

## NOTE 22 PROVISIONS

Provisions less than 1 year:	Outstanding Legal Cases	Provision for Accumulating Absences	Other Provisions	Total
	£,000	£,000	£,000	£,000
<b>Balance at 1 April 2011</b>	<b>(300)</b>	<b>(5,192)</b>	<b>0</b>	<b>(5,492)</b>
Additional Provisions made in 2011/12	(60)	0	(402)	(462)
Amounts Used in 2011/12	0	0	0	0
Unused amounts reversed in 2011/12	300	2,145	0	2,445
Unwinding of discounting in 2011/12	0	0	0	0
<b>Balance at 31st March 2012</b>	<b>(60)</b>	<b>(3,047)</b>	<b>(402)</b>	<b>(3,509)</b>

### Provision for Legal Cases

The provision for legal cases relates to cases that were brought against the Council in 2011/12 or where the Council is in dispute with its contractors. An assessment of the Council's liability and the likelihood of the claimant's success has been undertaken and a provision has been set up accordingly.

### Provision for Accumulating Absences

At the end of the financial year some holiday entitlement and flexi leave remained to be taken by employees. The Council estimated the value of the untaken annual leave to be approximately 1.5% of payroll. Officers are able to carry forward these days into the next financial year, but are not financially compensated where they leave the Council's employment before taking up their entitlement. The Council therefore made an accrual of £3,047,534 at 31 March, 2012 (£5,192,798 for 2010/11 and £5,917,945 for 2009/10) for compensated absences.

### Other Provisions

The Landfill Allowance Trading Scheme (LATS) is a scheme whereby Waste Disposal Authorities (WDAs) are allocated allowances for how much biodegradable waste can be landfilled within a 12 month period. WDAs are required to repay allowances to the value of actual biodegradable landfill usage to the government once the actual usage is determined at the end of September following the year end. At the 31st March 2012 the Council estimates that it will have to surrender 17,492 LATS permits to DEFRA out of an allocation of 23,169, leaving the Council with a surplus of 5,677 permits. Surplus permits can either be carried forward into 2012/13 or sold. However, at 31<sup>st</sup> March 2012 there has not been an active enough market for the trading of LATS permits between authorities to determine a fair value of permits. Based on transactions undertaken on the market, WBC estimates the value to be £1 per permit however, it notes that DEFRA has not stated prices for 11/12, as the scheme comes to an end in 12/13. DEFRA ignores transactions undertaken at nil value therefore WBC does not think the fair value determined by DEFRA to be a prudent estimate of the value of its surplus permits.

Fosters Re-accommodation - Fosters is a Residential Care Home run by WBC. The building is old and now not suitable for its intended purpose. The residential care home is being closed as part of a managed closedown. The provision is to allow for the costs associated with the process.

Dilapidation – A general provision for dilapidation costs in buildings the Council lease has been made, as contracts may specify the building must be returned to their original condition at the end of the lease.

Carbon Reduction Commitment - The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The authority is required to purchase and

surrender allowances retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. The retrospective purchase of allowances is expected to take place from June 2012, however the provision arises at the point the energy is consumed.

## NOTE 23 USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement. The usable reserves are:

- General Fund Balance – the general reserves of the Council can be used to finance the day to day operations of the Council and its capital activities
- Earmarked Reserves – held for specific accounting / policy purposes and are ring fenced funds that cannot be used for other purposes
- Housing Revenue Account (HRA) – resources available to meet future running costs for council houses
- Schools & Dedicated Schools Grant – to resource expenditure directly/ not directly delegated to schools
- Capital Receipts – proceeds of asset sales available to meet future capital requirements and to act as a contingency
- Major Repairs Reserve – controls the application of the Major Repairs Allowance (MRA). The balance shows the MRA that has yet to be applied
- Capital Grants Unapplied – holds the grants and contributions received towards capital projects which have not yet been used to finance specific capital schemes

## NOTE 24 UNUSABLE RESERVES

31st March, 2011		31st March, 2012	
Restated			
£,000		£,000	
(95,759)	Revaluation Reserve	(93,983)	
(584,554)	Capital Adjustment Account	(446,813)	
2,688	Financial Instruments Adjustment Account	2,445	
0	Deferred Capital Receipts Reserve	0	
93,941	Pensions Reserve	145,700	
(349)	Collection Fund Adjustment Account	(952)	
5,192	Accumulated Absences Account	3,047	
<b>(578,841)</b>	<b>Total Unusable Reserves</b>	<b>(390,556)</b>	

### Revaluation Reserve

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

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

The Reserve contains 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 Capital Adjustment Account.

31st March, 2011		31st March, 2012	31st March, 2012
Restated		£,000	£,000
(108,952)	<b>Balance at 1st April</b>		(95,759)
(6,045)	Upward Revaluation of Assets	(20,903)	
13,929	Downward Revaluation of Assets and Impairment Losses not Charged to the Surplus or Deficit on the Provision of Services	545	
7,884	Surplus or Deficit on Revaluation of Non-current Assets not Posted to the Surplus or Deficit on the Provision of Services		(20,358)
2,857	Difference Between Fair Value Depreciation and Historical Cost Depreciation	2,805	
2,452	Accumulated Gains on Assets Sold or Scrapped	19,329	
5,309	Amount Written Off to the Capital Adjustment Account		22,134
<b>(95,759)</b>	<b>Balance at 31st March</b>		<b>(93,983)</b>

### Capital Adjustment Account

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

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April, 2007, the date 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.

31st March, 2011		31st March, 2012	31st March, 2012
Restated		£,000	£,000
(639,538)	<b>Balance at 1st April</b>		(584,554)
	Reversal of Items Relating to Capital Expenditure Debited or Credited to the Comprehensive Income and Expenditure Statement:		
16,037	• Charges for Depreciation of Non-current Assets	16,532	
11,149	• Charges for Impairment of Non-current Assets	7	

31st March, 2011		31st March, 2012	31st March, 2012
Restated £,000		£,000	£,000
53,071	• Revaluation Losses on Property, Plant and Equipment	2,192	
306	• Amortisations of Intangible Assets	261	
2,025	• Revenue Expenditure Funded from Capital under Statute	217	
4,143	• Amounts of Non-current Assets to be Written Off on Disposal or Sale as part of the Gain / Loss on Disposal to the Comprehensive Income and Expenditure Statement	66,093	
86,731			85,302
(5,309)	Adjusting Amounts Written Out of the Revaluation Reserve		(22,134)
81,422	Net Written Out Amount of the Cost of Non-current Assets Consumed in the Year		63,168
	Capital Financing Applied in the Year:		
0	• Use of Capital Receipts Reserve to Finance New Capital Expenditure	(2,638)	
(3,187)	• Use of Major Repairs Reserve to Finance New Capital Expenditure	(2,787)	
(16,312)	• Capital Grants and Contributions Credited to the Comprehensive Income and Expenditure Statement that have been Applied to Capital Financing	(5,737)	
(4,569)	• Application of Grants to Capital Financing from the Capital Grants Unapplied Account	(5,855)	
(3,093)	• Statutory Provision for the Financing of Capital Investment Charged against the General Fund and HRA Balances	(3,483)	
0	• Capital Expenditure Charged against the General Fund and HRA Balances	95,469	
(27,161)			74,969
723	Movements in the Market Value of Investment Properties Debited or Credited to the Comprehensive Income and Expenditure Statement		(396)
0	Movement in the donated Assets Account Credited to the Comprehensive Income and Expenditure Statement		0
<b>(584,554)</b>	<b>Balance at 31st March</b>		<b>(446,813)</b>

#### 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 Council 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 General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

31st March, 2011 £,000		31st March, 2012 £,000
4,271	<b>Balance at 1st April</b>	2,688
(549)	Premiums Incurred in the Year and Charged to the Comprehensive Income and Expenditure Statement	0
(1,034)	Proportion of Premiums Incurred in Previous Financial Years to be Charged against the General Fund Balance in Accordance with Statutory Requirements	(243)
(1,583)	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	0
<b>2,688</b>	<b>Balance at 31st March</b>	<b>2,445</b>

### Pensions Reserve

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

31st March, 2011 £,000		31st March, 2012 £,000
147,010	<b>Balance at 1st April</b>	93,941
(38,804)	Actuarial Gains or (Losses) on Pensions Assets and Liabilities	49,590
(7,422)	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	8,151
(6,843)	Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year	(5,982)
<b>93,941</b>	<b>Balance at 31st March</b>	<b>145,700</b>

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31st March, 2011		31st March, 2012
£,000		£,000
(463)	<b>Balance at 1st April</b>	(349)
114	Amount by which Council Tax Income Credited to the Comprehensive Income and Expenditure Statement is Different from Council Tax Income Calculated for the Year in Accordance with Statutory Requirements	(603)
<b>(349)</b>	<b>Balance at 31st March</b>	<b>(952)</b>

### Accumulated Absences Account

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

31st March, 2011		31st March, 2012
£,000		£,000
5,918	<b>Balance at 1st April</b>	5,192
(5,918)	Settlement or Cancellation of Accrual made at the end of Preceding Year(5,192)	(5,192)
5,192	Amounts Accrued at the end of the Current Year	3,048
(726)	Amount by which Officer Remuneration Charged to the Comprehensive Income and Expenditure Statement on and Accrual Basis is Different from Remuneration Chargeable in the Year in Accordance with Statutory Requirements	(2,145)
<b>5,192</b>	<b>Balance at 31st March</b>	<b>3,047</b>

## NOTE 25 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

31st March, 2011		31st March, 2012
£,000		£,000
719	Interest Received	1,055
(1,311)	Interest Paid	-1,515(1,515)
0	Dividends Received	0
<b>(592)</b>	<b>Net Cash Flows from Operating Interest</b>	<b>(460)</b>



## NOTE 26 CASH FLOW STATEMENT - INVESTING ACTIVITIES

31st March, 2011 £,000		31st March, 2012 £,000
(26,813)	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(20,039)
(12,691)	Purchase of Short-term and Long-term Investments	(16,359)
(5,001)	Other Payments for Investing Activities	0
5,388	Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets	1,071
15,354	Proceeds from Short-term and Long-term Investments	0
25,591	Other Receipts from Investing Activities	5,692
<b>1,828</b>	<b>Net Cash Flows from Investing Activities</b>	<b>(29,635)</b>

## NOTE 27 CASH FLOW STATEMENT - FINANCING ACTIVITIES

31st March, 2011 £,000		31st March, 2012 £,000
780	Cash Receipts of Short and Long-term Borrowing	86,594
0	Other Receipts from Financing Activities	0
(283)	Repayments of Short and Long-term Borrowing	2,082
0	Other Payments for Financing Activities	(335)
<b>497</b>	<b>Net Cash Flows from Financing Activities</b>	<b>88,341</b>

## NOTE 28 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

### Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

	2010/11 £,000	2011/12 £,000
Net Expenditure in the Analysis	97,678	192,582
Net Expenditure of Services and Support Services not Included in the Analysis	16,446	12,812
Amounts in the Comprehensive Income and Expenditure Statement not Reported to Management in the Analysis	63,158	(7,822)
Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement	(4,481)	545
<b>Cost of Services in the Comprehensive Income and Expenditure Statement</b>	<b>172,801</b>	<b>198,117</b>

Service Information for the year ended 31st March 2012	People Based Services £,000	Adult Social Services £,000	Place Based Services £,000	Housing Revenue Account £,000	Total £,000
Fees, Charges & Other Service Income	(22,169)	(10,775)	(5,891)	(13,663)	(52,498)
Government Grants and Contributions	(85,752)	(35,092)	(2,393)	(10)	(123,247)
<b>Total Income</b>	<b>(107,921)</b>	<b>(45,867)</b>	<b>(8,284)</b>	<b>(13,673)</b>	<b>(175,745)</b>
Employee Expenses	88,338	5,667	6,110	1,426	101,541
Other Service Expenses	48,417	75,520	26,653	104,990	255,579
Support Service Recharges	3,833	3,093	3,513	768	11,207
<b>Total Expenditure</b>	<b>140,588</b>	<b>84,280</b>	<b>36,276</b>	<b>107,183</b>	<b>368,327</b>
<b>Net Cost of Services</b>	<b>32,667</b>	<b>38,413</b>	<b>27,992</b>	<b>93,511</b>	<b>192,582</b>





Reconciliation to Subjective Analysis	Service Analysis £,000	Services & Support Services not in Analysis £,000	Amounts not Reported to Management for Decision Making £,000	Amounts not Included in Comp Income & Expenditure Statement £,000	Cost of Services £,000	Corporate Amounts £,000	Total £,000
Fees, Charges & Other Service Income	(52,498)	(6,314)	0	3,329	(55,483)	0	(55,483)
Surplus or Deficit on Associates and Joint Ventures	0	0	0	0	0	0	0
Interest and Investment Income	0	0	0	0	0	(3,199)	(3,199)
Income from Council Tax	0	0	0	0	0	(79,098)	(79,098)
Government Grants and Contributions	(123,247)	(337)	284	0	(123,300)	(50,464)	(173,764)
<b>Total Income</b>	<b>(175,745)</b>	<b>(6,651)</b>	<b>284</b>	<b>3,329</b>	<b>(178,783)</b>	<b>(132,762)</b>	<b>(311,545)</b>
Employee Expenses	101,541	14,852	(3,842)	0	112,551	0	112,551
Other Service Expenses	255,579	14,543	(21,840)	(2,784)	245,498	0	245,498
Support Service Recharges	11,207	(9,933)	(470)	0	804	0	804
Depreciation, Amortisation and Impairment	0	0	18,047	0	18,047	(942)	17,105
Interest Payments	0	0	0	0	0	6,693	6,693
Precepts & Levies	0	0	0	0	0	3,427	3,427
Payments to Housing Capital Receipts Pool	0	0	0	0	0	51	51
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	65,256	65,256
<b>Total Expenditure (Surplus) or Deficit on the Provision of Services</b>	<b>368,327</b>	<b>19,462</b>	<b>(8,105)</b>	<b>(2,784)</b>	<b>376,900</b>	<b>74,485</b>	<b>451,385</b>
	<b>192,582</b>	<b>12,812</b>	<b>(7,821)</b>	<b>543</b>	<b>198,117</b>	<b>(58,277)</b>	<b>139,840</b>



<b>Service Information for the year ended 31st March 2011</b>	<b>Children's Services £,000</b>	<b>Adult Social Services £,000</b>	<b>Place and Neighbourhood Services £,000</b>	<b>Housing Revenue Account £,000</b>	<b>Total £,000</b>
Fees, Charges & Other Service Income	(1,106)	(15,973)	(4,561)	(13,196)	(34,836)
Government Grants and Contributions	(5,901)	(27,342)	(1,571)		(34,814)
<b>Total Income</b>	<b>(7,007)</b>	<b>(43,315)</b>	<b>(6,132)</b>	<b>(13,196)</b>	<b>(69,650)</b>
Employee Expenses	13,848	12,598	5,769	1,427	33,642
Other Service Expenses	13,587	66,135	23,140	8,138	111,000
Support Service Recharges	10,255	4,133	5,029	3,269	22,686
<b>Total Expenditure</b>	<b>37,690</b>	<b>82,866</b>	<b>33,938</b>	<b>12,834</b>	<b>167,328</b>
<b>Net Cost of Services</b>	<b>30,683</b>	<b>39,551</b>	<b>27,806</b>	<b>(362)</b>	<b>97,678</b>

Reconciliation to Subjective Analysis, Comparative Figures for 2010-11	Service Analysis	Services & Support Services not in Analysis	Amounts not Reported to Management for Decision Making	Amounts not Included in Comp Income & Expenditure Statement	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, Charges & Other Service Income	(34,836)	(7,289)	(1,983)	0	0	(44,108)	(14,322)	(58,430)
Surplus or Deficit on Associates and Joint Ventures	0	0	0	0	0	0	0	0
Interest and Investment Income	0	0	1,678	0	0	1,678	5,086	6,764
Income from Council Tax	0	0	0	0	0	0	(78,296)	(78,296)
Government Grants and Contributions	(34,814)	(773)	0	0	0	(35,587)	(42,664)	(78,251)
<b>Total Income</b>	<b>(69,650)</b>	<b>(8,062)</b>	<b>(305)</b>	<b>0</b>	<b>0</b>	<b>(78,017)</b>	<b>(130,196)</b>	<b>(208,213)</b>
Employee Expenses	33,642	13,939	(21,124)	0	0	26,457	0	26,457
Other Service Expenses	111,000	19,159	(341)	(1,560)	0	128,258	0	128,258
Support Service Recharges	22,686	(9,267)	0	0	0	13,419	0	13,419
Depreciation, Amortisation and Impairment	0	677	61,960	0	0	62,637	723	63,360
Interest Payments	0	0	(3,858)	(2,921)	0	(6,779)	4,117	(2,662)
Precepts & Levies	0	0	0	0	0	0	3,691	3,691
Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	0	0
Gain or Loss on Disposal of Fixed Assets	0	0	74	0	0	74	(930)	(856)
<b>Total Expenditure</b>	<b>167,328</b>	<b>24,508</b>	<b>36,711</b>	<b>(4,481)</b>	<b>0</b>	<b>224,066</b>	<b>7,601</b>	<b>231,667</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>97,678</b>	<b>16,446</b>	<b>63,159</b>	<b>(4,481)</b>	<b>0</b>	<b>172,802</b>	<b>(122,595)</b>	<b>50,207</b>

## NOTE 29 ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired operations in 2011/12.

## NOTE 30 TRADING OPERATIONS

The Council has established one trading unit where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations. Details of this unit are as follows:

### Building Control Trading Account

The Building (Local Authority Charges) Regulations 2010 require the disclosure of information regarding the setting of charges for the administration of the building control function. Wokingham Borough Council sets charges for work carried out in relation to building regulations with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The chargeable activities are summarised below:

	2010/11 £,000	2011/12 £,000
<b>Building Control Trading Account</b>		
Turnover	(604)	(543)
Expenditure	557	538
<b>(Surplus) / Deficit</b>	<b>(47)</b>	<b>(5)</b>

The chargeable account, in its twelfth year of operation, made a surplus of £4,989. The account should take one financial year with another, and it is good practice to achieve break-even over a rolling period of three years. The account, at the end of its current period, has generated a deficit of £82,944. The deficit will be addressed in the next accounting period.

## NOTE 31 AGENCY SERVICES

The Council performs a Sensory Needs function on behalf of a number of other unitary authorities in Berkshire. The other authorities reimburse the Council for this work, including a contribution towards administrative costs. A summary of expenditure incurred in respect of this, which is not included within the Comprehensive Income and Expenditure Statement, is as follows:

	2010/11 £,000	2011/12 £,000
<b>Agency Services</b>		
Sensory Needs	653	631
<b>Total</b>	<b>653</b>	<b>631</b>

## NOTE 32 ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000

The Council does not operate a road charging or workplace charging scheme under this act.

## NOTE 33 POOLED BUDGETS

Section 75 of the National Health Service Act 2006 and under the Community Care and Health (Scotland) Act 2002 enable the establishment of joint working arrangements between NHS bodies and local authorities to enable them to work collaboratively to provide services to address local health issues. Wokingham currently has one pooled budget arrangement.

### Joint Equipment Stores Agreement

The Joint Equipment Stores Agreement uses the South Central Ambulance Services NHS Trust as an agent to provide the services. The six Berkshire Unitary Authorities and the Berkshire Primary Care Trusts are members of the agreement with Slough Borough Council as the lead partner. The memorandum account for the fund is as follows:

	2010/11		2011/12	
	£,000	£,000	£,000	£,000
<b>Funding Provided to the Pooled Budget:</b>				
Wokingham Borough Council	(267)		(281)	
Slough Borough Council	(234)		(219)	
Other Berkshire Councils	(973)		(975)	
Berkshire Primary Care Trusts	(1,334)		(1,335)	
		<b>(2,808)</b>		<b>(2,810)</b>
<b>Expenditure Met from the Pooled Budget:</b>				
Royal Berkshire Ambulance Trust		2,808		2,991
<b>Net (Surplus) / Deficit Arising on the Pooled Budget During the Year</b>		<b>0</b>		<b>181</b>

## NOTE 34 MEMBERS' ALLOWANCES

The Council paid the following amounts to Members of the Council during the year:

	2010/11	2011/12
	£,000	£,000
Members Remuneration	572	588
	<b>572</b>	<b>588</b>

The amount paid to Members includes allowances, expenses and other remuneration.

## NOTE 35 OFFICERS' REMUNERATION (including exit packages)

The Council paid the following amounts to its senior employees:

Post Title and Name of Holder	Year	Salary, Fees and Allowances £	Performance Related Pay £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Total £
<b>Chief Executive</b>	2011/12	132,018	0	0	27,500	20,341	179,859
Susan Law	2010/11	157,187	0	0	0	24,094	181,281
<b>Interim Chief Executive</b>							
Andy Couldrick	2011/12	29,918	0	0	0	4,664	34,583
<b>Strategic Director - Commissioning</b>	2011/12	112,695	0	0	0	17,468	130,163
Stuart Rowbotham	2010/11	112,727	9,579	5	0	18,708	141,019
<b>Strategic Director - Strategy &amp; Corporate Affairs</b>	2011/12	102,683	3,174	0	0	16,516	122,374
Heather Thwaites	2010/11	103,094	9,305	3	0	17,241	129,643
<b>Strategic Director - Resources</b>	2011/12	103,383	7,237	0	0	17,146	127,766
Graham Ebers	2010/11	103,387	8,788	4	0	17,162	129,341
<b>Strategic Director - Place Based Service Delivery</b>	2011/12	102,626	7,237	0	0	17,146	127,009
Mark Moon	2010/11	103,092	8,271	0	0	17,083	128,446
<b>Strategic Director - People Delivery Based Services</b>	2011/12	83,996	7,889	0	0	14,324	106,208
Andy Couldrick	2010/11	112,447	10,143	44	0	18,794	141,428
<b>Director of Transformation</b>	2011/12	89,301	4,934	0	0	14,715	108,950
Andrew Moulton	2010/11	89,714	5,286	4	0	14,579	109,583
<b>Director of Legal &amp; Electoral Services</b>	2011/12	87,937	7,062	0	0	15,286	110,286
Susanne Nelson-Wehrmeyer	2010/11	88,276	7,503	0	0	15,588	111,367
<b>Director of Business Assurance &amp; Democratic Services</b>	2011/12	71,800	0	0	0	0	71,800
Muir Laurie							

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The Chief Executive Susan Law resigned from her post and left the council on 31/01/12. The post has been filled in the interim by Andy Couldrick on 2/12/11.

The Strategic Director – People Based Delivery Services post was vacant for part of 2011/12 therefore the amount above relates to the part of the year the post was filled.

The Council's other employees (including those employed in schools) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2010/11			2011/12		
	No of Employees			No of Employees		
	Council	School	Total	Council	School	Total
£50,000 - £54,999	23	27	50	18	21	39
£55,000 - £59,999	12	20	32	12	13	25
£60,000 - £64,999	7	17	24	4	3	7
£65,000 - £69,999	7	10	17	4	2	6
£70,000 - £74,999	4	1	5	2	1	4
£75,000 - £79,999	3	5	8	5	1	6
£80,000 - £84,999	2	1	3	2	0	2
£85,000 - £89,999	1	2	3	0	2	2
£90,000 - £94,999	0	0	0	1	0	1
£95,000 - £99,999	0	1	1	0	0	0
£100,000 - £104,999	0	0	0	0	0	0
£105,000 - £109,999	0	1	1	0	0	0
£110,000 - £114,999	0	0	0	0	0	0
£115,000 - £119,999	0	0	0	0	0	0
£120,000 - £124,999	0	0	0	0	0	0
£125,000 - £129,999	0	0	0	0	0	0
£130,000 - £134,999	0	1	1	0	0	0
	<b>59</b>	<b>86</b>	<b>145</b>	<b>48</b>	<b>43</b>	<b>91</b>

The reduction of school numbers are due to Maiden Erlegh, The Piggott and The Holt secondary schools changing to academies during 2011/12.

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

COUNCIL	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages		Total cost of exit packages in each band	
	2010/12	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
Exit package cost								
£0 - £20,000	7	13	2	4	9	17	£72,597	£147,530
£20,001 - £40,000	1	8	1	3	2	11	£48,335	£285,703
£40,001 - £60,000	2	1	0	0	2	1	£82,275	£46,634
£60,001 - £80,000	1	0	1	0	2	0	£134,645	£0

SCHOOLS	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages		Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
Exit package cost								
£0 - £20,000	28	1	4	4	32	5	£177,030	£54,634
£20,001 - £40,000	7	0	1	0	8	0	£214,389	£0
£40,001 - £60,000	1	0	0	0	1	0	£44,709	£0
£60,001 - £80,000	0	0	0	0	0	0	£0	£0



## NOTE 36      EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Audit Commission:

	2010/11 £,000	2011/12 £,000
External Audit Services	259	214
Statutory Inspections	0	0
Certification of Grants and Returns	43	22
	<b>302</b>	<b>236</b>

## NOTE 37      DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families; the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

	Central Expenditure £,000	Individual Schools Budget £,000	Total £,000
<b>Budget:</b>			
Final DSG for 2011/12			94,006
Brought Forward from 2010/11			532
Carried Forward to 2012/13 (agreed in advance)			
<b>Agreed Budget Distribution in 2011/12</b>	<b>13,926</b>	<b>80,613</b>	<b>94,538</b>
<b>Actual:</b>			
Central Expenditure	12,528		
ISB Deployed to Schools		80,257	
WBC Contribution for 2011/12			
<b>Total Actual Expenditure in 2011/12</b>	<b>12,528</b>	<b>80,257</b>	<b>92,784</b>
<b>Net Carried Forward to 2012/13</b>	<b>1,398</b>	<b>356</b>	<b>1,754</b>



## NOTE 38 GRANT INCOME

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

	2010/11 £,000	2011/12 £,000
<b>Credited to Taxation and Non-specific Grant Income:</b>		
Revenue Support Grant	(19,557)	(20,750)
Area Based Grant	(6,462)	0
New Homes Bonus & Council Tax Freeze	0	(2,582)
Other Grants	0	(10)
Local Area Agreement Reward Grant (WBC Share)	(7)	0
Capital Grants	(16,603)	(26,112)
Capital Contributions	(14,356)	(1,963)
Donations	0	0
<b>Total</b>	<b>(56,985)</b>	<b>(51,417)</b>

	2010/11 £,000	2011/12 £,000
<b>Credited to Services:</b>		
Dedicated Schools Grant	(91,839)	(94,006)
Mandatory Rent Allowances: subsidy	(14,610)	(15,329)
Young People Learning Agency Grant	(11,154)	(7,048)
Standards Fund (excluding elements now in ABG)	(8,073)	(338)
Rent Rebates Granted to HRA Tenants: subsidy	(6,382)	(6,797)
Council Tax Benefit: subsidy	(5,143)	(5,123)
Early Intervention Grant	0	(4,854)
School Standards Grant (including Personalisation)	(4,482)	(29)
Sure Start, Early Years and Childcare Grant	(3,904)	0
Private Finance Initiative (PFI)	(1,109)	(1,109)
Pooled Treatment Grant	(594)	(439)
Housing Benefit and Council Tax Benefit Administration	(525)	(544)
Local Services Support Grant	0	(462)
Childrens Young People & Families Grant	(451)	(34)
Housing Planning Delivery Grant	(345)	(225)
Adult and Community Learning from Learning and Skills Council	(320)	(274)
Targeted Mental Health In Schools	(273)	0
Sports Partnership	(265)	0
Concessionary Fares	(224)	0
Diploma Specific Formula Grant	(216)	(27)
Pot Holes Repair Grant	0	(571)
Music Education Grant	0	(223)
Social Care Reform	0	(216)
Learning Disability & Health Reform	0	(6,645)
Performance Reward Grant	0	(212)
Primary Care Trust	0	(1,056)
Other Grants	(992)	(735)
<b>Total</b>	<b>(150,901)</b>	<b>(146,296)</b>

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

	31st March, 2012
	£,000
<b>Revenue Grants Receipt in Advance:</b>	
Social Care Reform Grant	(328)
Other Grants	(163)
<b>Total</b>	<b>(491)</b>

	31st March, 2011	31st March, 2012
	£,000	£,000
<b>Capital Grants Receipt in Advance:</b>		
Primary Capital Grant	(5,378)	0
Devolved Finance Grant	(3,547)	(2,687)
Primary BSF Capital Fund	(1,631)	0
Harnessing Technology	(251)	0
Sure Start Grant	(294)	0
Disabled Facilities Grant	0	(96)
Other Grants	(1,210)	(48)
<b>Total</b>	<b>(12,311)</b>	<b>(2,831)</b>

	31st March, 2011	31st March, 2012
	£,000	£,000
<b>Capital Contributions Receipt in Advance:</b>		
S106 Contributions	(13,644)	(15,795)
Other Contributions	0	0
<b>Total</b>	<b>(13,644)</b>	<b>(15,795)</b>
<b>Total Capital Grants and Contributions Receipts in Advance</b>	<b>(25,955)</b>	<b>(18,626)</b>

In addition to the S106 contributions receipt in advance, WBC have £914,125 S106 contributions in earmarked reserves which relate to commuted sums.

## NOTE 39 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence 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 Council.

All Councillors, officers on the Corporate Leadership Team, members of the Standards Committee and budget managers were asked to complete a disclosure statement in respect of themselves and their family members / close relatives, detailing any material transactions with related parties.

### **Central Government**

Central government has a direct influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides a large amount of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in note 38.

### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of member's allowances paid in 2011/12 is shown in Note 34. During 2011/12, works and services to the value of £137,762 were commissioned from companies in which 2 members had an interest. Contracts were entered into in full compliance with the Council's standing orders. In addition, grants and payments totalling £1,253,104 were paid to voluntary organisations and charities in which 12 members declared an interest we also have outstanding balances of £48,060. Payments of £2,969,292 were made to education establishments in which 6 members declared an interest.

The relevant members did not take part in any discussion or decision relating to the grants and payments. Details of all these transactions are recorded in the Register of Members Interest, open to public inspection at the Council Offices during office hours.

### **Officers**

During 2011/12, works and services to the value of £16,319,022 were commissioned from companies in which 10 officers had an interest, this includes 6 officers interests in wholly owned Council subsidiaries in which they were acting in capacity of their role for the Council, which totalled £8,814,375. We also have outstanding balances owed to companies totalling £37,371 and £472,378 due to Wokingham Borough Council. Contracts were entered into in full compliance with the Council's standing orders. In addition, grants and payments totalling £133,035 were paid to voluntary organisations and charities in which 4 officers declared an interest.

The relevant officers did not take part in any discussion or decision relating to the grants and payments.

### **Parish Councils**

Members of Wokingham Borough Council are also Councillors of the 17 Parish Councils within the Borough. Each Parish Council has the ability to levy a precept upon Wokingham Borough Council for the collection of council tax on behalf of the Parish Councils. In 2011/12, Wokingham Borough Council collected and paid over £3,426,704 in Council Tax to the Parish Councils.

## **NOTE 40 CAPITAL EXPENDITURE AND CAPITAL FINANCING**

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

	2010/11 £,000	2011/12 £,000
<b>Opening Capital Financing Requirement</b>	<b>81,087</b>	<b>84,871</b>
<b>Capital Investment:</b>		
Property, Plant and Equipment	28,727	17,761
Investment Properties	22	437
Intangible Assets	325	1,077
Revenue Expenditure Funded from Capital under Statute	5,001	7,394
Prior Year Adjustments - Capital Investment	0	478
<b>Sources of Finance:</b>		
Capital Receipts	0	(3,689)
Government Grants and Other Contributions	(27,198)	(19,937)
<b>Sums Set Aside from Revenue:</b>		
Direct Revenue Contributions	(260)	(781)
MRP / Loans Fund Principal	(2,833)	(3,483)
HRA Self Financing Costs	0	95,468
<b>Closing Capital Financing Requirement</b>	<b>84,871</b>	<b>179,598</b>

<b>Explanation of Movements in Year</b>		
Increase / (Decrease) in underlying need for supported borrowing	0	0
Increase / (Decrease) in underlying need for unsupported borrowing	3,784	94,727
Assets Acquired under Finance Leases	0	0
Assets Acquired under PFI / PPP Leases	0	0
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b>3,784</b>	<b>94,727</b>

## NOTE 41 LEASES

### The Council as Lessee

#### Finance Leases

The Council has four finance leases. Two were entered into in 1982 and relate to property at 1-14 and 1a-9a Weller Drive on the Hogwood Lane industrial estate, these leases are for 90 years. Two further finance leases are in existence in the Housing Revenue Account which were entered into during 2007/08 in respect of Warden Call and Fire Alarm systems at various Sheltered Housing properties throughout the Borough. The leases are depreciated over their five year life which will end in 2012/13.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31st March, 2011 £,000	31st March, 2012 £,000
Council Dwellings	60	0
Other Land and Buildings	0	0
Vehicles, Plant, Equipment and Furniture	0	0
	<b>60</b>	<b>0</b>

The assets acquired under these leases that are carried as Investment Properties in the Balance Sheet at the following net amounts:

	31st March, 2011 £,000	31st March, 2012 £,000
Investment Properties	170	165
	<b>170</b>	<b>165</b>

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

	31st March, 2011 £,000	31st March, 2012 £,000
<b>Finance Lease Liabilities (Net Present Value of Minimum Lease Payments):</b>		
• Current	0	0
• Non-current	1,067	1,067
Finance Costs Payable in Future Years	9,238	9,131
<b>Minimum Lease Payments</b>	<b>10,305</b>	<b>10,198</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31st March, 2011 £,000	31st March, 2012 £,000	31st March, 2011 £,000	31st March, 2012 £,000
Not Later than One Year	107	107	0	0
Later than One Year and not Later than Five Years	427	427	0	0
Later than Five Years	9,771	9,665	1,067	1,067
	<b>10,305</b>	<b>10,198</b>	<b>1,067</b>	<b>1,067</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £183,810 contingent rents were payable by the Council (2010/11 £183,810).

### Operating Leases

The Council has a number of operating leases relating to buildings, vehicles and computer equipment. The items are used for the following purposes:

- buildings include office accommodation, industrial premises and social housing
- vehicles include animal warden, portorage and social services fleet vehicles

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

	31st March, 2011 £,000	31st March, 2012 £,000
<b>Not Later than One Year:</b>		
Land and Buildings	473	494
Vehicles, Plant and Equipment	104	64
Computer Equipment	50	90
<b>Later than One Year and not Later than Five Years:</b>		
Land and Buildings	1,488	1,341
Vehicles, Plant and Equipment	97	48
Computer Equipment	28	99
<b>Later than Five Years:</b>		
Land and Buildings	782	489
Vehicles, Plant and Equipment	0	0
Computer Equipment	0	0
	<b>3,023</b>	<b>2,625</b>

The Council has sub-let some of the Land and Buildings held under these operating leases. At 31st March, 2012 the minimum payments expected to be received under non-cancellable subleases was £120,488 (£120,488 at 31st March, 2011 and £43,656 at 31<sup>st</sup> March 2010).

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

	2010/11 £,000	2011/12 £,000
<b>Minimum Lease Payments:</b>		
Land and Buildings	538	525
Vehicles, Plant and Equipment	133	117
Computer Equipment	53	94
<b>Contingent Rents:</b>		
Land and Buildings	0	0
<b>Sub-lease Payments Receivable:</b>		
Land and Buildings	(120)	(120)
	<b>604</b>	<b>616</b>

## The Council as Lessor

### Finance Leases

The Council has not entered into any financing leases as a lessor.

### Operating Leases

The Council has a number of premises which it leases out on an operating lease basis for the following purposes:

- for the provision of community services such as sports facilities, community centres and leisure facilities
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for the provision of service tenancy accommodation such as school caretakers

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

	31st March, 2011 £,000	31st March, 2012 £,000
<b>Not Later than One Year:</b>		
Shops	(21)	(21)
Industrial Premises	(329)	(379)
Offices	(120)	(259)
Other	(295)	(453)
<b>Later than One Year and not Later than Five Years:</b>		
Shops	(38)	(17)
Industrial Premises	(481)	(850)
Offices	(392)	(892)
Other	(842)	(1,549)
<b>Later than Five Years:</b>		
Shops	0	0
Industrial Premises	(345)	0
Offices	(485)	(159)
Other	(17,830)	(18,219)
	<b>(21,180)</b>	<b>(22,800)</b>

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. In 2011/12 £6,092 contingent rents were receivable by the Council (2010/11 £5,031).

## **NOTE 42 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS**

### **Waste Disposal PFI Scheme**

In 2006/07 the Council, together with Reading and Bracknell Forest Borough Councils, entered into a PFI contract with WRG (RE3 Ltd) for the disposal of waste. The total value of the contract is estimated to be £616m as at 31<sup>st</sup> March, 2012, to be shared between the councils based on relative throughput. Actual payments will depend upon the contractor's performance as well as that of the individual councils in waste collection. As part of the contract, the contractor has built a transfer station, materials recycling facility, civic amenity site & offices on land owned by Reading and Bracknell Councils. The contract will expire in December 2032.

The Council acquired a 37.2% share of assets that will revert to the ownership of the RE3 partnership between the three council's at the end of the contract.

The Council's share of the assets used to provide the waste disposal contract is recognised in the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on Property, Plant and Equipment in Note 12.

Payments remaining to be made by Wokingham Borough Council under the PFI contract at 31<sup>st</sup> March, 2012 (excluding any estimation of inflation and availability / performance deductions) are as follows:



	Liability	Interest	Service Charges	Total
	£,000	£,000	£,000	£,000
Payable in 2012/13	215	569	7,609	8,393
Payable within Two to Five Years	1,024	2,114	33,484	36,623
Payable within Six to Ten Years	1,740	2,189	51,694	55,623
Payable within 11 to 15 Years	2,449	1,494	58,627	62,570
Payable within 16 to 20 Years	3,173	526	62,583	66,282
	<b>8,602</b>	<b>6,892</b>	<b>213,998</b>	<b>229,492</b>

The liability outstanding under the waste contract is as follows:

	2010/11	2011/12
	£,000	£,000
Balance Outstanding at Start of Year	(9,141)	(8,881)
Payments During the Year	260	279
New Liabilities Arising	0	0
Balance Outstanding at End of Year	<b>(8,881)</b>	<b>(8,602)</b>

In addition to the PFI contract, as at 31st March, 2012, the Council is committed to making payments under the following contracts:

- Payments estimated at £1.4m per annum under a contract with WSP UK Ltd for the provision of highways and transportation consultancy. The contract will expire in March 2018.
- Payments estimated at £9.2m per annum under a contract with Optalis for the provision of adult social care. The contract will expire in June 2014.
- Payments estimated at £1.3m per annum to Reading Borough Council under a partnership contract for responsive maintenance. The contract will expire in March 2013.
- Payments estimated at £3.0m per annum under a contract with Government Procurement Service for the provision of energy. The contract will expire in April 2013.
- Payments estimated at £3.4m per annum under a contract with Balfour Beatty Workplace for highways reactive and planned maintenance. The contract will expire in March 2018.
- Payments estimated at £2.8m per annum under a contract with Veolia for the collection of waste. The contract will expire in March 2019.
- Payments estimated at £8.5m per annum under a PFI contract with the Waste Recycling Group (WRG) for the provision of waste disposal services (see below). The contract will expire in December 2031.
- Payments estimated at £1.2m per annum to Zurich Municipal for the provision of insurance services. The contract will expire in June 2012.
- Payments estimated at £1.8m per annum under a contract with Northgate Information Systems for IT services. The contract will expire in December 2015.
- Other various contracts between £0.1m and £1m per annum totalling £28.9m with end dates between April 2012 and March 2018.

## **NOTE 43 CAPITALISATION OF BORROWING COSTS**

The Council did not capitalise any borrowing costs in 2011/12.

## **NOTE 44            TERMINATION BENEFITS**

The Council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £347k (£247k in 2010/11). Of this total, £265k was payable to 15 officers across the Council who were made redundant as part of the Transformation project.

No directors were made redundant in 2011/12.

## **NOTE 45            PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES**

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

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

In 2011/12, The Council paid £5,800,991 to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £6,961,334 and 14.1%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 46.

## **NOTE 46            DEFINED BENEFIT PENSION SCHEMES**

### **Participation in Pension Schemes**

As part of the terms and conditions of employment the authority offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments. This commitment needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two schemes:

- The Local Government Pension Scheme (LGPS), administered by the Royal Borough of Windsor and Maidenhead – this is a funded scheme, which means that the Council and employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Wokingham Borough Council is also responsible for a share of the former Berkshire County Council (BCC) Local Government Pension Scheme. The scheme is also administered by the Royal Borough of Windsor and Maidenhead Council. Although now closed, a liability remains for the pensioners that were in the scheme when BCC ceased to exist.

### Transactions Relating to Post-Employment Benefits

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

#### Comprehensive Income and Expenditure Statement

##### Cost of Services:

- Current Service Cost
- Past Service Gain
- Settlements and Curtailments

##### Financing and Investment Income and Expenditure:

- Interest Cost
- Expected Return on WBC Scheme Assets
- Expected Return on BCC Scheme Assets

Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services

Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:

- Actuarial Gains and Losses

**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**

#### Local Government Pension Scheme

	2010/11 £,000	2011/12 £,000
	11,065	7,476
	(24,439)	0
	0	(3,191)
	13,381	11,019
	(8,524)	(8,245)
	1,095	1,092
	<b>(7,422)</b>	<b>8,151</b>
	(38,804)	49,590
	<b>46,226</b>	<b>57,741</b>

#### 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

Actual Amount Charged Against the General Fund Balance for Pensions in the Year:

- Employer's Contributions Payable to Scheme

#### Local Government Pension Scheme

	2010/11 £,000	2011/12 £,000
	7,422	(8,151)
	6,843	5,982
	<b>14,265</b>	<b>(2,169)</b>

A valuation of the Berkshire County Council LGPS was undertaken by the Actuary, Barnett Waddington, who assessed the Net Pension Liability as at 31st March, 2011. The liability was shared between the six Berkshire Councils on the basis of population as at 31<sup>st</sup> March, 1998. Wokingham Borough Council's percentage share is 19.0561% and amounts to £37,989,097 in 2011/12.

The cumulative amount of actuarial gains and losses recognised in other comprehensive income and expenditure in the actuarial gains or losses on pension liabilities line was, at 31 March 2011/12 a loss of £82,969k and at 31 March 2010/2011 was a loss of £40,562k.

### Assets and Liabilities in Relation to Post-Employment Benefits

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

	Wokingham Borough Council's LGPS		Former Berkshire County Council's LGPS	
	2010/11 £,000	2011/12 £,000	2010/11 £,000	2011/12 £,000
<b>Opening Balance at 1st April</b>	<b>244,886</b>	<b>208,686</b>	<b>268,836</b>	<b>244,586</b>
Current Service Cost	11,065	7,476	0	0
Interest Cost	13,381	11,019	13,991	12,989
Contribution by Scheme Participants	2,957	2,601	0	0
Actuarial Gains and Losses	(33,698)	33,804	2,585	33,483
Benefits Paid	(5,298)	(5,474)	(17,003)	(14,734)
Past Service Costs	(24,439)	0	(21,474)	0
Entity Combinations	0	0	0	0
Curtailments	0	208	0	0
Settlements	0	(12,996)	0	0
Unfunded Pension Payments	(168)	(176)	(2,349)	(2,338)
<b>Total Liabilities at 31st March</b>	<b>208,686</b>	<b>245,148</b>	<b>244,586</b>	<b>273,986</b>
WBC share of BCC Liabilities at 19.0561%	46,608	52,211		
<b>Closing Balance at 31st March</b>	<b>255,294</b>	<b>297,359</b>		

Reconciliation of fair value of the scheme assets:

	Wokingham Borough Council's LGPS		Former Berkshire County Council's LGPS	
	2010/11 £,000	2011/12 £,000	2010/11 £,000	2011/12 £,000
<b>Opening Balance at 1st April</b>	<b>130,756</b>	<b>144,283</b>	<b>96,289</b>	<b>89,580</b>
Expected Rate of Return	8,524	8,245	5,895	4,919
Actuarial Gains and Losses	501	(8,603)	4,399	(5,133)
Employer Contributions	7,011	6,158	2,349	2,338
Contributions by Scheme Participants	2,957	2,601	0	0
Benefits Paid	(5,466)	(5,650)	(19,352)	(17,072)
Entity Combinations	0	0		0
Settlements	0	(9,597)		0
<b>Total Fair Value of Scheme Assets at 31st March</b>	<b>144,283</b>	<b>137,437</b>	<b>89,580</b>	<b>74,632</b>
WBC share of BCC Liabilities at 19.0561%	17,070	14,222		
<b>Closing Balance at 31st March</b>	<b>161,353</b>	<b>151,659</b>		
<b>Net Liability Closing Balance</b>	<b>93,941</b>	<b>145,700</b>		

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

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual loss on scheme assets in the year was £359,000 (2010/11 – return of £9,869,000).

### Scheme History

<b>Wokingham Borough Council Scheme</b>	<b>2007/08 Restated £,000</b>	<b>2008/09 £,000</b>	<b>2009/10 £,000</b>	<b>2010/11 £,000</b>	<b>2011/12 £,000</b>
Present Value of Liabilities	(153,753)	(145,086)	(242,042)	(205,803)	(242,856)
Fair Value of Assets	132,346	95,642	130,756	144,283	137,437
Present Value of Unfunded Obligations	(1,996)	(1,831)	(2,844)	(2,883)	(2,292)
<b>Surplus / (Deficit) in the Scheme</b>	<b>(23,403)</b>	<b>(51,275)</b>	<b>(114,130)</b>	<b>(64,403)</b>	<b>(107,711)</b>
<b>Former Berkshire County Council Scheme</b>	<b>2007/08 Restated £,000</b>	<b>2008/09 £,000</b>	<b>2009/10 £,000</b>	<b>2010/11 £,000</b>	<b>2011/12 £,000</b>
Present Value of Liabilities	(221,682)	(201,450)	(252,811)	(228,814)	(243,963)
Fair Value of Assets	141,669	86,354	96,289	89,580	74,632
Present Value of Unfunded Obligations	(7,689)	(6,780)	(16,025)	(15,772)	(30,023)
<b>Surplus / (Deficit) in the Scheme</b>	<b>(87,702)</b>	<b>(121,876)</b>	<b>(172,547)</b>	<b>(155,006)</b>	<b>(199,354)</b>

The liabilities show the underlying commitments that the Council has in the long term to pay post employment (retirement) benefits. The total liability of £145,700,097 has a substantial impact on the net worth of the Council as shown in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy because the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made on the Local Government Pension Scheme by the Council in the year to 31st March, 2013 is £6,040,000.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Barnett Waddington, an independent firm of actuaries, assessed the liabilities as at 1st April, 2011. The principal assumptions used by the actuary are:

	<b>2010/11</b>	<b>2011/12</b>
Long-term Expected Rate of Return on Assets in the Scheme:		
Equity Investments	7.9%	7.8%
Gilts	4.5%	
Bonds	5.5%	5.5%
Property	6.0%	5.9%
Cash	3.0%	3.0%
Alternative Assets	5.0%	5.0%
Expected Return on Assets	6.5%	6.0%

**Mortality Assumptions:**

## Longevity at 65 for Current Pensioners:

- Men
- Women

22.70	23.0
25.40	25.6

## Longevity at 65 for Future Pensioners:

- Men
- Women

24.80	25.0
27.40	27.6

Rate of Inflation-RPI

3.5%	3.3%
------	------

Rate of Inflation-CPI

2.7%	2.5%
------	------

Rate of Increase in Salaries

4.8%	4.5%
------	------

Rate of Increase in Pensions

2.7%	2.5%
------	------

Rate for Discounting Scheme Liabilities

5.5%	4.6%
------	------

Take-up Option to Convert Annual Pension into Retirement Lump Sum

50.0%	50.0%
-------	-------

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

Equity Investments

	2010/11	2011/12
Equity Investments	31.0%	35.0%
Gilts	0.0%	0.0%
Bonds	27.0%	25.0%
Property	8.0%	10.0%
Cash	5.0%	2.0%
Alternative Assets	29.0%	28.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Gilts

0.0%	0.0%
------	------

Bonds

27.0%	25.0%
-------	-------

Property

8.0%	10.0%
------	-------

Cash

5.0%	2.0%
------	------

Alternative Assets

29.0%	28.0%
-------	-------

**Total**

<b>100.0%</b>	<b>100.0%</b>
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**History of Experience Gains and Losses**

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March, 2012:

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Differences Between the Expected and Actual Return on Assets	95.06	97.13	(22.69)	(2.09)	7.99
Experience Gains and Losses on Liabilities	(1.59)	0.00	0.63	2.58	(0.72)

**NOTE 47 CONTINGENT LIABILITIES**

Wokingham Borough Council has two subsidiary companies, Optalis Ltd and Wokingham Enterprise Ltd, which are companies limited by shares in which the Council is the sole shareholder. As sole shareholder of the companies the Council funds any operating losses reported by the companies from its working balances as loans to the companies. The losses are carried forward in the profit and loss reserves of the companies (see the Group Financial Statements, notes 53 to 59). In addition it acts as guarantor for any losses or liabilities incurred by the companies, particularly any residual losses that may be incurred by the companies if they were to cease trading and were wound up however, the companies continue to act as going concerns for the foreseeable future.

In relation to Optalis Ltd the Council has an additional contingent liability in relation to staff transferred to the company under TUPE arrangements. As sole shareholder and guarantor, the council remains liable for the pension liabilities of the staff transferred, for costs associated with future redundancies and for pension strain costs arising from service closures and future modernisations if they were to occur.

Wokingham Borough Council is a member of the MMI (Municipal Mutual Insurance) Scheme of Arrangement. On 28th March 2012 the Supreme Court handed down its judgement in the Employers Liability 'Trigger Litigation' cases, ruling that insurers incur liability at the time of exposure to asbestos fibres and not when the disease develops. MMI was one of the insurers. There is a question regarding MMI's ability to meet future liabilities, which could trigger a clawback under the scheme from local authorities and MMI members/insureds who are members of the scheme. The potential liabilities for levies under the Scheme will be driven by the extent of historical payments from MMI to the local authority and the extent of insolvency of MMI.

## NOTE 48 FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

	Long Term		Current	
	31st March, 2011 £,000	31st March, 2012 £,000	31st March, 2011 £,000	31st March, 2012 £,000
<b>Investments</b>				
Loans and Receivables	12,479	13,590	5,106	4,991
Fair Value through Profit and Loss	0	0	0	14,300
<b>Total Investments</b>	<b>12,479</b>	<b>13,590</b>	<b>5,106</b>	<b>19,291</b>
<b>Debtors</b>				
Loans and Receivables	4	2	0	0
Financial Assets Carried at Contract Amounts	0	0	8,085	15,300
<b>Total Debtors</b>	<b>4</b>	<b>2</b>	<b>8,085</b>	<b>15,300</b>
<b>Borrowings</b>				
Financial Liabilities at Amortised Cost	(48,083)	(134,752)	0	0
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
<b>Total Borrowings</b>	<b>(48,083)</b>	<b>(134,752)</b>	<b>0</b>	<b>0</b>
<b>Other Long Term Liabilities</b>				
PFI and Other Finance Lease Liabilities	(10,003)	(9,669)	0	0
<b>Total Other Long Term Liabilities</b>	<b>(10,003)</b>	<b>(9,669)</b>	<b>0</b>	<b>0</b>
<b>Creditors</b>				
Financial Liabilities at amortised cost	0	0	0	0



	Long Term		Current	
	31st March, 2011 £,000	31st March, 2012 £,000	31st March, 2011 £,000	31st March, 2012 £,000
Financial Liabilities carried at contract amount	0	0	(26,998)	(24,781)
<b>Total Creditors</b>	<b>0</b>	<b>0</b>	<b>(26,998)</b>	<b>(24,781)</b>



**Income, Expense, Gains and Losses**

	2010/11					2011/12					
	Financial Liabilities	Financial Assets			Assets and Liabilities at Fair Value through Profit and Loss	Total	Financial Liabilities	Financial Assets			Assets and Liabilities at Fair Value through Profit and Loss
Measured at Amortised Cost	Loans and Receivables	Available for Sale		Measured at Amortised Cost			Loans and Receivables	Available for Sale			
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	
Interest Expense on External Borrowing - GF	2,825				2,825	2,037				2,037	
Interest Expense on External Borrowing - HRA						69				69	
Interest Expense on PFI and Finance Lease Liabilities						692				692	
Impairment Losses	1,292				1,292	(2,088)				(2,088)	
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>4,117</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,117</b>	<b>710</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>710</b>	
Interest Income	(866)	0	0	0	(866)		(1,112)	0	0	(1,112)	
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>(866)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(866)</b>	<b>0</b>	<b>(1,112)</b>	<b>0</b>	<b>0</b>	<b>(1,112)</b>	
Surplus / Deficit Arising on Revaluation of Financial Assets in the Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0	
<b>Net Gain / (Loss) for the Year</b>	<b>3,251</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,251</b>	<b>710</b>	<b>(1,112)</b>	<b>0</b>	<b>0</b>	<b>(402)</b>	

### Fair Values of Assets and Liabilities

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

- For loans from the Public Works Loans Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

	31st March, 2011		31st March, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£,000	£,000	£,000	£,000
PWLB Debt	23,648	25,299	110,523	119,600
Non-PWLB Debt	24,435	25,227	24,229	24,283
<b>Total Debt</b>	<b>48,083</b>	<b>50,526</b>	<b>134,752</b>	<b>143,883</b>
Short Term Creditors	26,998	26,998	24,781	24,781
Long-term Financial Lease and PFI Liabilities	10,003	10,003	9,669	9,669
Long-term Creditors	0	0	0	0
<b>Total Financial Liabilities</b>	<b>85,084</b>	<b>87,527</b>	<b>169,202</b>	<b>178,333</b>

The fair value as at 31<sup>st</sup> March, 2012 is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March, 2012) arising from a commitment to pay interest to lenders below current market rates.

The fair values for financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair value for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value of these instruments.

### Unusual Movements

In 2011/12 a significant increase in external debt was taken on in order to finance the HRA self financing settlement. The increase in external borrowing was £87million.

	31st March, 2011		31st March, 2012	
	Carrying Amount £,000	Fair Value £,000	Carrying Amount £,000	Fair Value £,000
Money Market Loans < 1 year	5,106	5,106	4,991	4,989
Money Market Loans > 1 year	12,479	12,479	13,590	13,598
<b>Total Loans and Receivables</b>	<b>17,585</b>	<b>17,585</b>	<b>18,581</b>	<b>18,587</b>
Fair Value through the I+E			14,300	14,300
Short Term Debtors			15,300	15,300
Long-term Debtors	3,550	3,550	2	2
<b>Total Financial Assets</b>	<b>21,135</b>	<b>21,135</b>	<b>48,183</b>	<b>48,189</b>

The differences are attributable to fixed interest instruments payable being held by the Council whose interest rate is higher than the prevailing rate estimated to be available at 31 March 2012. This increases the fair value of loans and receivables.

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

Assets and liabilities at fair value through profit and loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are that short term debtors and creditors are carried at cost as this is a fair approximation of their value.

## NOTE 49      IMPAIRMENT LOSSES

### Financial Instruments

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of these banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £5m deposited across two of these institutions, with varying maturity dates and interest rates as follows:



Bank	Date Invested	Maturity Date	Amount Invested £,000	Interest Rate	Carrying Amount £,000	Impairment £,000
Heritable	01/11/2006	03/11/2008	2,000	5.45%	408	232
Heritable	01/09/2008	28/08/2009	1,000	6.20%	195	125
Landsbanki	01/08/2008	27/02/2009	1,000	6.05%	776	(66)
Landsbanki	01/09/2008	28/08/2009	1,000	5.50%	820	(110)
<b>Total</b>			<b>5,000</b>		<b>2,199</b>	<b>181</b>

The carrying amounts of the investments included in the Balance Sheet, have been calculated using the present value of the expected repayments, discounted using the investment's original interest date.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers. The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of future payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years. The impairment has been calculated in line with FRS 25 and 26, however, in cash terms the Council currently expects to have recovered a total of £4.769m of the original £5m invested by December 2018. The carrying amounts of the investments included in the Balance Sheet, have been calculated using the present value of the expected repayments, discounted using the investment's original interest date.

#### Heritable Bank

Heritable bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. The current position on actual payments received and estimated future payouts is as shown in the table below and this council has used these estimates to calculate the impairment based on recovering 88p in the £. Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

Therefore in calculating the impairment the Council has made the following assumptions regarding timing of recoveries:

Date	Repayment Amount £'000	Repayment %
Received to Date	2,039	67.90%
April 2012	118	3.79%
July 2012	109	3.50%
October 2012	109	3.50%
January 2013	109	3.50%
April 2013	181	5.81%
<b>TOTAL</b>	<b>2,664</b>	<b>88.00%</b>

#### 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 Council has no control. The current position on estimated future payouts is as shown in the table below and this council has used these estimates to calculate the impairment based on recovering 100p in the £.

<b>Date</b>	<b>Repayment Amount £'000</b>	<b>Repayment %</b>
Received to Date	579	30.00%
December 2012	174	8.00%
December 2013	174	8.00%
December 2014	174	8.00%
December 2015	174	8.00%
December 2016	174	8.00%
December 2017	174	8.00%
December 2018	479	22.00%
<b>TOTAL</b>	<b>2,105</b>	<b>100.00%</b>

Recovery is subject to the following uncertainties and risks:

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009 [or maturity date if earlier].

### **Accounting for the Impairment**

The impairment reduction from previous years (principal plus interest not received) recognised in the Income and Expenditure Account in 2011/12, £1.959m, 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.

## **NOTE 50 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The Council'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 Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Local Government Act 2003. Overall, these procedures require the Council to manage risk, which it does through the following means.

The Annual Treasury Management and Investment strategy which incorporates the prudential indicators was approved by Council on 22<sup>nd</sup> February 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was initially set at £104m and revised in February 2012 to £202m to take account of the HRA Self Financing. This is the maximum limit of external borrowings or other long term liabilities the council can hold.
- The Operational Boundary was expected to be £96m, subsequently revised to £190m to take account of HRA Self Financing. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are shown below.
- These policies are implemented by the corporate finance team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

### **Credit Risk**

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

This risk is minimised through the Annual Treasury Management and Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's and Standard and Poors Ratings Services. The Treasury Management Strategy also imposes a maximum sum to be invested and time limits with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria. The credit criteria in respect of financial assets held by the Council are detailed as follows:

- **Sovereign Rating for Foreign Countries –AAA.** This is the credit rating of a country and indicates the risk level of investment in that country. This is for the in-house team only as the fund managers have additional checks in place for selecting counterparties.
- **Banks 1 – Good Credit Quality.** The Council will only use banks which:
  - Are UK banks and or
  - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA (in-house team only)And have, as a minimum, the following Fitch, Moody's and Standard and Poors credit rating (LCD approach only for in-house team) where rated.
  - Short Term – F1+ (highest rating)
  - Long Term – AA – (AAA is highest rating)
  - Individual / Financial Strength – B/C (Fitch / Moody's only)
  - Support – 2 (Fitch only)
- **Banks 2 – Guaranteed Banks with Suitable Sovereign Support.** In addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

- Wholesale deposits in the bank are covered by a government guarantee
- The government providing the guarantee is rated AAA by all three major rating agencies (Fitch, Moody's and Standard and Poors) and
- The Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.
- **Banks 3 – Eligible Institutions.** The organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme and meeting a minimum credit rating of A-. This was initially announced on 13th October, 2008. These institutions have been subject to suitability checks before inclusion and have access to HM Treasury liquidity if needed.
- **Banks 4 – The Council's own banker (Nat West).** For transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- **Group Limits.** For each banking group the following limits will apply dependent on the rating of the Parent Bank
  - AAA - £7m with a maximum average duration of 1 year
  - AA - £5m with a maximum average duration of 6 months
- **Building Societies.** The Council will only use Societies which are eligible to use the Bank of England's Credit Guarantee Scheme, subject to a minimum asset size of £5bn and a meeting credit rating of A- (where rated)
- **Money Market Funds** – the Council and its Fund Managers will use AAA rated funds. The Strategic Director of Resources will keep under review the Money Market Funds used and will amend as necessary.
- **UK Government** (including gilts and the DMO)
- **Local Authorities, Parish Councils**
- **Supranational institutions** – multilateral investment organisations such as the World Bank or European Investment Bank (sometimes used by the Fund Managers)

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £2m cannot be assessed generally because the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31st March, 2012 that this was likely to happen.

The following analysis summarises the Council's potential maximum exposure to credit risk on financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions:



	Amount at 31st March, 2012	Historical Experience of Default	Historical Experience Adjusted for Market Conditions at 31st March, 2012	Estimated Maximum Exposure to Default and Uncollectability at 31st March, 2012	Estimated Maximum Exposure at 31st March, 2011
	£,000 (a)	% (b)	% (c)	£,000 (a) x (c)	£,000
Deposits with Banks and Financial Institutions:					
AAA Rated Counterparties	25,002	0.00%	0.00%	0	0
AA Rated Counterparties	16,106	0.03%	0.03%	4.83	0
A Rated Counterparties	0	0.08%	0.08%	0	0
Other Counterparties	11,559	0.23%	0.24%	27.74	0
Customers	14,884	Local	Local	Local	Local
<b>Total</b>	<b>67,552</b>			<b>0</b>	<b>0</b>

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds. In October 2008, the Icelandic banking sector defaulted on its obligations. The Council had £5m invested in this sector at that time. In accordance with accounting practice, the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements.

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties.

The Council does not generally allow credit for its customers, but £5.2m of the £7.3m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31st March, 2011 £,000	31st March, 2012 £,000
Less than Three Months	624	3,212
Three to Six Months	300	460
Six Months to One Year	312	481
More than One Year	970	1,044
	<b>2,206</b>	<b>5,197</b>

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2012 was £0.8m.

### Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the annual treasury and investment strategy), 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 when needed. The Council has ready access to borrowings from the money markets to cover any day to day cash



flow need, and the PWLB and money markets for access to longer term funds. The Council 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.

Instead, the risk is that the Council is exposed 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 maturity analysis of financial assets is as follows:

	31st March, 2011 £,000	31st March, 2012 £,000
Less than One Year	3,125	39,077
Between One and Two Years	12,476	2,635
Between Three and Ten Years	0	1,596
Between Eleven and Twenty Years	0	0
Between Twenty One and Thirty Years	0	0
Between Thirty One and Forty Years	0	9,360
	<b>15,601</b>	<b>52,667</b>

The table above assumes repayment of Icelandic investments according to the rates and timings shown in note 49 Impairment Losses. All trade and other payables are due to be paid in less than one year.

### Maturity and Refinancing Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved Treasury Management and Investment Strategy address the main risks and the corporate finance team addresses the operational risks within the approved parameters. This includes:

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

The maturity analysis of financial liabilities is as follows:

	31st March, 2011 £,000	31st March, 2012 £,000
Less than 1 Year		0
Between 1 and 2 Years		0
Between 3 and 5 Years		7,927
Between 6 and 10 Years		12,794
Between 11 and 15 Years	1,000	16,301
Between 16 and 20 Years	0	31,802
Between 21 and 25 Years	2,400	21,221
Between 26 and 30 Years	0	0
More than 30 Years	44,683	44,706
	<b>48,083</b>	<b>134,752</b>

## Market Risk

### Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in variable and fixed interest rates would have the following effects:

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

Borrowings are not carried at fair value on the Balance Sheet, 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 General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The corporate finance team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

At 31st March, 2012, if all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£,000
Increase in Interest Payable on Variable Rate Borrowings	170
Increase in Interest Receivable on Variable Rate Investments	(181)
Increase in Government Grant Receivable for Financing Costs	0
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>11</b>
Share of overall impact debited to the HRA	0
Decrease in Fair Value of Fixed Rate Investment Assets	0
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>11</b>
Decrease in Fair Value of Fixed Rate Borrowings Liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	0

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. Fund Managers investments are not considered as variable rate investments.

**Price Risk**

The Council does not generally invest in instruments with this type of risk.

**Foreign Exchange Risk in Relation to Icelandic Deposits**

The Council has foreign exchange exposure resulting from an element of the settlement received from Landisbanki. This is being held in Icelandic kroner in an escrow account due to the current imposition of currency controls.

**NOTE 51 CONTINGENT ASSETS**

Following the House of Lords judgement in the case of HMRC vs. Conde Nast Publications Ltd and HMRC vs. Fleming, Wokingham Borough Council has submitted various voluntary disclosure claims in relation to overpaid tax in the areas of sporting services, excess parking charges, library income and off-street car parking that go back as far as 1973 in some cases. The Council received £91,000 in relation to these claims in 2011/12 but is awaiting responses from HMRC on others, however in May 2012 the Council received £450k (including interest) relating to a golf course claim.

**NOTE 52 INVESTMENTS IN COMPANIES****Trading Standards South East Ltd**

This is a company set up by 19 local authority trading standards departments in the South East of England to provide a consumer helpline and regional intelligence unit for Trading Standards' functions, training to the member authorities and other joined up trading standards services. It was established in 2004/05 and is limited by guarantee of £1. Wokingham Borough Council has an equal 1/19th share in the company and is able to nominate one director on the board of the company. The latest financial statements for the company were prepared at 31st March 2011 and show that turnover for 2010/11 was £2.5million (£2.079m in 2009/10), the company made a profit of £1,303 (£1,548 in 2009/10) and had net assets of £25,000 (£23,697 in 2009/10). Wokingham Council does not receive any dividend income from the company. The financial statements for the company for 2011/12 will be available in January 2013. A full set of financial statements for the company can be obtained from the Company Secretary at the registered office: Surrey County Council, Trading Standards, Mid-Surrey Area Office, Bay Tree Avenue, Kingston Road, Leatherhead, Surrey, KT22 7SY.

**Flexible Home Improvement Loans Ltd**

This is a company set up by 17 local authorities across the South East of England to deliver small loans to homeowners to improve their property. The loans are targeted at vulnerable households to ensure they are in decent accommodation and therefore can remain in their own home rather than go into residential care. The company was established in March 2008 and is limited by guarantee of £10. Wokingham Borough Council has an equal 1/17th share in the company and is able to nominate one director on the board of the company. The draft financial statements for the company were prepared at 31st March 2012 and show that turnover for 2011/12 was £14,885 (2010/11 nil), the company made a loss of £61,696 (2010/11 £73,135) and had net assets of £7,386,145 (2010/11 £7,206,889). The company receives grant from central government and makes loans to local authority members which are then used to make loans to homeowners as such the grant income and loan investing maintains the company as a going concern. Wokingham Council does not receive any dividend income from the company. full set of financial statements for the company can be obtained from Andrew Booker, Head of Finance, Royal Borough of Windsor and Maidenhead, Town Hall, St. Ives Road, Maidenhead, SL6 1RF.

## **Connexions Berkshire**

Connexions Berkshire Partnership is a charitable company set up between a wide range of partners such as the 6 Berkshire local authorities and other organisations from the health and voluntary sector to provide impartial advice and guidance services and learning and development services to young people. It was established in 2001 and is limited by guarantee of £10. Wokingham Borough Council is one of 32 partners who are able to nominate an officer as a trustee on the governing body of the company. The latest financial statements for the company were prepared as at 31st March 2011 and show that the turnover for 2010/11 was £7.7m (£8.2m in 2009/10), the company made a surplus of £1,203,995 (£263,403 Surplus in 2009/10) and had net assets (before pension liabilities) of £2,109,424 (£1,504,426 in 2009/10) and net assets after pension scheme liabilities of £819,424 (net liabilities of £4,4198,571 in 2009/10). Wokingham Council does not receive any dividend income from the company. The financial statements for the company for 2011/12 will be available in October 2012. A full set of the financial statements for the company can be obtained from the Asst Director Finance and Contracts, Connexions Berkshire & Buckinghamshire, Pacific House, Imperial Way, Reading, Berkshire, RG2 0TF.

## **Wokingham Trading Enterprises Ltd**

(WEL) is a company wholly owned and set up by Wokingham Borough Council (WBC) for the purposes of enabling the regeneration of the town centre of Wokingham and specifically for the purchase of land and buildings, such as Peach Place, within the town centre for redevelopment. The company was established in 2009 and is limited by guarantee of £1. WBC has 100% of the share capital (valued at £3,000) in the company and is able to control the operating, governance and financial policies of the organisation. WBC is also able to appoint the board of directors of the company. The Company is accounted for as a wholly owned subsidiary of WBC however, as WBC's interest in WEL arose as a result of formation of the company no goodwill arose as a result of the formation.

## **Optalis Ltd**

Optalis Ltd is a company wholly owned and set up by Wokingham Borough Council (WBC) for the purposes of providing Adult Social Care Services. The company was established in 2011 and is limited by shares. WBC has 100% of the share capital (which has nil value) in the company and is able to control the operating, governance and financial policies of the organisation. WBC is also able to appoint the board of directors of the company. The Company is accounted for as a wholly owned subsidiary of WBC however, as WBC's interest in Optalis arose as a result of formation of the company no goodwill arose as a result of the formation.

## **Wokingham Housing Ltd**

Wokingham Housing Ltd is a company wholly owned and set up by Wokingham Borough Council (WBC) for the purposes of providing Housing Services. The company was established in January 2012 and is limited by shares however as at 31<sup>st</sup> March 2012 there have been no financial transactions through the company and it is currently dormant. The company is expected to start trading in 2013. WBC has 100% of the share capital (which has nil value) in the company and is able to control the operating, governance and financial policies of the organisation. WBC is also able to appoint the board of directors of the company. The Company is accounted for as a wholly owned subsidiary of WBC however has not been consolidated in 2011/12 due to immateriality. As WBC's interest in Wokingham Housing Ltd arose as a result of formation of the company no goodwill has arisen as a result of the formation.