £`000 | Equipment £`000 | Non Operational £`000 |
|---|---|---|---|---|---|
| Enhancing costs | 6,462 | 6,462 | 0 | 0 | 0 |
| Total expenditure | 6,462 | 6,462 | 0 | 0 | 0 |
| | | | | | |
| Impairment | 6,450 | 6,450 | 0 | 0 | 0 |
| Depreciation | 2,279 | 2,279 | 0 | 0 | 0 |

The impairment charge of £1,319k relates to capital works on council dwellings that cannot be carried forward in the Balance Sheet as a fixed asset. The capital expenditure was financed as follows:

| | £`000 |
|---|---|
| Major repairs allowance | 3,713 |
| Usable capital receipts | 1,413 |
| Reserves | 1,337 |
| Carried forward unfinanced | 0 |
| | 6,463 |

## 4. Housing Revenue Account Capital Receipts

The following amounts were received during 2011/12:

| | £`000 |
|---|---|
| Disposal of land | 67 |
| Housing | 130 |
| Other property | 15 |
| | 212 |

## 5. Adjustments between Accounting Basis and Funding Basis Under Statute

| | 2010/11 £`000 | 20011/12 £`000 |
|---|---|---|
| **Items included in the HRA Income and Expenditure Account but excluded from the HRA Balance for the year** | | |
| Difference between interest payable and similar charges including amortisation of premiums and discounts in accordance with statute | -142 | -239 |
| Net charges made for retirement benefits in accordance with IAS19 | 902 | -7 |
| (Gain) on sale of HRA non current assets | 272 | 89 |
| **Transfer to reserves** | | |
| Transfers to or from the Capital Adjustment Account | | |
| Depreciation and impairment | -2,680 | -3,598 |
| HRA Minimum Revenue Provision | 309 | 295 |
| Major repairs allowance | 3,700 | 3,713 |
| Direct Revenue Financing | | 1,337 |
| Transfers from the Capital Receipts Reserve | | |
| Admin costs on council house sales | -87 | -50 |
| Transfer to Accumulated Balances Account | | |
| Holiday accrual | -11 | -3 |
| To other committees/reserves | 28 | |
| **Net additional amount required by statute to be debited to the HRA Balance for the year** | 2,291 | 1,537 |

## 6. Housing Revenue Account Contributions to the Pension Reserves

The net contribution to the Pension Reserve relating to the Housing Revenue Account was:

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Employer contributions actually paid | 291 | 335 |
| Past Service Costs | 967 | -10 |
| Current cost of employees | -211 | -231 |
| Expected return and interest | -145 | -101 |
| Contribution to/(from) reserve | 902 | -7 |

## 7. Change In Comparatives

The following comparative figures for 10/11 have been restated to aid the user in understanding the accounts. The adjustment is necessary as the wrong accounting hierarchy was used in compiling the two affected figures. There is no effect on the bottom line or any other part of the accounts.

| | Original 10/11 | Revised 10/11 | Change |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Supervision And Management | 4,756 | 4,111 | 645 |
| Repair And Maintenance | 5,432 | 6,077 | -645 |

# PENSION FUND ACCOUNT

## Index

# CHAIRMAN'S STATEMENT

The Pension Fund aims to deliver pensions effectively and efficiently at the lowest cost to the contributing employers. This requires a balance be struck between the risk and return of the investments held and to consider the future liabilities of the fund. We are committed to a long-term goal of stabilising the future pension costs to employers.

The cost to employers is based on the triennial actuarial valuation of the fund, the most recent one being completed as at 31 March 2010. That valuation highlighted a fall in the funding level of the fund from 73% to 71%. The aim is to achieve 100% funding. The next valuation is due to be calculated as at 31 March 2013. The purpose of the valuation is to establish the contribution rates that employers should pay into the fund in order to finance member future benefits. Employee rates are set in statute and are not affected by the valuation report.

Quantitative Easing and the Euro Zone debt crisis are some of the factors which have contributed to a difficult economic environment during the period. However, the fund again reported a positive overall return of 6.1% for the year ended 31st March 2012

In order to ensure that the LGPS continues to be sustainable into the future, reforms agreed between Councils, trade unions and the government for consultation with members, include a move from defined benefit based on final salary to one tied to career average earnings with a revised accrual rate of 1/49th, changed from the current rate of 1/60th. Workers' accrued pension benefits are protected in the agreement. If members agree with the reforms, the new terms will start in April 2014.

It is worth noting that regardless of how the investments of the fund perform the pensions of existing pensioners and the future pensions of employees are guaranteed. The Fund cannot be "wound up" like private sector schemes.

I trust that you find this years report interesting and informative. Should you have any comments on this report or any aspect regarding the administration of the scheme, see Appendix two for details of how to contact us. As a reminder, the Members of Powys County Council are the Trustees of the fund and as such are responsible for the administration.

Cllr Gwilym Vaughan
Chair of the Pensions and Investment Committee

# FUND ADMINISTRATION

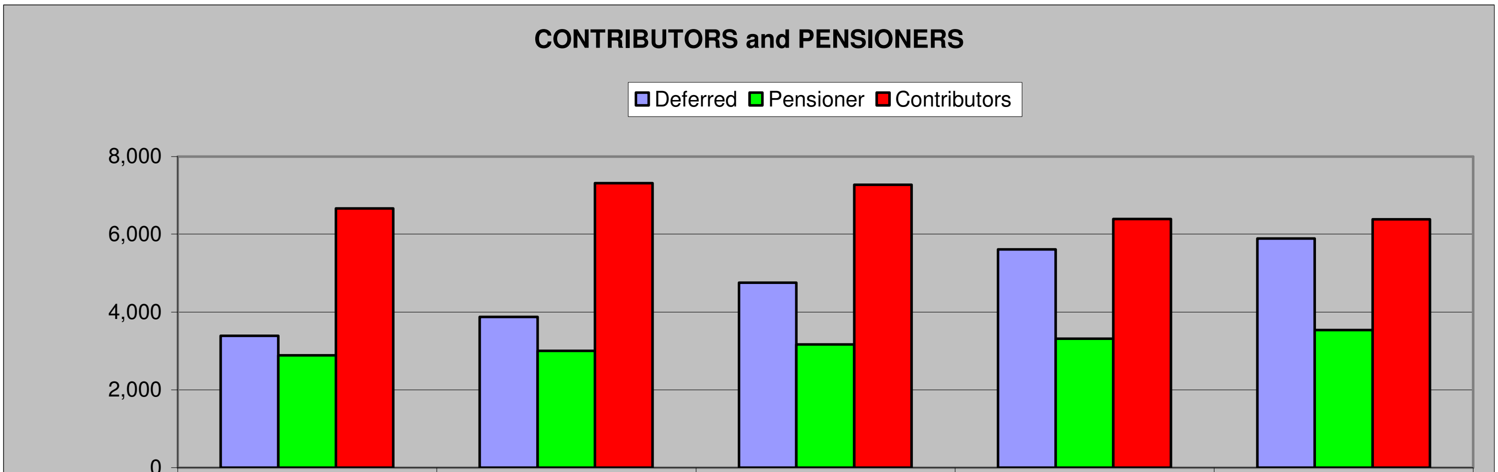
## Scheme Details

Powys County Council is the administering Authority for the Powys Pension Fund. The Pension Fund provides future pension entitlement to all eligible employees of Powys County Council and the other participating bodies (Appendix two). Membership of the scheme is not mandatory. It is a defined benefit pension scheme based on final salary. The contributions payable by employees and the benefits due to them are prescribed by the Local Government Pension Scheme Regulations. With effect from 01 April 2011 all members have been allocated a contribution rate based on the following:

| Band | Range | Contribution Rate |
|---|---|---|
| 1 | £0 -£12,900 | 5.5% |
| 2 | >£12,901 - £15,100 | 5.8% |
| 3 | >£15,101 - £19,400 | 5.9% |
| 4 | >£19,401 - £32,400 | 6.5% |
| 5 | >£32,401 - £43,300 | 6.8% |
| 6 | >£43,301 - £81,100 | 7.2% |
| 7 | >£81,100 | 7.5% |

The fund excludes membership for teachers, police officers and fire fighters, for whom separate schemes exist.

The graph below shows the membership of the fund. Deferred members are former employees of the contributing authorities who have yet to draw their pensions.




| | 31 March 2008 | 31 March 2009 | 31 March 2010 | 31 March 2011 | 31 March 2012 |
|---|---|---|---|---|---|
| Deferred | 3,385 | 3,874 | 4,750 | 5,605 | 5,891 |
| Pensioner | 2,885 | 3,005 | 3,169 | 3,310 | 3,535 |
| Contributors | 6,656 | 7,317 | 7,275 | 6,391 | 6,383 |

## Pension Increases

Pensions paid to retired members are subject to annual mandatory increases linked from April 2011 to CPI. Increases take effect in the first full week of each financial year. The table below shows the pension increases of the last 5 years:

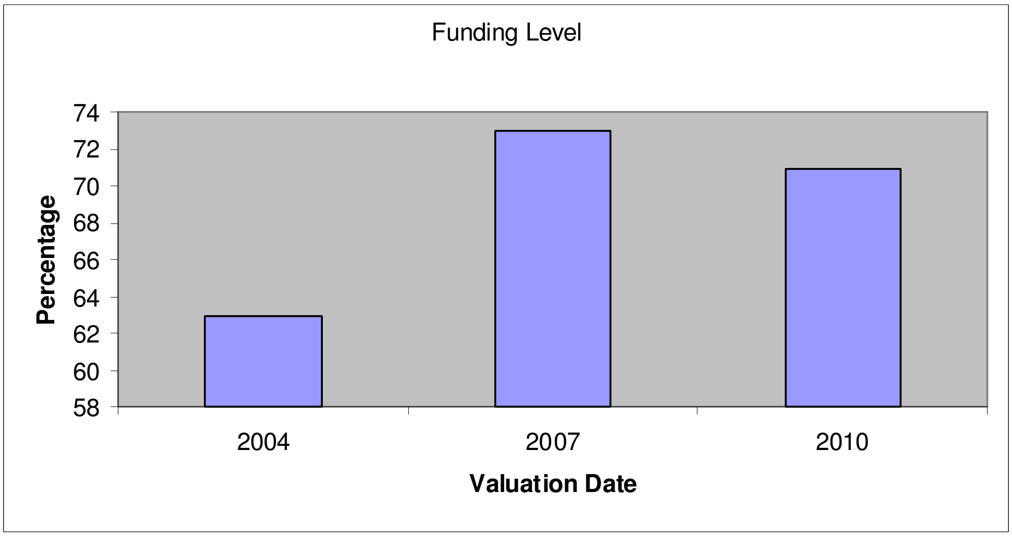
| Effective Date | Increase % |
|---|---|
| 7th April 2008 | 3.9 |
| 6th April 2009 | 5.0 |
| 12th April 2010 | 0.0 |
| 11th April 2011 | 3.1 |
| 9th April 2012 | 5.2 |

## Management of the Fund

The County Council is the designated statutory body responsible for administering the Powys Pension Fund of its constituent scheduled and admitted bodies. The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee, which meets at least quarterly. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers. The Committee will review market conditions and economic trends with the aim of forming a view on the prospects for each of the world markets over the short, medium and long term. The Pensions and Investment Committee, alongside the Chief Financial Officer and the external experts it employs, provided the general direction and advice by which the Fund was managed. It also monitored the performance of the Fund and the investments for which the administering Authority is responsible.

Day to day administration of the scheme is provided by the Pensions Section of Powys County Council. A list of the bodies that have been admitted to the scheme can be found in Appendix two.

### Funding and Valuation




The aim of the funding is to accumulate current contributions at a level sufficient to provide known benefits at some time in the future. In short therefore, the scheme benefits are financed by contributions from employees and employers together with income from investments. Both the employees' contributions and the benefits to be provided by the scheme are fixed by the

Government as set out in the Local Government Pension Scheme Regulations, leaving the employers' rate of contribution as the only element which can be deliberately adjusted. The performance of investments depends upon market circumstances.

The employers' rate of contribution is assessed by the Actuary to the Fund who reviews the future income and liabilities of the Fund. These reviews, or actuarial valuations, are required by law with a major review being undertaken every third year. The next valuation of the Fund will be completed in autumn 2013.

The actuarial valuation as at 31 March 2010 showed the assets held at the valuation date were sufficient to cover only 71% of the accrued liabilities assessed on an ongoing basis. Efforts continue to be made to address this deficit. It is the long-term goal to achieve 100% funding. The level of funding has no impact on members' benefits which are guaranteed by law.

**Additional Voluntary Contribution (AVC) Scheme**

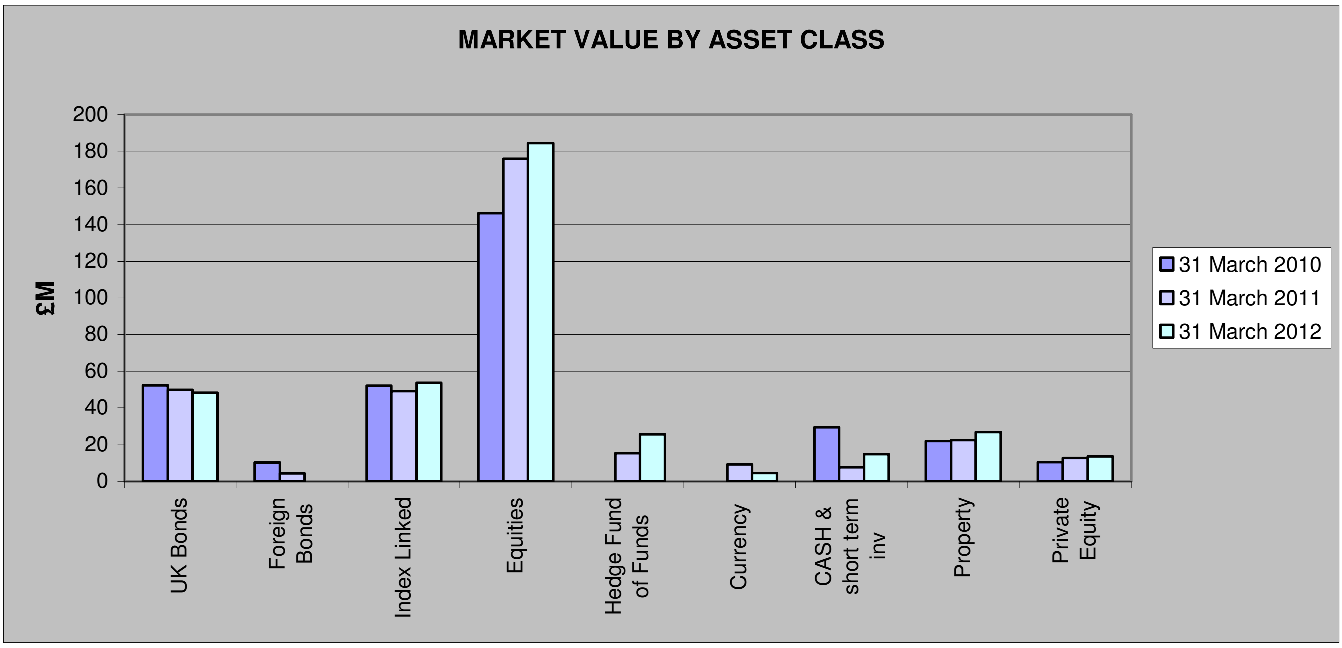
Since 06 April 1988, it has been a legal requirement for all Pension Schemes to provide members with access to an in-house AVC Scheme. The Authority's appointed providers are the Equitable Life Assurance Society and the Standard Life Assurance Company. The Committee this year considered a report to appoint additional providers & approved the appointment of Prudential as a provider of AVC's. Members are able to pay contributions into a variety of AVC arrangements offered by the providers, in order to secure additional pension benefits. The AVC investments are excluded from the Pension Fund Accounts.

**Statement of Investment Principles**

As required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093) the Pensions and Investment Committee have produced a Statement of Investment Principles which complies with the six investment principles set out by the Chartered Institute of Public Finance Accountants (CIPFA) Pensions Panel – Appendix 5.

# INVESTMENT REPORT

The prime requirement in managing the Fund is to ensure adequate diversification of its assets over different asset classes and different geographical areas. The right balance must be struck between the desire for enhanced returns and potential 'risk' of volatility in those returns i.e. the investment policy of the Fund is aimed at maximising returns within the acceptable limits of risk. There is no ideal split for any fund, so the portfolio balance needs to be regularly monitored and adjusted in line with the economic, financial and market indicators.




The investment style of the Fund is to appoint external expert fund managers with clear performance benchmarks and place accountability for performance against those benchmarks on the fund managers. The Chief Financial Officer must ensure that the management of the Fund falls within the requirements of the Local Government Pension Scheme Regulations.

## Performance Review

| | 1 Year<br>% | 3 Years<br>% | 5 Years<br>% |
|---|---|---|---|
| Powys Overall Return Annualised Rolling Return pa | 6.1 | 11.7 | 3.4 |
| Inflation CPI | 3.5 | 3.7 | 3.5 |
| Average Earnings Index | 2.0 | 2.4 | 2.7 |

Given the long-term nature of the Fund, perhaps the most significant column above is that detailing the comparisons over five years. Inflation and average earning percentages are taken from the Office for National Statistics data.

The performance of each of the current Fund Managers for 2011/12 is shown in the table on the next page. The Fund Managers have been given a rolling 3-year specific performance target measured against the benchmark return in the relevant asset class. The targets include a minimum acceptable performance level.

| Mandate | Fund Performance (%) | Performance Benchmark (%) |
|---|---|---|
| BlackRock Global Investors (Balanced) | 3.5 | 3.0 |
| BlackRock Global Investors (Index-Linked Funds) | 21.3 | 21.1 |
| BlackRock Global Investors (Bonds) | 5.5 | 4.6 |
| BlackRock Global Investors (Cash) | 0.0 | 0.5 |
| Western Assets | 7.6 | 9.1 |
| Aberdeen Asset Management (Global Equity) | 5.4 | 1.5 |
| MFS (Global Equity) | 6.1 | 0.9 |
| Schroder Investment Manager (Global Equity) | -3.6 | 0.9 |
| Aviva Investors (UK Property) | 3.3 | 5.6 |
| Fauchier Partners (Hedge Fund of Funds) | -3.8 | 0.9 |
| GAM (Hedge Fund of Funds) | -1.5 | -2.9 |
| Goldman Sachs (Active Currency) | 6.1 | 0.7 |
| CBRE Investors (European Property) | 5.7 | 3.6 |
| Standard Life Investments (Private Equity) | -7.5 | 0.1 |
| HarbourVest Partners VII (Private Equity) | 11.0 | 0.1 |
| HarbourVest Partners VIIIa - Buyout (Private Equity) | 23.2 | 0.1 |
| HarbourVest Partners VIIIb -Venture (Private Equity) | 13.9 | 0.1 |
| Overall Fund | 6.1 | 6.3 |

During 2011/12 the fund invested a further £2.7m of capital with Aviva. In July 2011, £4.5m was invested in the BGI Liquidity Fund. Funding for this came from the disinvestment of the whole of the Investec (Active Currency) portfolio. Of the £4.784m capital commitment (Note 18) outstanding as at 31 March 2011, £1.48m was drawn down.

**Investment manager structure as a percentage of fund total, as at 31st March 2012**

| Asset Class | Manager | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | BGI | Aberdeen | Western | Fauchier | Goldman Sachs | Aviva | Std Life | |
| | | Schroders MFS | Asset | GAM | Investec | CBRE | Harbourvest | |
| | Passive % | Active % | Active % | Active % | Active % | Active % | Active % | % |
| Equities | 29.2 | 20.5 | | | | | | 49.7 |
| UK Fixed Interest Gilts | 1.1 | | 2.0 | | | | | 3.1 |
| Sterling Non Gilts | | | 9.8 | | | | | 9.8 |
| Index Linked Gilts | 14.4 | | 0.1 | | | | | 14.5 |
| Overseas Bonds | | | | | | | | 0.0 |
| Property | | | | | | 7.2 | | 7.2 |
| Private Equity | | | | | | | 3.6 | 3.6 |
| Currency | | | | | 1.2 | | | 1.2 |
| Hedge Fund | | | | 6.9 | | | | 6.9 |
| Cash | 3.5 | | 0.5 | | | | | 4.0 |
| **TOTAL** | 48.2 | 20.5 | 12.4 | 6.9 | 1.2 | 7.2 | 3.6 | 100.0 |

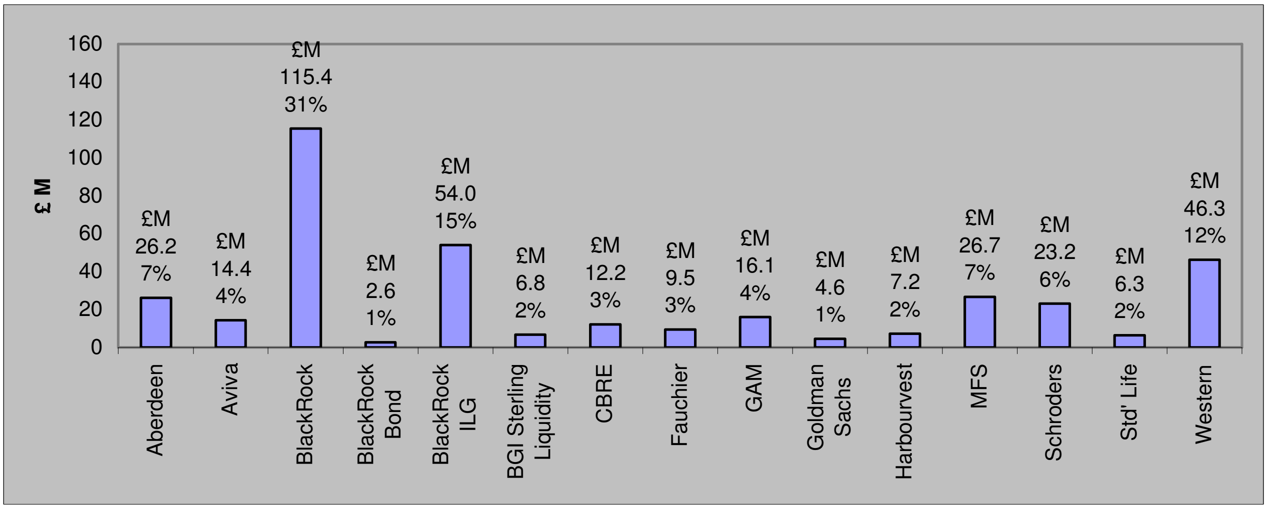
The strategic asset allocation is as follows:

| | 2010/11 | 2011/12 |
|---|---|---|
| Equities | 47% | 47% |
| Fixed Interest and Index Linked Securities | 30% | 30% |
| Property | 10% | 10% |
| Private Equity | 5% | 5% |
| Currency | 3% | 1.5% |
| Hedge Fund of Funds | 5% | 6.5% |

The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of the funds Investment Advisors.

The strategic asset allocation is the ideal target and cannot be achieved until the scheme is fully funded in all areas, e.g. private equity. It does not reflect the actual investments held at the year-end. The current structure aims to have a 70:30 split between return seeking and liability matching assets. Active Currency has a very low correlation with equities and bonds. While both currency and hedge funds are return seeking assets, hedge funds in particular have some shared characteristics as bonds, most notably the lower expected volatility compared to equities.

AON Hewitt Limited currently operates a Medium Term Asset Allocation (MTAA) project for the Fund. It utilises all of the Fund’s assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% per annum by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. The service will run until early 2014. The MTAA service has an artificial benchmark of 52% equity, 33% bond, 15% alternatives. The market value of assets spread between the fund managers as at 31 March 2012 is shown below:




Aon Hewitt, the Fund’s advisors, submitted a report to the June Pensions & Investment Committee that summarised the performance of the assets covered by the MTAA, comparing the outcome if the MTAA had not been undertaken. By taking the starting position of the Fund, and rolling the value forward by the net performance of the managers, it is calculated that the MTAA has increased the value of the Fund by approximately £2.27m compared to having no MTAA arrangement.

# NET ASSETS STATEMENT

**As at 31 March**

| | Note | 2011 £`000 | 2012 £`000 |
|---|---|---|---|
| Investments | 10 | 346,746 | 371,705 |
| Current Assets | 13 | 3,433 | 1,406 |
| Current Liabilities | 13 | -537 | -823 |
| **NET ASSETS AS AT 31 MARCH** | | 349,642 | 372,288 |

The accounts show cash held with the Investment Managers as investments as recommended in the Statement of Recommended Practice Financial Reports for Pension Schemes.

# PENSION FUND ACCOUNT

| | Note | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|---|
| Contributions and Benefits | | | |
| Contributions Receivable | 3 | 24,676 | 22,136 |
| Transfers In | 4 | 971 | 727 |
| Other Income | 5 | 75 | 105 |
| TOTAL INCOME | | 25,722 | 22,968 |
| Benefits Payable | 6 | 18,968 | 20,116 |
| Payments on Account of Leavers | 7 | 588 | 700 |
| Administrative Expenses | 8 | 803 | 758 |
| TOTAL EXPENDITURE | | 20,359 | 21,574 |
| NET ADDITIONS FROM DEALING WITH MEMBERS | | 5,363 | 1,394 |
| Returns on Investments | | | |
| Investment Income | 9 | 3,635 | 3,054 |
| Change in Market Value of Investments | 10 | 18,279 | 19,734 |
| Investment Management Expenses | 12 | -1,413 | -1,536 |
| NET PROFIT ON INVESTMENTS | | 20,501 | 21,252 |
| NET INCREASE IN THE FUND | | 25,864 | 22,646 |
| OPENING NET ASSETS | | 323,778 | 349,642 |
| **CLOSING NET ASSETS** | | 349,642 | 372,288 |

# NOTES TO THE PENSION ACCOUNTS

## 1. Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the 2011 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements 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. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

## 2. Accounting Policies

- Contributions and Benefits
  Contributions are accounted for on an accruals basis. Benefits payable represents the benefits entitlement up to the end of the reporting period.

- Transfers to other Schemes
  Transfer payments made to other schemes are as a result of early leavers and are accounted for when paid.

- Transfers from other Schemes
  Transfers received from other schemes are for new members and are accounted for when received. No liability to the scheme accrues until all monies have been received from the transferor's scheme.

- Refunds to Leavers
  These are accounted for when due.

- Investment Management Expenses
  Each fund manager receives a fee for their services based on the market value of the assets they manage.

- Investment Income
  Interest earned and other investment income is accounted for on an accruals basis.

- Foreign Currency Transactions
  Assets and liabilities held in a foreign currency are translated at the rate of sterling quoted at year-end. Income and expenditure arising during the year is translated into sterling at the rate quoted on the date of receipt or payment. Resulting exchange gains or losses are recognised through the revenue account.

- Valuation of Assets
  No property is directly held by the fund. The market value used for quoted investments is that quoted by the stock exchange on 31 March 2012. Fund Managers value unquoted securities at the year-end in line with generally accepted guidelines to ascertain the fair value of the investment.

## 3. Contributions Receivable

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Employers | | |
| Normal | 19,260 | 16,661 |
| Special | - | - |
| Additional | 531 | 631 |
| Members | | |
| Normal | 4,885 | 4,844 |
| | 24,676 | 22,136 |

| Contributions were made as follows: | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Powys County Council (Administering Authority) | 22,808 | 20,167 |
| Scheduled Bodies (Appendix 3) | 1,189 | 1,294 |
| Admitted Bodies (Appendix 3) | 679 | 675 |
| | 24,676 | 22,136 |

## 4. Transfers In

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Individual Transfers From Other Schemes | 971 | 727 |

## 5. Other Income

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Administrative Fees Received | 8 | 19 |
| Additional Allowances Recovered | 67 | 86 |
| | 75 | 105 |

## 6. Benefit Payable

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Pensions | 15,260 | 16,165 |
| Commutations and Lump Sum Retirement Benefits | 3,310 | 3,696 |
| Lump Sum Death Benefits | 398 | 255 |
| | 18,968 | 20,116 |

| Benefits Can Be Further Analysed: | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Powys County Council (Administering Authority) | 10,048 | 11,064 |
| Scheduled Bodies (Appendix Four) | 8,131 | 8,296 |
| Admitted Bodies (Appendix Four) | 789 | 756 |
| | 18,968 | 20,116 |

## 7. Payments to and on Account of Leavers

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Refunds to Members Leaving Service | 3 | 2 |
| Payments to Members Joining State Scheme | 1 | - |
| Individual Transfers to Other Schemes | 584 | 698 |
| | 588 | 700 |

## 8. Pensions Administration

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Powys CC Fees | 661 | 677 |
| Direct Administration Fees | 71 | 51 |
| Audit Fees | 30 | 30 |
| Actuarial Fees | 41 | - |
| | 803 | 758 |

## 9. Investment Income

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Income From Fixed Interest Securities | 2,440 | 2,322 |
| Income From Indexed Securities | 745 | 686 |
| Dividends From Equities | 377 | 2 |
| Interest on Cash Deposits | 73 | 44 |
| | 3.635 | 3,054 |

## 10. Investments

| | Value at 01.04.11 £`000 | Purchases at Cost £`000 | Sale Proceeds £`000 | Cash Movement £'000 | Change in Market Value £`000 | Value at 31.03.12 £`000 |
|---|---|---|---|---|---|---|
| Fixed Interest Securities | 54,219 | 22,359 | -30,915 | 846 | 1,746 | 48,255 |
| Pooled Vehicles - Equities | 175,931 | 13,204 | -10,705 | -173 | 6,257 | 184,514 |
| Index linked Securities | 49,052 | 14,263 | -19,316 | -12 | 9,656 | 53,643 |
| Property | 22,586 | 3,075 | - | -160 | 1,170 | 26,671 |
| Private Equity | 12,684 | 1,104 | -1,199 | -173 | 1,138 | 13,554 |
| Hedge Fund of Funds | 15,322 | 10,552 | - | -273 | -90 | 25,511 |
| Active Currency | 9,298 | - | -4,546 | - | -139 | 4,613 |
| Cash & Short Term Investments | 7,654 | 22,008 | -14,540 | -174 | -4 | 14,944 |
| | 346,746 | 86,565 | -81,221 | -119 | 19,734 | 371,705 |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at anytime during the year, including profits and losses realised on sales of investments during the year. Some transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees.

These transaction costs incurred in the year 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. All equities held by the fund are now in unit trusts.

## 11. Breakdown of Investments

| | 2011 £`000 | 2012 £`000 |
|---|---|---|
| **Fixed Interest Securities** | | |
| UK Public Sector Quoted | 14,650 | 11,527 |
| UK Quoted | 35,178 | 36,674 |
| Overseas Public Sector | 4,391 | - |
| Overseas Quoted | - | 54 |
| | 54,219 | 48,255 |
| **Index Linked Securities** | | |
| UK Quoted | 49,052 | 53,643 |
| Overseas Quoted | - | - |
| | 49,052 | 53,643 |
| **Equities – Pooled** | 175,931 | 184,514 |
| **Hedge Fund of Funds** | 15,322 | 25,511 |
| **Active Currency** | 9,298 | 4,613 |
| **Private Equity** | 12,684 | 13,554 |
| **Property** | 22,586 | 26,671 |
| **Cash** | 7,684 | 14,868 |
| **Derivatives (see below)** | | |
| Futures Options | - | - |
| Forward Foreign Exchange Contracts | -30 | 76 |
| | 346,746 | 371,705 |

The objective of a derivative is to decrease risk in a portfolio by entering into future positions to match assets that are already held in the portfolio without disturbing the underlying asset. The foreign exchange contracts above are further analysed below.

| Forward Foreign Exchange Contracts | Expiration | Market Value £'000 |
|---|---|---|
| Sterling | Less than 1 year | -525 |
| Hedged against: | | |
| Euro | Less than 1 year | -29 |
| US | Less than 1 year | 630 |
| | | 76 |

## 12. Investment Management Expenses

| | 2010/11 £`000 | 2011/12 £`000 |
|---|---|---|
| Administrative Management and Custody | 1,394 | 1,515 |
| Performance Measurement Charges | 19 | 21 |
| | 1,413 | 1,536 |

## 13. Current Assets and Liabilities

| | 2011<br>£`000 | 2012<br>£`000 |
|---|---|---|
| Contributions Due From Employers In Respect Of: | | |
| Employers and Members | 2,238 | 1,446 |
| Cash Balances | 1,195 | -40 |
| Accrued Expenses | -537 | -823 |
| | 2,896 | 583 |

Amounts unpaid at the year end are subsequently paid within a reasonable time frame, i.e. the majority of the balances are paid within a 3 month period.

## 14. Related Party Transactions

Details of Members and officers of the Council represented on the Pensions and Investment Committee are shown in Appendix one. Their combined contributions into the scheme were £26.5k in 2011/12.

The Fund is administered by Powys County Council. Consequently there is a relationship between the Authority and the Fund.
The Authority incurred costs of £0.7 million (2010-2011: £0.7 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund.
The Authority is also the single largest employer of members in the Fund and contributed £15.9 million to the Fund in 2011-2012 (2010-2011: £16 million).

Governance
There are five councillor members of the Pensions & Investments Committee. In 2011-12 these were Councillor G Vaughan, Councillor S Baynes, Councillor A Jones, Councillor A Thomas & Councillor P Ashton. Councillor S Baynes is not an active member of the Fund.
The Director of Resources and Infrastructure, Mr Geoff Petty, who has the role of Section 151 Officer for the Authority, plays a key role in the financial management of the Fund and is also an active member of the Fund.
Councillors are required to declare their interest at each meeting.
The Committee members and Director of Resources and Infrastructure accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.
The full Governance Policy of the Powys Pension Fund is available on the Fund website.

## 15. Additional Voluntary Contributions (AVC)

Although not included in these accounts the Authority has two AVC providers – Standard Life and Equitable Life. The amounts below represent monthly contributions from employees and do not include any transfers from private pension schemes. The employing Authorities make no contribution.

| | 2011<br>£`000 | 2012<br>£`000 |
|---|---|---|
| Powys County Council | 85 | 48 |
| Other Bodies | - | 2 |
| | 85 | 50 |

## 16. Contingent Liabilities

No contingent liabilities were known to exist at the Balance Sheet date.

## 17. Post Balance Sheet Events

The accounts outlined in these financial statements represent the financial position of the Fund as at 31 March 2012. Since this date, the performance of the global equity markets may have affected the financial value of pension fund investments.

## 18. Capital Commitments

| Private Equity and Property Mandate | 2011 £`000 | 2012 £`000 |
|---|---|---|
| Standard Life (Private Equity) | 1,744 | 1,163 |
| Harbourvest (Private Equity) | 2,290 | 1,715 |
| CBRE (Property) | 750 | 375 |
| | 4,784 | 3,253 |

## 19. Financial Instruments

### 19a. Fair value of financial instruments & liabilities

The table below summarises the carrying values of the financial assets & liabilities compared with their fair values.

| 31 March 2011 | | | 31 March 2012 | |
|---|---|---|---|---|
| **Cost** | **Fair Value** | | **Cost** | **Fair Value** |
| **£'000** | **£'000** | | **£'000** | **£'000** |
| | | **Financial assets** | | |
| 314,526 | 346,746 | Fair value through profit & loss | 324,942 | 371,705 |
| 3,433 | 3,433 | Current assets | 1,406 | 1,406 |
| **317,959** | **350,179** | **Total financial assets** | **326,348** | **373,111** |
| | | | | |
| | | **Financial liabilities** | | |
| -537 | -537 | Current liabilities | -823 | -823 |
| **-537** | **-537** | **Total financial liabilities** | **-823** | **-823** |
| | | | | |

### 19b. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The private equity values are based on valuations provided by the general partners to the private equity funds in which the Powys Pension Fund has invested.

The hedge fund values are based on the net asset value provided by the fund manager.

The tables below  show the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

| **Values as at 31 March 2012** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Investments | 305,893 | 26,671 | 39,141 | 371,705 |
| Current assets | 1,406 | | | 1,406 |
| Current liabilities | -823 | | | -823 |
| **Net financial assets** | 306,476 | 26,671 | 39,141 | 372,288 |

| **Values as at 31 March 2011** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Investments | 296,153 | 22,586 | 28,007 | 346,746 |
| Current assets | 3,433 | | | 3,433 |
| Current liabilities | -537 | | | -537 |
| **Net financial assets** | 299,049 | 22,586 | 28,007 | 349,642 |

**20. Actuarial Present Value of Promised Retirement Benefits**

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2011 of the actuarial valuation of promised retirement benefits as set out in IAS26. The actuarial present value should be calculated on an IAS 19 basis. This is a change from the previous practice where the Pension Fund accounts only showed the value of the assets. IAS26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the IFRS.

Actuarial present value of the promised retirement benefits as at 31 March 2010 is £568.8M

Actuarial present value of the promised retirement benefits as at 31 March 2007 is £434.0M

## 21. Nature and Extent of Risks Arising from Financial Instruments

### Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members.) Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the fund's risk management strategy rests with the pension fund committee

### Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investments advisors undertake appropriate monitoring of market conditions and benchmark analysis. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The fund's investment managers mitigate this price risk through diversification.

### Other price risk – sensitivity analysis

The following movements in market price risk are reasonably possible for 2012/13 as determined by WM. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain unchanged.

| Asset Type | Potential Market Movement (+ / -) |
|---|---|
| Overseas Equities | 14.1% |
| Global Pooled Equities | 14.8% |
| Total Bonds | 5.5% |
| Index Linked Gilts | 7.6% |
| Cash | 0.4% |
| Property | 8.7% |
| Alternatives | 8.1% |

The table below shows the funds value at 31 March 2013 should the funds investments increase/decrease in line with the above.

| Asset Type | Value at 31.03.12 | Percentage change | Value on increase | Value on decrease |
|---|---|---|---|---|
| Fixed Interest Securities | 48,255 | 5.5 | 50,909 | 45,601 |
| Index Linked Securities | 53,643 | 7.6 | 57,720 | 49,566 |
| Pooled Vehicles – Equities | 184,514 | 14.8 | 211,822 | 157,206 |
| Hedge Fund of Funds | 25,511 | 8.1 | 27,577 | 23,445 |
| Active Currency | 4,613 | 0.4 | 4,631 | 4,595 |
| Private Equity | 13,554 | 14.1 | 15,465 | 11,643 |
| Property | 26,671 | 8.7 | 28,991 | 24,351 |
| Cash | 14,868 | 0.4 | 14,927 | 14,809 |
| Derivatives | 76 | 8.1 | 82 | 70 |
| **Total Assets** | **371,705** | | **412,124** | **331,286** |

### Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's interest rate and return are monitored by the council and its investment advisors as part of the monthly and quarterly reporting and assessment of interest rate return against benchmark.

The fund's exposure to interest rate movements as at 31 March 2011 and 31 March 2012 is set out below.

| Asset Type | As at 31.03.11 | As at 31.03.12 |
|---|---|---|
| Cash | 7,684 | 14,868 |
| Cash Balances | 1,195 | -40 |
| Fixed Interest Securities | 54,221 | 48,255 |
| **Total** | 63,100 | 63,083 |

The analysis that follows assumes that all other variables , in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 50 bps change in interest rates.

| Asset Type | Value at 31.03.12 £'000 | Change to net assets available to pay benefits +50bps £'000 | -50bps £'000 |
|---|---|---|---|
| Cash | 14,868 | 14,942 | 14,793 |
| Cash Balances | -40 | -40 | -40 |
| Fixed Interest Securities | 48,255 | 48,497 | 48,014 |
| **Total Assets** | 63,083 | 63,399 | 62,767 |

**Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other that £UK.

The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management, including monitoring the range of exposure to currency fluctuations.

The fund's currency exposure as at 31 March 2011 and 31 March 2012 is set out below.

| Asset Type | As at 31.03.11 | As at 31.03.12 |
|---|---|---|
| Private Equity | 12,684 | 13,554 |
| Currency | 9,449 | 4,856 |
| Hedge Funds FX | 260 | 630 |
| **Total** | 22,393 | 19,040 |

A 10% volatility associated with exchange rates is considered likely, based on the fund advisor's analysis of historical movements in the month end exchange rates over a 3 year period.

A 10% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Asset Type | Value at 31.03.12 £'000 | Change to net assets available to pay benefits +10% £'000 | -10% £'000 |
|---|---|---|---|
| Private Equity | 13,554 | 14,910 | 12,199 |
| Currency | 4,856 | 5,341 | 4,370 |
| Hedge Funds FX | 630 | 693 | 567 |
| **Total Assets** | 19,040 | 20,944 | 17,136 |

**Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The table below shows the funds cash holding as at 31 March 2011 and 31 March 2012.

| Summary | Rating | As at 31.03.11 £'000 | As at 31.03.12 £'000 |
|---|---|---|---|
| **Bank Current Account** | | | |
| HSBC | AA | 113 | -40 |
| **Bank Deposit Account** | | | |
| HSBC | AA | 1,082 | 0 |

## Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for meeting the pensioner payroll costs; and also cash to meet investment commitments.

The council has immediate access to its pension fund cash holdings

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2012 the value of illiquid assets was £356.8m, which represented 96% of the total fund assets - (31 March 2011 £339.1m, which represented 97.8% of the total fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2012 are due within one year.

### Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 21. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted.

There are no accounting standards that have been issued but have yet to be adopted.

# Powys County Council Pension Fund

# Statement of the Actuary for the year ended 31 March 2012

## Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Powys County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

## Actuarial Position

**1.** The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets at that date (of £323.8M) covering 71% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

**2.** The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:

- 14.8% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

**Plus**

- Additional contributions expressed as a mixture of percentage of salary and monetary amounts to be paid as set out in the valuation report to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2011. The estimated monetary amounts to be paid as set out in the valuation report are £6.6M in 2011/12, £6.9M in 2012/13 and £7.1M in 2013/14, increasing broadly by 5.3% p.a. thereafter.

**3.** In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2011 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

**4.** The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

**5.** The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

| | |
|---|---|
| Discount rate | 6.5% p.a. |
| Rate of pay increases: | 5.3% p.a. |
| Rate of increases in pensions in payment<br>(in excess of Guaranteed Minimum Pension): | 3.3% p.a. |

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2010. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

**6.** Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

**7.** This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Powys County Council, the Administering Authority of the Fund, in respect of this statement.

Aon Hewitt Limited

1 June 2012

# APPENDIX 1 - PENSIONS AND INVESTMENT COMMITTEE

The Pensions and Investment Committee meet on a quarterly basis. During 2011/12 it consisted of the following:-

County Councillors:

Mr G. Vaughan (Chairman)
Mr S. Baynes (Vice Chair)
Ms M. Davies
Mr A. Jones
Mr A. Thomas
Mr P. Ashton

Members Representative:

Mr G. Jones

Outside Bodies Employers Representative:

Mr E. Morgan

County Council Officers In Attendance:

Mr G. Petty (Strategic Director – Finance & Infrastructure)
Mr S. Cameron (Accountancy Manager)
Mr C. Leah (Principal Accountant)
Mr J. Rollin (Pensions Manager)
Mr D. Paley (Pensions Accountant) – to Oct 2011
Mr S Offa (Pensions Accountant) – from Feb 2012

Fund Managers:

| | |
|---|---|
| Aberdeen Asset Management | Aviva Investors |
| Blackrock Global Investors (BGI) | CBRE |
| Fauchier Partners | GAM |
| Goldman Sachs | HarbourVest Partners LLC |
| Investec (to July 2011) | MFS |
| Schroders Investment Management | Standard Life Investments |
| Western Asset Management | |

| | |
|---|---|
| Global Custodian | J.P. Morgan |
| Independent Advisor to the Fund | Mr S. Maine (Aon Hewitt Limited) |
| Actuary | Aon Hewitt Limited |

The Global Custodians hold the investments in the name of the Pension Fund.

# APPENDIX 2 – OTHER BODIES

Powys County Council administers the scheme for employees and ex employees of the following bodies:

## Scheduled Bodies

Powys County Council
Welshpool Town Council
Llanidloes Burial Joint Committee
Coleg Powys
Newtown and Llanllwchaiarn Town Council
Brecon Beacons National Park
Ystradgynlais Town Council
Knighton Town Council
Brecon Town Council
Ystradfellte Community Council
Llandrindod Wells Town Council

## Admitted Bodies

Powys Association of Voluntary Organisations
Careers Wales Powys
Presteigne Shire Hall Museum Trust
Theatr Brycheiniog
BUPA Care Homes
MENCAP
Menter Maldwyn
Development Board for Rural Wales
Powys Valuation Panel
Wales European Centre

Community Councils and various other statutory bodies have the right to be included in the fund. Other bodies can be admitted at the discretion of the County Council.

Contact List and Communications

A copy of this report is sent automatically to all participating bodies. A copy is available to anyone else on demand, subject to a small administration charge. A full copy of the report can be viewed at www.powyspensionfund.org.uk. Should you have any comments on the financial statement or any other pension matter please contact the appropriate officer in the following list:

| | | |
|---|---|---|
| **Pensions Administration** | | |
| Pensions Manager: | Joe Rollin | 08708 510264 |
| | | |
| **Accounts and Investments** | | |
| Head of Finance | Clare Williams | 01597 826195 |
| Pensions Accountant | Stephen Offa | 01597 826727 |

# APPENDIX 3 – CONTRIBUTIONS BY SCHEDULED AND ADMITTED BODIES

| 2011/12 | No of Contributors | Employers Normal £ | Additional £ | Members Normal £ | Total £ |
|---|---|---|---|---|---|
| Scheduled Bodies | | | | | |
| Brecon Beacons National Park | 116 | 481,952 | 121,147 | 170,243 | 773,342 |
| Brecon Town Council | 4 | 12,481 | - | 3,045 | 15,526 |
| Coleg Powys | 149 | 325,602 | 13,602 | 116,301 | 455,505 |
| Llandrindod Wells Town Council | 1 | 4,054 | - | 1,372 | 5,426 |
| Llanidloes Burial Joint Committee | 1 | 3,111 | - | 670 | 3,781 |
| Newtown Town Council | 3 | 11,672 | - | 3,358 | 15,030 |
| Welshpool Town Council | 2 | 7,065 | - | 1,140 | 8,205 |
| Ystradfellte Community Council | 1 | 494 | - | 121 | 615 |
| Ystradgynlais Town Council | 3 | 12,478 | - | 3,655 | 16,133 |
| | 280 | 858,909 | 134,749 | 299,905 | 1,293,563 |
| Admitted Bodies | | | | | |
| BUPA | 65 | 250,974 | - | 53,681 | 304,655 |
| Mencap | 1 | 987 | - | 267 | 1,254 |
| Menter Maldwyn | 3 | 9,614 | - | 3,511 | 13,125 |
| P.A.V.O (Former P.R.C) | 8 | 32,071 | 15,625 | 9,805 | 57,501 |
| Careers Wales Powys | 40 | 209,093 | - | 63,109 | 272,202 |
| Presteigne Shirehall | 1 | 2,992 | - | 705 | 3,697 |
| Theatr Brycheiniog | 6 | 15,933 | - | 6,872 | 22,805 |
| | 124 | 521,664 | 15,625 | 137,950 | 675,239 |
| **2010/11** | | | | | |
| Scheduled Bodies | | | | | |
| Brecon Beacons National Park | 109 | 467,673 | 15,861 | 174,517 | 658,051 |
| Brecon Town Council | 5 | 11,126 | - | 3,073 | 14,199 |
| Coleg Powys | 145 | 346,781 | - | 120,082 | 466,863 |
| Llandrindod Wells Town Council | 1 | 4,585 | - | 1,590 | 6,175 |
| Llanidloes Burial Joint Committee | 1 | 2,902 | - | 670 | 3,572 |
| Newtown Town Council | 3 | 11,192 | - | 3,327 | 14,519 |
| Welshpool Town Council | 2 | 8,466 | - | 1,422 | 9,888 |
| Ystradfellte Community Council | 1 | 437 | - | 110 | 547 |
| Ystradgynlais Town Council | 3 | 11,929 | - | 3,542 | 15,471 |
| | 270 | 865,091 | 15,861 | 308,333 | 1,189,285 |
| Admitted Bodies | | | | | |
| BUPA | 74 | 262,005 | - | 58,108 | 320,113 |
| Mencap | 1 | 1,174 | - | 285 | 1,459 |
| Menter Maldwyn | 3 | 7,422 | - | 3,097 | 10,519 |
| P.A.V.O (Former P.R.C) | 10 | 29,056 | - | 10,223 | 39,279 |
| Careers Wales Powys | 50 | 202,792 | - | 69,659 | 272,451 |
| Presteigne Shirehall | 1 | 2,941 | - | 732 | 3,673 |
| Theatr Brycheiniog | 6 | 21,695 | - | 9,465 | 31,160 |
| | 145 | 527,085 | - | 151,569 | 678,654 |

## APPENDIX 4 – BENEFITS PAID TO SCHEDULED & ADMITTED BODIES

| | Retirement Pensions | Commutations & Lump Sums | Death Benefits | Total |
|---|---|---|---|---|
| **2011/12** | £ | £ | £ | £ |
| Scheduled Bodies | | | | |
| Brecknock B.C. | 715,780 | 19,272 | 1,438 | 736,490 |
| Brecon Beacons National Park | 270,267 | 127,124 | - | 397,391 |
| Brecon Town Council | 85 | 1,451 | - | 1,536 |
| Coleg Powys | 125,268 | 36,139 | - | 161,407 |
| Knighton Town Council | 7,186 | - | - | 7,186 |
| Llandrindod Wells Town Council | 1,719 | - | - | 1,719 |
| Llanidloes Burial Committee | 508 | - | - | 508 |
| Magistrates Courts Committee | 2,102 | - | - | 2,102 |
| Montgomeryshire D.C. | 961,598 | 4,529 | - | 966,127 |
| Newtown Town Council | 6,829 | - | - | 6,829 |
| Powys CC (pre 1/4/96) | 5,043,391 | 117,453 | 253,868 | 5,414,712 |
| Probation Committee | 66,681 | - | - | 66,681 |
| Radnorshire D.C. | 490,545 | 7,231 | - | 497,776 |
| Welshpool Town Council | 35,345 | 189 | - | 35,534 |
| Ystradgynlais Town Council | 38 | - | - | 38 |
| | 7,727,342 | 313,388 | 255,306 | 8,296,036 |
| Admitted Bodies | | | | |
| BUPA | 251,942 | 77,168 | - | 329,110 |
| D.B.R.W. | 234,881 | 1,128 | - | 236,009 |
| P.A.V.O. | 41,543 | 4,477 | - | 46,020 |
| Careers Wales Powys | 88,153 | 34,006 | - | 122,159 |
| Powys Valuation Panel | 22,151 | - | - | 22,151 |
| Theatr Brycheiniog | 77 | - | - | 77 |
| Wales European Centre | 1,039 | - | - | 1,039 |
| | 639,786 | 116,779 | - | 756,565 |
| **2010/11** | | | | |
| Scheduled Bodies | | | | |
| Brecknock B.C. | 730,657 | 53,422 | - | 784,079 |
| Brecon Beacons National Park | 227,332 | 111,580 | - | 338,912 |
| Coleg Powys | 114,174 | 1,599 | - | 115,773 |
| Knighton Town Council | 6,976 | - | - | 6,976 |
| Llandrindod Wells Town Council | 1,669 | - | - | 1,669 |
| Llanidloes Burial Committee | 493 | - | - | 493 |
| Magistrates Courts Committee | 2,041 | - | - | 2,041 |
| Montgomeryshire D.C. | 962,700 | - | - | 962,700 |
| Newtown Town Council | 6,643 | - | - | 6,643 |
| Powys CC (pre 1/4/96) | 5,079,350 | 157,498 | 465 | 5,237,313 |
| Probation Committee | 60,514 | - | - | 60,514 |
| Radnorshire D.C. | 483,935 | 38,396 | - | 522,331 |
| Welshpool Town Council | 31,300 | 59,792 | - | 91,092 |
| Ystradgynlais Town Council | 36 | - | - | 36 |
| | 7,707,820 | 422,287 | 465 | 8,130,572 |
| Admitted Bodies | | | | |
| BUPA | 224,234 | 117,305 | - | 341,539 |
| D.B.R.W. | 221,398 | 60,304 | - | 281,702 |
| P.A.V.O. | 37,345 | 10,125 | - | 47,470 |
| Careers Wales Powys | 84,183 | 12,164 | - | 96,347 |
| Powys Valuation Panel | 20,785 | - | - | 20,785 |
| Theatr Brycheiniog | 77 | - | - | 77 |
| Wales European Centre | 967 | - | - | 967 |
| | 588,989 | 199,898 | - | 788,887 |

# APPENDIX 5 - STATEMENT OF INVESTMENT PRINCIPLES

## 1. Introduction

1.1 Local Government Pension Scheme (LGPS) Funds are required to publish a Statement of Investment Principles (SIP)[1] which must include the Fund's policy on the following:

- The types of investment to be held;
- The balance between different types of investment;
- Risk, including the ways in which risks are to be measured and managed;
- The expected return on investments;
- The realisation of investments;
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- The exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy: and
- Stock lending.

1.3 In response to the Treasury report Updating the Myners Principles: A Response to Consultation (October 2008) , LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG (the central government department with responsibility for oversight of the LGPS) and replace the ten Myners principles published in 2001 (see Appendix A).

1.2 The SIP will be regularly reviewed and updated as necessary.

1.3 A copy of the SIP will be made available on request to any interested party.

[1] Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093)

## 2. Overall Responsibility

2.1 The County Council is the designated statutory body responsible for administering the Powys Pension Fund on behalf of its constituent scheduled and admitted bodies.

2.2 Elected members have a fiduciary duty to the Fund, scheme members and local council taxpayers in relation to the LGPS. Functions may be delegated to Officers but they retain overall responsibility for the management of the fund and it's investment strategy and individual decisions about investments. The County Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out monitoring and reviews of investment and performance. The County Councils Constitution delegates these functions to the Pensions & Investment Committee.

2.3 The Investment Regulations permit the appointment of one or more investment managers to manage the fund on their behalf, provided that the investment managers are suitably qualified by their ability and practical experience of financial matters to make investment decisions for them, and to their compliance with other specific requirements of the regulations.

2.4 Administering Authorities are required to take proper advice to enable them to fulfil their obligations, "Proper advice" is defined in the regulations as "the advice of a person who is reasonably believed to be qualified by his ability and practical experience of financial matters".

2.5 The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee. The Chief Financial Officer and external fund advisors offer advisory support. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers.

2.6 Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the fund. The members of the Pension and Investment Committee will ensure they receive training as and when deemed appropriate, to enable them to evaluate critically any advice they receive.

2.7 The County Council has in place arrangements for the provision of specialist advice relating to actuarial matters (including the triennial valuation) and investment matters (including asset allocation and manager appointment).

2.8 The County Council has appointed independent specialists to provide actuarial and investment advice and is prepared to pay sufficient fees to attract a broad range of both kinds of providers when tendering.

2.9 The County Council will use suitable means to assess the advice received from its advisers in terms of its contribution to the decision making process.

2.10 Investment Committee

2.10.1 Powys County Council delegates responsibility for the Administrating Authority role to the Investment Sub-Committee. This includes investing the Funds assets. The Committee is supported by the Fund Administrator and Investment Advisors.

2.10.2 The Committee is responsible in respect of investment matters:

a. To determine the overall strategy relating to the investment of the Pension Fund's assets and to meeting the Fund's liabilities.
b. To keep under review the performance of the Pension Fund and the Fund's managers.
c. To approve the appointment of advisers and fund managers.
d. To publicise its stewardship role to all Scheduled and Admitted Bodies of the Powys Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.

2.11 Investment Managers

2.11.1 Each Investment Manager will be responsible for:

a. Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments.

b. Providing the Committee with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio.

c. Providing the designated provider with the information necessary to calculate performance statistics.

2.12 Investment Consultant

2.12.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Committee. Advice and support is likely to be sought in regard of:

a. Reviews of the Statement of Investment Principles.
b. Presentation and interpretation of investment performance measurement results.
c. The Potential impact of:
   - any changes in the Investment Managers' organisations that could affect the interests of the Fund
   - any changes in the investment environment that could present either opportunities or problems for the Fund.
d. Investment manager selection, retention and termination;
e. Benchmark adjustments;
f. The appropriate content of Investment Management and other related Agreements;
g. Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary.

h. Ad-hoc project work as required including research reviews of Investment Managers.

## 3. Investment Objectives

3.1 The long term investment objectives of the fund are to:

- Maximise investment returns over the long term within an acceptable level of risk.
- Ensure that sufficient assets are readily available to meet liabilities as they fall due.
- Aim for long-term stability in the employers' contribution rates.
- Achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

3.2 Risk is mainly concerned with the possibility of a deficiency in the Fund or a substantial increase, or volatility, in future employer contribution rates.

3.3 Whilst stability of the employers' rate has a high priority, absolute cost to the employer is also important. This implies that:

- The cost of administering the Fund will be constrained by the adoption of best management practice
- Employers will adopt appropriate policies in those areas where they have discretion and where costs of their actions fall on the Fund;
- The Fund will, as far as is practicable, and through the Fund's Actuary, avoid cross subsidisation between the Fund's individual employers;
- The Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will take a controlled active risk relative to its liability profile.

## 4. The Types of Investment to be held

4.1 The County Council seeks to achieve its investment objectives through investing in a suitable mixture of real and monetary assets. A mixture across the asset classes should provide the level of returns required by the fund to meet its liabilities at an acceptable level of risk and at an acceptable level of cost.

4.2 In making asset allocation decisions the County Council will consider the following asset classes:

- UK Equities
- Overseas Equities
- Private Equity
- Property
- Fixed Interest Securities
- Index Linked Securities
- Cash and Currency
- Other Assets, such as hedge funds.

4.3 In reaching its decisions on asset allocation the County Council will:

- Take proper advice from specialist, independent advisers and give consideration to the desirability of receiving advice based on an asset / liability study
- Consider the extent to which the assets should match the liabilities
- Consider the volatility of returns which it is prepared to accept
- Determine the split between matching and returning seeking assets before it gives consideration to any other asset class.
- Have due regard to the diversification and suitability of investments

## 5. The Balance Between Different Types of Investments

5.1 The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of our Investment Advisors.

5.2 The current Medium Term Asset Allocation (MTAA) project utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% p.a. by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. This service will run from early 2011 to early 2014. The MTAA service has an artificial benchmark of 52% equity / 33% bond / 15% alternatives. It operates within tolerance bands so the difference between the actual allocation and the strategic allocation will not deviate beyond these set limits. For further information on the MTAA project, please see Appendix B.

5.3 The current strategic benchmark is as follows:

**Asset Allocation**

| **Asset Class** | **%** | | **Benchmark Index** |
|---|---|---|---|
| **Equities** | **47** | | |
| Active | | 19 | Split one third MSCI World and two thirds MSCI World (NDR) due to different manager benchmarks |
| Passive | | 28 | FTSE Developed World |
| **Bonds** | **30** | | |
| Corporate Bonds | | 12 | iBoxx Sterling Non-gilts |
| Index-Linked Gilts | | 15 | FTSE UK Index-Linked over 5 years |
| Gilts | | 3 | FTSE UK Gilts All Stock |
| **Property** | **10** | | IPD Index |
| **Private Equity** | **5** | | MSCI AC World ex UK |
| **Currency** | **1.5** | | 1 Month LIBOR |
| **Hedge Fund of Funds** | **6.5** | | 3 Month LIBOR |
| **Total** | **100** | | |

## 6. Risk

6.1 The Committee recognises that risk is inherent in any investment activity and it seeks to manage the level of risk that it takes in an appropriate manner.

6.2 The operational risk to the Fund is minimised by:

- The use of a regulated, external, third party, professional custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Having access to the internal audit service of Powys County Council.
- The activities of the Fund Managers being governed by detailed Investment Management Agreements. Fund Managers are expected to have regards to these principles and legislative requirements, in particular the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093)
- Having formal agreements in place with admitted bodies.

6.3 The investment risks to the fund are managed by:

- Diversification of types of investment
- Diversification of investment managers
- The setting of a Fund-specific benchmark informed by Asset-Liability modelling of liabilities.
- The appointment of independent professional advisors
- The appointed expert Fund Managers being given clear performance benchmarks and maximum accountability for performance against those benchmarks over appropriate time-scales.
- Fund Managers being required to implement appropriate risk management measures and to operate in such a manner that will ensure the likelihood of not achieving the performance target is kept within defined acceptable limits.

6.4 Fund managers are permitted to use authorised financial instruments in appropriate circumstances following prior discussion and approval. Approval will not be withheld without clear justification.

6.5 Statistics for measuring the performance of the Fund are provided by the WM Company on a quarterly, annual and 3, 5 and 10-year basis to allow regular monitoring against the prescribed benchmarks and against peer groups.

6.6 The Fund Managers are required to produce a quarterly investment report and to attend Pension and Investment Committee meetings as appropriate.

6.7 The independent investment adviser who attends each Pensions and Investment Committee meeting produces a separate report on investment performance quarterly, based on performance calculated by WM Performance Services. WM provide a performance measurement service of the Fund.

6.8 The Pensions and Investment Committee regularly monitors the investment performance of the Fund in both absolute terms and against the specific benchmarks set. A review of overall, or asset class specific benchmarks, will be undertaken if the Pensions and Investment Committee considers it appropriate.

6.9 The County Council requires the investment managers to provide details of the commission payments they receive on asset transactions (including soft commissions if applicable) and how they assess their overall trading efficiency. By discussing these matters with the investment managers, the County Council seeks to gain a full understanding of the transaction-related costs that the Fund incurs, and to understand the options open to the County Council in relation to those costs.

6.10 Appropriate performance data will be included in the annual report and statement of accounts for the Pension Fund and in the annual members' newsletter.

## 7. The expected return on investments

7.1 The Fund Managers have been given specific performance targets measured against the index return in the relevant asset class. The County Council recognises that these targets will not be met in all periods under consideration, but expects that the Managers will meet them in the vast majority of periods under consideration.

7.2 The performance targets for the Fund managers are shown in the table below:

| Investment Manager | Mandate | Benchmark | Objective |
|---|---|---|---|
| Aberdeen | Global Equity | MSCI World | To outperform the benchmark by 3% p.a. (gross of fees) over rolling 3 year periods |
| MFS | Global Equity | MSCI World (NDR) | To outperform the MSCI World Index over full market cycles while maintaining a consistent style discipline |
| Schroders | Global Equity | MSCI World (NDR) | To outperform the MSCI World Index by 3-4% p.a. over a market cycle |
| Barclays Global Investors | Balanced | Composite benchmark | To track the benchmark |
| Aviva Investors | UK Property | IPD/PPFI All Balanced Funds Medium Index | To outperform the benchmark by 1% p.a. over rolling 3 year periods. |
| CB Richard Ellis | European Property | UK Retails Price Index (The IPD UK Pooled Property Index will also be used for comparison purposes) | Provide investors with a return of 8-10% p.a., net of fees and expenses. |
| Western Asset Management | Global Corporate Bonds | Merrill Lynch Sterling Non-Gilts Index. | To outperform the benchmark by 0.75% p.a., net of fees, over the medium term (3-7 years) |
| Standard Life Investment | Private Equity (European) | MSCI World | To outperform the benchmark by 5% pa over a rolling three year period. |

| Investment Manager | Mandate | Benchmark | Objective |
|---|---|---|---|
| HarbourVest Partners | Private Equity (US) | MSCI World | No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry |
| Goldman Sachs | Currency | 1 month GBP LIBOR | To outperform the benchmark by 15% p.a., gross of fees. |
| Fauchier Partners | Hedge Fund of Funds | 3 month GBP LIBOR | To outperform the benchmark by 5% p.a. over a rolling five year period by investing in a diversified portfolio of hedge funds. |
| GAM | Hedge Fund of Funds | 3 month GBP LIBOR | To achieve an absolute return of 8-13% p.a. over the long term. |

7.3 The managers' benchmarks are based on market indices. The indices used were considered in consultation with the investment adviser and investment managers and carefully chosen with regard to their strategic suitability. The limits on the levels of divergence from these indices set out in the investment mandates were chosen with regard to the investment managers' overall performance objectives.

## 8. The realisation of investments

8.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Current employer and employee contributions are expected to broadly match or exceed pension income. Thus it is not expected that there will be any need to realise investments in the near future other than to seek higher returns.

8.2.1 The vast majority of the Pension Fund's assets are readily marketable. However some investments, such as property and private equity, are less easy to realise in a timely manner. This relative illiquidity is not considered to have any significant adverse consequences for the fund.

8.3 The Council would inform the appointed external fund managers of any projected need to withdraw funds in order to enable the fund managers to plan an orderly realisation of assets if this proves necessary.

## 9. Socially Responsible Investment

9.1 The County Council has delegated responsibility for the selection, retention and realisation of investments to the investment managers.

9.2 The County Council's policy is to invest part of the Fund's assets on a passive basis. The County Council does not consider it appropriate for a passive investment manager to take account of social, environmental or ethical considerations in the selection, retention and realisation of investments.

9.3 The County Council's policy in respect of the actively managed portion of the Fund's assets is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers. However the County Council expects that the active investment managers in the exercise of their delegated duties will take the extent to which social, environmental or ethical issues may have a financial impact on the portfolio into account.

## 10. The exercise of the rights attaching to investments

10.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Fund Managers who exercise its voting rights. Votes are cast by proxy. Managers provide reports when any voting rights are exercised. Only direct investments in traded equity shares carry such voting rights.

## 11. Corporate Governance

11.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Fund Managers who exercise its voting rights. Votes are cast by proxy. Each Fund Manager is required to report its actions on a quarterly basis.

## 12. Stock lending

12.1 The Fund, custodian or investment managers do not engage in stock lending on behalf of the Fund.

## 13. Monitoring and Implementing of Investment Policy

### 13.1 Monitoring and Review

13.1.1 The Committee will meet on a quarterly basis with the Investment Advisors to review and discuss the operation of each Investment Manager's portfolio, including past and future policy decisions. The performance of the Investment Managers will be monitored by the Committee on a quarterly basis at the Investment Committee meetings.

13.1.2 The Committee, in conjunction with the Investment Consultant, will review the allocation of assets between the passive and specialist portfolios, property and other asset classes.

13.1.3 The appointments of the Investment Managers will be subject to review at the meeting held to consider the performance results from the designated provider. The review will be based on the monitoring of the Investment Managers' processes as well as their performance.

13.1.4 The Investment Managers' appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.

13.1.5 If an Investment manager performance prompts concerns then the Committee may ask the manager to come to a meeting for a special review meeting.

## Appendix A

### Principles for Institutional Investment Decision Making

### Compliance with CIPFA Principles for Investment Decision Making in LGPS

Compliance with CIPFA Principles for Investment Decision Making in LGPS

| Principle | Compliance |
|---|---|
| Effective Decision Making | The Fund considers that its practices are compliant with the CIPFA principles |
| Clear objectives | The Fund considers that its practices are compliant with the CIPFA principles |
| Risk and Liabilities | The Fund considers that its practices are compliant with the CIPFA principles |
| Performance Assessment | The Fund considers that its practices are compliant with the CIPFA principles |
| Responsible Ownership | The Fund considers that its practices are compliant with the CIPFA principles |
| Transparency and Reporting | The Fund considers that its practices are compliant with the CIPFA principles |

## Appendix B

## Background to Medium Term Asset Allocation

### Philosophy

The Committee recognises that it is possible to take advantage of excessive over/under valuations of markets in order to target additional returns. The Committee in conjunction with the Investment Consultants seek to identify opportunities to allocate investments away from the strategic benchmark that are designed to add additional return relative to the benchmark return over the medium term (around 1 to 3 years).

### Process

A thorough fundamental analysis of economics and financial markets is carried out to identify and incorporate general investor expectations into views of the different markets. In particular, attention is paid to establishing consensus views and profit is taken from positions which differ from the consensus. A range of appropriate timing indicators are utilised in order to achieve the best entry and exit levels to and from asset classes.

In terms of the practical application, once an opportunity has been identified the Fund's Investment Consultant will notify the Investment Committee. The Investment Committee decides whether to pursue the opportunity and if so will work with the Investment Consultant to complete any necessary asset transitions. The Investment Consultants liaise with the Investment Managers and follow each transaction as it happens to make sure each trade goes through smoothly.

### Risk management

Considerable lengths are taken to assess what correlations are likely to be in the future so as to ensure asset allocation views are truly diversified. The style of the MTAA project is to have a limited number of meaningful positions rather than either a small number of large positions or a large number of small positions. The overall objective is to achieve an additional return of 0.5% p.a. of assets involved in the MTAA project. The Investment Consultant will provide regular reporting to the Investment Committee.

# GLOSSARY OF TERMS

**Accrual**
An accrual is a sum (provision) shown in the accounts to cover income or expenditure for the accounting period but which was not actually paid or received as at the date of the Balance Sheet.

**Actuary**

An actuary is a person who works out insurance and pension premiums, taking into account factors such as life expectancy.

**Actuarial Valuation**

This is when an actuary checks what the pension scheme assets are worth and compares them with the scheme's liabilities. They then work out how much the contributions from employers and members must be so that there will be enough money in the scheme when people receive their pensions.

**Additional Voluntary Contributions**

An option to secure additional pension benefits by making regular payments in addition to the % of basic earnings payable.

**Admitted Bodies**

Voluntary and Charitable bodies that fulfil certain conditions can apply to allow their employees to become members of the Local Government Pension Scheme.

**Audit**
An audit is an independent examination of the Council's activities.

**Balance Sheet**
This is a statement of our assets, liabilities and other balances at the date of the Balance Sheet.

**Best Value**
This was introduced as part of the Local Government Act 1999 to improve the services provided by local authorities.

**Budget**
A budget is a spending plan set by the Council against which the actual spend is monitored.

**Capital Adjustment Account**
This account represents timing differences between the amount of the historical cost of fixed assets that has been consumed by depreciation, impairment and disposals, and the amount that has been set aside to finance capital expenditure.

**Capital Expenditure**
Capital expenditure is spending on fixed assets. These are assets that we will use for several years to provide services. Such items include buildings, equipment and vehicles.

**Agency Services**
Agency services are services provided by an outside organisation.

**Amortised Cost**
Amortised costs are used to spread the financial impact of depreciation or using an equivalent interest rate or the effect of a premium or discount over a number of years on the income and expenditure account.

**Asset under Construction (AUC)**
An Asset under Construction is another term for Work in Progress.

**Capital Receipts**
Capital receipts are sums of money received from the sale of capital assets.

**Cash flow statement**
A statement that summarises the movement of cash in the year.

**Contingent Liabilities**
Contingent liabilities exist where it is probable that a future event will result in a material cost to the Council and can be estimated with reasonable accuracy.

# GLOSSARY OF TERMS

**Consolidated Balance Sheet**

This Balance Sheet combines the assets, liabilities and other balances of all our departments, at year end.

**Corporate Governance**

This is the system by which organisations are run, and the means by which they are responsible to their taxpayers, employees and society.

**Corporate Management**
A service within the Authority that provides services on behalf of all departments to the Council. It includes treasury management, the maintenance of registers, and the completion of statutory returns.

**Creditor**

A Creditor is someone we owed money to at the date of the Balance Sheet for work done, goods received or services rendered.

**Current Asset**
These are short-term assets that are available for 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.

**Current Service Costs (Pension)**
The increase in the liability of a defined benefit pensions scheme as a result of employee's service in the current period.

**Debtor**
A debtor is an organisation/individual that owes the Council money at the Balance Sheet date.

**Defined Benefit**

A defined benefit pension scheme pays pensions based on the final Salary levels.

**Depreciation**
Depreciation represents the loss in value of an asset caused by the use of that asset.

**Direct Labour Organisation or Direct Service Organisation**
This is our own organisation. It consists of workers we directly employ (including supervisory staff), accommodation, equipment, etc, used to carry out specified tasks for us.

**Earmarked Reserves**
Reserves set aside for specified purposes.

**Equities – Pooled**
The Pension Fund invests in equities through unit trusts. It has no direct investments in equities

**Escrow**

Escrow generally refers to money held by a third party on behalf of transacting parties

**External Interest**
Interest paid to an external organisation.

**Financial Instruments Adjustment Account (FIAA)**
The FIAA provides a balancing mechanism between the different rates at which gains and losses (such as premia on the early repayment of debt) are recognised under the SORP and required by statute to be met from the Council Fund.

**Finance Leases**
Finance leases are used to finance purchases where the Council takes on most of the risks associated with owning the asset.

# GLOSSARY OF TERMS

**Financial Reporting Standards (FRS`s)**
Financial regulations to be followed as set by the Accounting Standards Board.

**Financial Year**
This is the accounting period. For local authorities it starts on 01 April and ends on the 31 March in the following year.

**Fixed Asset**
These are long –term assets used in the provision of services, they include buildings, vehicles etc. that have a life expectancy of more than one year.

**Fixed Asset Restatement Account**
This represents the non-distributable increase/decrease in the valuation of fixed assets.

**Gilt Edged Stocks**
These are investments in government or local Authority stocks. They are regarded as risk-free.

**Housing Revenue Account (HRA)**
This account contains all the councils income and spending on its own houses.

**Impairment**

Loss in value as a result of a past event whether physical or economic.

**Investments**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority. Investments should be classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

**Joint Venture**

A joint venture is an entity in which the reporting Authority has an interest on a long-term basis and is jointly controlled by the reporting Authority and one or more other entities under a contractual or other binding arrangement.

**Leasing**
This is a method of financing capital expenditure by paying the owner to use property or equipment for a number of years.

**Liability**
A liability is an amount payable at some time in the future.

**Liquidity Risk**
The risk of investments cannot be readily turned into cash or realised because there is no ready market for the instrument or there are restrictive clauses in the agreement.

**Minimum Revenue Provision (MRP)**
This is the amount that has been set aside to repay loans.

**National Non-Domestic Rates (NNDR)**
The NNDR, or Business Rate, is the charge occupiers of business premises pay to finance part of local Authority spending. NNDR is set by central government and is a percentage of the 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 cost of selling it.

**Non Distributable Costs**
Costs that relate to past activity costs, such as cost of redundant assets or information technology, or past service pension that cannot be allocated to services.

**Open Market Value in Existing Use**
Is a basis of valuation of a fixed asset.

**Operating Assets**
These are assets used in the provision of our services.

**Operating Leases**
These are leases where risks of ownership of the asset remain with the owner.

# GLOSSARY OF TERMS

**Past Service Costs (Pension)**
For a defined benefit pension scheme, this is the extra cost resulting from changes or improvements to the proportion of retirement benefit that relates to an employees past service.

**Post Balance Sheet Events**
Post Balance Sheet events are items that have arisen after the Balance Sheet date. The items did not occur at the time the Balance Sheet was prepared but have subsequently been discovered. To give a fair representation they may need to be disclosed.

**Precepts**
An amount paid to a body such as a community council based on a specific Council Tax rate for some or all of the County Councils areas.

**Provision for Credit Liability**
Money set-aside to repay debt, forming part of the capital financing reserve.

**Public Works Loan Board (PWLB)**
A government body providing long-term finance to local authorities. Its interest rates are only slightly higher than those at which the Government itself can borrow.

**Recharge**
An internal charge for services rendered by one Council service area or section to another.

**Refcus**
Capital expenditure that does not result in a fixed asset on the Balance Sheet and is therefore treated as revenue but funded from Capital resources.

**Related Party Transactions**
These are the transfer of assets or liabilities or the performance of services by, to, or for a related party no matter whether a charge is made.

**Reserves**

Sums set aside to meet future expenditure. They may be earmarked to fund specific expenditure or be held as general reserves to fund non specific future expenditure.

**Revaluation Reserve**

This reserve represents the difference between the revalued amount of fixed assets in the Balance Sheet and their depreciated historical cost.

**Revenue Account**
This is an account which records our day-to-day spending and income on items such as sundries and wages, running costs of services and the financing of capital expenditure.

**Scheduled Organisation**
An Organisation whose employees have an automatic right to be members of a Pension Fund.

**Securities**
These are investments such as stocks, share and bonds.

**Stocks**
Raw materials purchased for day to day use in the provision of services. The value of unused stocks forms part of the Balance Sheet being shown as current assets.

**Subsidiary**
An entity is a subsidiary of the reporting Authority if:
- The Authority is able to exercise control over the operating and financial policies of the entity, and
- The Authority is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.

**Supported Borrowing**
Borrowing that is financed by the Welsh Government through the Revenue Support Grant.

## Independent auditor's report to the Members of Powys County Council

I have audited the accounting statements and related notes of:

- Powys County Council; and
- Powys Pension Fund

for the year ended 31 March 2012 under the Public Audit (Wales) Act 2004.
Powys County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.
Powys 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 2011/12 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 20, the responsible financial officer is responsible for the preparation of the statement of accounts, and pension fund accounts which gives a true and fair view.
My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Powys County Council's and Powys 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 become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

## Opinion on the accounting statements of Powys County Council

In my opinion the accounting statements and related notes:

give a true and fair view of the financial position of Powys County Council as at 31 March 2012 and of its income and expenditure for the year then ended; and

have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## Opinion on the accounting statements of Powys Pension Fund

In my opinion, the pension fund accounts and related notes:

give a true and fair view of the financial transactions of Powys Pension Fund during the year ended 31 March 2012 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 2011/12.

## Opinion on other matters

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

## Matters on which I report by exception

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

## Certificate of completion of audit

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

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

# POWYS COUNTY COUNCIL

# ANNUAL GOVERNANCE STATEMENT 2011/12

## 1. Scope of Responsibility

1.1 Powys County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for; and is used economically, efficiently and effectively. Powys County Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

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

1.3 Powys County Council adopted a system of corporate governance in June 2008, which is consistent with the principles of the CIPFA/SOLACE[1] Framework *Delivering Good Governance in Local Government*. This statement will explain how Powys County Council has complied with the code.

## 2. The Purpose of the Governance Framework

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

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

2.3 The following section summarise the governance framework and the system of internal control which has been in place in Powys County Council for the year ended 31st March, 2012. The Council's Corporate Governance Manual can be found at:

http://www.powys.gov.uk/index.php?id=3361&L=0

The structure of this Statement is based on the CIPFA/SOLACE Framework.

## 3. The Governance Framework

### 3.1 Principle 1 – Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

[1] Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives

The Council and its partners have, through the Powys Local Service Board (LSB), agreed to focus on collectively delivering ten citizen centred outcomes. These shared outcomes define the conditions of well-being that we aim to create for the people of Powys and the environment in which they live. Agreeing to these ten outcomes is the first step towards the development of the "One Powys" Plan, a single document that will bring together the county's key statutory plans that were previously published separately:

The Community Strategy

The Health, Social Care and Well-being Strategy

The Children and Young People's Plan

The Community Safety Strategy

The County Council's Change Plan sets out the Council's contribution towards delivering the shared outcomes. The Change Plan sets out the Council's vision which is:

*"Efficient services for the green heart of Wales"*

The One Powys Plan can be found at:

One.powys.gov.uk

Powys County Council's Change Plan can be found at:

www.powys.gov.uk/changeplan

Each year, the Council is required to produce an overview of its performance for the year just past. The Council's performance review for 2010/11 was published in October 2011 and is also available at:

www.powys.gov.uk/changeplan

The review of performance for 2011/12 will be available from October 2012.

The Wales Audit Office (WAO) has a duty to report to the public on the arrangements councils in Wales put in place to secure continuous improvement. The report is underpinned by two key pieces of work:

- A forward looking assessment of the Council's arrangements to secure continuous improvement;
- A backward looking assessment of whether the Council has achieved its planned improvements.

The WAO's Annual Improvement Report was received in January 2012. It contained three recommendations for improvement. These are in respect of:

- Capacity and capability to deliver improvement objectives;
- Implementation of an Adult Services operational improvement plan;
- Monitoring of Adult Services improvement.

There are also six proposals for improvement. These are summarised as:

- To be clearer on improvement objectives so they are meaningful to the public;

- Develop a more co-ordinated approach to public engagement;
- Securing a culture that encourages open and balanced self-assessment;
- Ensure performance data reflects the difference the Council is making in terms of outcomes for its citizens;
- Scrutinise new methods of collecting recyclable waste to ensure the actions have the desired impacts;
- Ensure that contracts are robustly monitored with appropriate quality assurance.

The Council has produced an Action Plan to address these recommendations and this was accepted by Audit Committee in April 2012.

**3.2 Principle 2 – Members and officers working together to achieve a common purpose with clearly defined functions.**

The Council's Constitution sets out the roles and responsibilities of Members and officers so that accountability for decisions made and actions taken are clear.

The Council operates a Leader and Cabinet model of governance. The Council is responsible for appointing the Leader. The Leader appoints the remainder of the Cabinet. The Council retains responsibility for approving the Council's Change Plan and the annual budget.

The Cabinet has delegated responsibility for a number of functions, including:

- Strategic leadership and direction;
- Developing and proposing to Council the Powys Change Plan, the Medium Term Financial Plan and the Annual Budget;
- Consulting with relevant Scrutiny Committees in the development of policy;
- Delivering services in line with adopted policies and budgets.

The Constitution sets out clear terms of reference for all Committees of the Council. The Cabinet, Scrutiny and Audit Committees have work programmes for the civic year.

In 2011/12, the Council operated 4 Scrutiny Committees:

- Modernisation and Improvement;
- Learning and Leisure
- Children, Social Care and Health
- Environment and Crime and Disorder

Scrutiny Committees undertake reviews and inquiries, either within the Committee as a whole or by delegation to Working Groups. The findings of Scrutiny are presented to Cabinet for action.

The Audit Committee is independent of both the Cabinet and Scrutiny functions. It oversees the work of Internal Audit and receives the reports of the Wales Audit Office. It has responsibility for approving the Council's Accounts.

The Chief Executive is the Head of Paid Service. He leads the Council's officers and chairs the Management Team and Heads of Service Group.

All staff have clear conditions of employment and job descriptions which highlight their roles and responsibilities. This is supported by a range of Human Resources policies.

The Strategic Director – Law and Governance is designated as Monitoring Officer and carries overall responsibility for legal compliance.

The Strategic Director – Finance and Infrastructure is the Section 151 Officer appointed under the Local Government Act 1972. He is responsible for the proper administration of the financial affairs of the Authority.

The Strategic Director – Care and Well-being is the Statutory Director for Social Services.

The Strategic Director – Communities, skills and Learning is the Chief Education Officer and the Children's Director.

### 3.3 Principle 3 – Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

The Council places a high value on upholding the highest standards in public office for both Members and Officers.

For elected Members, the Council has adopted the Model Code of Conduct for County Councils in Wales. Conduct of Members is monitored by the Public Services Ombudsman and the Council's Standards Committee. The Standards Committee also has a Community Sub-Committee which deals with all Town and Community Council matters. The Standards Committee and its Sub-Committee will consider allegations of misconduct by County Councillors and Town and Community Councillors referred to it by the Ombudsman. The Standards Committee membership is 4 County Councillors and 5 independent members. The Committee is chaired by an independent member.

For officers, the Council follows the statutory Code of Conduct (Qualifying Local Government Employees)(Wales) Order 2001. Conduct and behaviour is the responsibility of the individual officer and a breach may constitute a disciplinary matter.

The Council has an Anti-Fraud and Anti-Corruption Strategy and Whistle Blowing Policy which allows matters of concern to be raised and sets out how they will be investigated.

The Audit Committee is responsible for examining, approving and reviewing the adequacy of risk assessment, risk management and internal controls, including compliance.

The Council has a formal compliments and complaints procedure that enables complaints to be escalated and investigated independently of the service concerned.

The Council has nominated the Strategic Director – Care and Wellbeing as Senior Information Risk Owner (SIRO). Key responsibilities are the assurance of information security and investigating data breaches, including referrals to the Information Commissioner, if necessary.

## 3.4 Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The Council's Constitution sets out how the Council operates and the process for policy and decision making. Within this framework, decisions are taken by Council, Cabinet, individual Cabinet Members and officers. Certain specific decisions are taken by the Planning Committee, Licensing Committee, Rights of Way Committee, Shire Committees, Pensions and Investment Committee and Employment Committee.

The Council's publication scheme commits Powys County Council to make information available to the public as part of its normal business activities. The scheme can be found at:

http://www.powys.gov.uk/index.php?id=1935&L=0

The Council presumes that reports will be publicly available unless certain, specific tests are met. There are seven categories of exempt information and these include:

- Information relating to a particular individual;
- Information relating to legal matters.

For information to be treated as exempt, an assessment of public interest has to be made, to ensure proper balance is achieved between the right to know, the right to personal privacy and the delivery of efficient government.

The Council webcast a wind farm debate in 2011/12. This is an area of considerable public interest in Powys and webcasting was used to enable the widest possible audience to hear the debate.

Decisions and their implementation can be scrutinised by the Scrutiny Committees and can be called in by full Council. The following are examples of areas which were scrutinised during 2011/12:

- Schools with budget deficits;
- Sickness absence
- Social care financial support and management
- Welshpool gyratory system

The Cabinet agreed a new Risk Management Strategy in November 2011. This sets out how the Council will identify risk and how it will be managed. The Council has identified that its risk management needs to be improved and risk is now forming part of corporate performance reporting in 2012/13.

## 3.5 Principle 5 – Developing the capacity and capability of members and officers to be effective

The Council aims to provide a wide range of opportunities for Members and Officers to be more effective.

All newly elected Members receive an induction programme. There is also specific training relating to whichever committees they are appointed. Powys County Council has been awarded the Wales Charter for Member Support and Development. Development of an accredited member training scheme and member support forms part of the Powys Change Plan.

Council received a number of seminars in 2011/12. These help to build background knowledge and help Members in fulfilling their scrutiny and audit roles. These seminars included:

- Treasury management
- Welsh Housing Quality Standard
- Adult protection
- Information handling

All new officers receive induction training, both corporately and within their specific service. A range of role based training is available across the Council, in particular to ensure staff operate in a safe manner to protect themselves, the public and their colleagues. The Council offers specific training based around staff reviews to provide the opportunity to develop existing skills or learn new skills.

The Council has an Employee Development Review system. The Council acknowledges that this scheme has not been operated consistently throughout the Council. As part of the WAO’s comments in respect of capacity and capability, this system is now being reviewed and a new scheme will be implemented by May, 2013.

### 3.6 Principle 6 – Engaging with local people and other stakeholders to ensure robust public accountability

The Council is always seeking better ways to engage with local people and other stakeholders.

The LSB undertook public consultation around the draft One Plan. The Third Sector and partnerships were heavily involved in its production.

For the 2011/12 budget, the Council undertook a public consultation exercise in 2010 to engage with a representative cross-section of the community. The outcomes of this consultation went on to influence the direction of both the Powys Change Plan and the 2011/12 Budget.

The Council undertake an annual public consultation exercise to monitor the public’s view of key services and to identify key areas of improvement. The outcomes of this survey feed into the Council’s Change Plan and individual service business plans. However, the Council acknowledges that links between this survey and its planning process need to be more transparent.

The Council has a Citizens' Panel of about 1,000 residents, which enables the Council to consult quickly and directly on a range of proposals.

The Council holds an annual meeting with business ratepayers to discuss the budget proposals.

During 2011/12, there was a wide range of consultations based around service specific policies. These included:

- Formal consultation on Gwernyfed area primary schools;
- Proposals for secondary and post-16 education;
- Play Strategy review;
- Information and Advice Strategy.

**4. Review of Effectiveness**

There is ongoing review of the effectiveness of the Council's Governance Arrangements. During 2011/12:

- The Constitution was reviewed in anticipation of the Local Government Wales Measure 2011 and to reflect the change to the Leader and Cabinet Executive Model of Governance;
- There were regular meetings of the Joint Chairs of Scrutiny and Audit Committees to co-ordinate work and to review how well Scrutiny and Audit were working. This informed the constitutional changes and are being implemented in 2012/13;
- The Audit Committee met regularly. The Committee agreed the Internal Audit Plan and reviewed all Internal Audit Reports where the audit opinion was of low assurance. This included meeting with Cabinet Members, officers and, on one occasion, representatives of a governing body and head teacher. The Audit Committee is now developing its role in the broader context of risk management to ensure the Council has adequate controls in place;
- The Internal Audit Service provides an independent and objective assurance service to the management of the Council. The service produces a plan which is agreed by Audit Committee and then monitored throughout the year. The plan is prepared on an evaluation of risk, based around a number of factors, including previous audit findings. Weaknesses in the control environment are reported to management for action and, where necessary, to the Audit Committee. The service also investigates a range of irregularities during any given year. The Internal Audit Manager produces an annual report on activity to the Audit Committee each year. The Internal Audit Manager expressed an opinion to the Audit Committee that, overall, the Council's internal control environment in 2011/12 was satisfactory, although he did draw attention to

concerns over risk management arrangements and the embedding of business continuity planning across the Council;

- The Council is subject to review and scrutiny from a range of external organisations. These include the WAO, Estyn, CSIW, the Health and Safety Executive (HSE), Welsh Language Board and HMRC. In particular, the Wales Audit Office produces its Annual Improvement Report which is considered by Council, Cabinet and Management Team. WAO also audit the Council's final accounts and express an opinion on that document. WAO will also comment whether they can place assurance on the work of Internal Audit Service.

Whilst the Council has a number of powerful means to monitor the effectiveness of its Governance Arrangements, it recognises that this could be done in a more structured way which also makes stronger links with its Risk Management Strategy and Performance Management arrangements surrounding the Powys Change Plan.

## 5. Governance Issues Being Managed

- **Local Government Measure 2011** – the Council has agreed a revised Constitution for 2012/13 which reflects the requirements of the Measure. The Council aims to strengthen its Scrutiny and Audit Committee functions and this process is progressing. Progress will be reviewed by the Joint Chairs of these Committees throughout 2012/13;

- **Annual Improvement Report** – the council will address the improvement recommendations and proposals raised by the WAO in the 2012 report;

- **Organisational Development and Workforce Planning** – the Council is close to implementing a new pay and grading structure. The Council does not see this as an end in itself but an enabler towards a more flexible, customer focussed workforce. Cabinet is receiving advice on how the structures and behaviours of the Council need to change alongside the pay and grading changes;

- **Performance Management** – the Council is mindful of some of the failings highlighted in the reviews of Adult Services undertaken by the CSIW and WAO. Both CSIW and WAO have made recommendations for improvement and the Council has produced a Service Improvement Plan to address these recommendations. The Council has reviewed its performance reporting with the aim of Cabinet, Scrutiny, Audit and Management Team being able to focus on those matters which are of strategic importance to the Council. Ongoing efforts are being made to concentrate on indicators of outcomes and outputs;

- **Medium Term Financial Planning** – the Council has made strenuous efforts to link its improvement planning with its budget planning. Both reports are now presented to Council at the same time and links are much stronger than they were. Nevertheless, there is still much work to do to ensure that the improvement objectives are adequately resourced and that this is properly reflected in the Medium Term Financial Plan and Capital Programme;

- **School Deficits** – the Council is concerned to address the deficits that have arisen in some schools in recent years and to prevent any repetition of such deficits in future. The Council is revising the Powys Scheme for the Financing of Schools to ensure clear accountabilities and a robust escalation process from the point when deficits first become evident;

- **Risk Management** – following the adoption of the Risk Management Strategy, the Council will now seek to embed sound risk management as part of its planning and performance monitoring processes.  Audit Committee will maintain an overview of the Council's risk management arrangements;

- **Local Service Board and Partnership Rationalisation** – The Council is working with its partners to ensure that Partnerships are effective and add value to the citizen. A review of partnership arrangements has been undertaken for the LSB by the Chief Executive of Powys Teaching Local Health Board and the Council is currently arranging an internal secondment to implement the changes identified.  The purpose of the change is to ensure appropriate partnership arrangements to support the delivery of the LSB Strategic Plan.

We will monitor progress on the above over the coming year and will monitor their implementation and effectiveness as part of our next annual review.

**Signed on behalf of Powys County Council:**

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| **……………………………..** | **……………………………………..** |
| **Chief Executive** | **Leader of the Council** |
| **Date ………………………** | **Date ……………………………….** |