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Mr Richard Parry Jones, MA.
Prif Weithredwr – Chief Executive
CYNGOR SIR YNYS MÔN
ISLE OF ANGLESEY COUNTY COUNCIL
Swyddfeydd y Cyngor - Council Offices
LLANGEFNI
Ynys Môn - Anglesey
LL77 7TW

Ffôn / tel (01248) 752500
Ffacs / fax (01248) 750839

RHYBUDD O GYFARFOD		**NOTICE OF MEETING**
PWYLLGOR ARCHWILIO		**AUDIT COMMITTEE**
DYDD MAWRTH, 24 MEDI, 2013 am 2 o'r gloch y prynhawn		**TUESDAY, 24 SEPTEMBER 2013 at 2.00 pm.**
YSTAFELL BWYLLGOR 1. SWYDDFEYDD Y CYNGOR, LLANGEFNI		**COMMITTEE ROOM 1, COUNCIL OFFICES, LLANGEFNI**
Swyddog Pwyllgor	**Ann Holmes 01248 752518**	**Committee Officer**

AELODAU / MEMBERS
Cynghorwyr / Councillors:-

Annibynnol / Independent

Jim Evans, Dafydd Rhys Thomas

Plaid Cymru / The Party of Wales

T Ll Hughes (Is-Gadeirydd/Vice-Chair), John Griffith and Vaughan Hughes

Llafur / Labour

Raymond Jones

Heb Ymaelodi / Unaffiliated

R Ll Jones (Cadeirydd/Chair) and P S Rogers

AELODAU LLEYG/LAY MEMBERS

Mr Richard Barker, Mrs Sharon Warnes

A G E N D A

1 **DECLARATION OF INTEREST**

To receive any declaration of interest by any member or officer in respect of any item of business.

2 **MINUTES OF THE 23RD JULY, 2013 MEETING** (Pages 1 - 10)

The minutes of the previous meeting of the Audit Committee held on 23 July, 2013 to be submitted for confirmation.

3 **GWYNEDD LOCAL GOVERNMENT PENSION FUND**

To receive a performance update on the Pension Fund and any related matters.

4 **STATEMENT OF ACCOUNTS 2012/13 AND ANNUAL GOVERNANCE STATEMENT** (Pages 11 - 134)

- To present the Statement of Accounts 2012/13 and Annual Governance Statement.
- To present the External Audit report on the Audit of the Financial Statements. (ISA 260)

5 **EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE** (Pages 135 - 152)

- To present External Audit's update on performance work.
- To present the Improvement Assessment Letter 1

6 **RISK MANAGEMENT AND INSURANCE** (Pages 153 - 156)

To receive an update on the position with regard to risk management and insurance.

7 **INTERNAL AUDIT - PROGRESS REPORT APRIL - AUGUST, 2013** (Pages 157 - 164)

To present a report on the work of the Internal Audit Section for the period from 1 April to 30 August, 2013.

8 **INTERNAL AUDIT REPORTING** (Pages 165 - 168)

To receive a report on Internal Audit reporting including the reporting of progress on the implementation of recommendations.

9 **ANNUAL REPORT ON THE PREVENTION OF FRAUD AND CORRUPTION** (Pages 169 - 176)

To receive the Annual Report for 2012/13 on the Prevention of Fraud and Corruption

10 **TREASURY MANAGEMENT QUARTER 1 2013/14** (Pages 177 - 188)

To receive a Treasury Management update report for Quarter 1 2013/14.

11 **INSPECTION OF REGISTERS AND DECLARATIONS OF INTEREST**

To receive any feedback on the inspection of registers and declarations of interest.

(Members of the Committee are advised that the registers will be available for inspection from 1:15 p.m. to 1:45 p.m. in Committee Room 1 on 24th September prior to the formal committee meeting at 2:00 p.m.)

12 **NEXT SCHEDULED MEETING**

2:00 p.m., on Wednesday, 11 December, 2013.

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AUDIT COMMITTEE

Minutes of the meeting held on 23 July 2013

PRESENT:	Councillor Robert Llewelyn Jones (Chair) Councillor Trefor Lloyd Hughes (Vice-Chair) Councillors Jim Evans, John Griffith and Dafydd Rhys Thomas Lay Members: Mr Richard Barker, Mrs Sharon Warnes
IN ATTENDANCE:	Head of Function (Resources) and Section 151 Officer Audit Manager (JF) Accountancy Manager (TF) Head of Service (ET) Insurance and Risk Manager (JJ) (for item 10) Corporate Information Officer (HP) (for item 11) Programme and Business Planning Manager (GM) Committee Officer (ATH)
APOLOGIES:	Councillors Vaughan Hughes and P S Rogers
ALSO PRESENT:	Mr Barry Williams (Accountant), Mr Patrick Green (RSM Tenon), Mrs Lynn Pamment (PwC), Mr Ian Davies (PwC), Mr Andy Bruce, (WAO)

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1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES OF THE 5TH FEBRUARY, 2013 MEETING

The minutes of the previous meeting of the Audit Committee held on 5th February, 2013 were presented and confirmed as correct.

Arising thereon –

- With reference to the requested feedback by the Head of Service (Housing) regarding progress in addressing governance issues in relation to the Building Maintenance Unit, the Audit Manager informed the Committee that the head of Service (Housing) had confirmed that many of the issues that had arisen are being addressed via the Transformation Programme but notwithstanding she would be happy to attend the September meeting of the Audit Committee to provide Members with an update.

  It was agreed that the update on progress in addressing governance issues with regard to the BMU be deferred to the Committee's September meeting.

  Action Arising: Audit Manager to confirm with the Head of Service (Housing) the arrangements for reporting back to the 24 September meeting of the Audit Committee.

3 STATEMENT OF ACCOUNTS 2012/13 - MAJOR JUDGEMENTS AND ESTIMATES

A report by the Head of Function (Resources) setting out the key judgements and estimates in the 2012/13 Statement of Accounts was presented for the Committee's consideration and comment.

The Accountancy Manager confirmed that the Council's 2012/13 Draft Statement of Accounts was signed by the Section 151 Officer on 28th June, 2013 within the end of June statutory deadline and was published on the Council's website at the beginning of July. The formal audit of the accounting statements has now commenced. The Officer proceeded to say that the accounts which cover the period from 1 April, 2012 to 31 March, 2013 are large and complicated statements and are prepared at a point in time and as such, judgements need to be made in applying accounting policies and assumptions made about future and other major sources of estimation uncertainty.

The Officer explained that the purpose of the report is to provide greater clarity on those judgments and that the report should be read in conjunction with the full Statement of Accounts. The report provides Members of the Committee with an opportunity to ask questions on areas highlighted for consideration in preparation for the formal presentation of the accounts and the Appointed Auditor's Audit of Financial Statements Report to the Committee's September meeting. The Accountancy Manager referred to the following as some of the key areas and aspects for the Committee's focus –

- The explanatory foreword which links the out-turn back to the budget for the year and the in year monitoring
- The movement in reserves statement which summarises the reserves available to the Council, divided into usable and unusable categories and the movements on them during the year
- Provisions which cover the sums of money set aside for known and probable events
- Judgemental decisions and estimation uncertainties. These are summarised and explained at Notes 3 and 4 of the Statement of accounts and are reproduced as Appendices C and CH to the report.

Members considered the report and in the ensuing full discussion of the information presented they sought further explanation and clarification of the following matters –

- The obligations to the Council in meeting its liabilities under Municipal's Mutual Insurance's Scheme of Arrangement with its creditors, the extent of its liabilities in this respect and the timescale.
- Whether the reserve created by landfill cost savings as a result of diverting waste to recycling might be available for use other than in connection with recycling initiatives.
- The position with regard to Council Fund Services and the reasons, impact and implications of over or underspending on specific services.
- Whether year end savings achieved in Education and Social Services budgets were fortuitous or due to a planned long-term strategy.
- The position with regard to the pension fund and the £18.4m increase in the net pension liability during 2012/13 from £63.7m to £83.1m and the implications thereof. Members were of the view that it would be helpful to them to better understand the sometimes significant year on year movements in the net pension liability figure and the reasons for these variances were they to receive a presentation by a representative of the Gwynedd Local Government Pension Fund.
- The position with regard to school balances and specifically those schools in a position of deficit and the actions planned to address the situation. The importance of having in place a system of alerts to highlight potential problems early was emphasised as well as learning from experience and putting in place preventative measures/controls to seek to ensure that schools do not enter a situation of negative balance in the first place and that the situation of those in negative balance does not deteriorate.
- A reported significant slippage in spending on the 3 Towns scheme and the reasons for that slippage. A request was made for Members of the Committee to be provided with an analysis of the grant funding for this regeneration scheme.
- The rationale for carrying a balance of £2m in the Insurance Fund when claims against the fund are low and when it could be better used elsewhere. It was suggested that as the value of meeting a potential liability might well exceed £2m thereby encroaching on general reserves, the sum could just as well be retained in general reserves in the first place.
- A request was made for further information to be provided to the Committee's September meeting regarding the plans to manage the larger budgets and the services in which savings are likely or are projected to be realised so that Members can link the budget, overspend

and service response. It was pointed out that as the Audit Committee has a responsibility not only to scrutinise results but also to consider the impact of changes in expenditure, it requires contextual information in relation to risk assessment – particularly with regard to sensitive areas - and the possible consequence of shifts in spending,

The Officers responded to the specific points of inquiry raised by providing further information for the Members. The Head of Function (Resources) confirmed that all elements of revenue expenditure will be scrutinised over the coming months and that as part of the budget setting process options will be considered with the Executive and Council and budget management/savings plans will be shared with members in a planned workshop. As part of the process of identifying savings services will be asked to clarify the impact on delivery. The Accountancy Manager commented with regard to the provisional revenue outturn for 2012/13 that the turnaround in the position between the third and fourth quarters and the savings achieved have to be considered in terms of what they mean in relation to the Council's underlying financial position in strengthening that position as regards providing the Council with more options than at first projected and the opportunity to consider alternatives.

It was resolved to accept the report and to note the key items highlighted along with the points of discussion arising.

ACTIONS ARISING:

- **Head of Function (Resources) to invite a representative of the Gwynedd Local Government Pension Fund along with Councillor H.Eifion Jones as this Authority's representative on the Fund Committee to address the next meeting of the Audit Committee on the performance of the Pension Fund and any issues arising therefrom.**
- **Head of Function (Resources) to provide Members of the Committee with an analysis of the grant funding for the 3 Towns Regeneration Scheme.**

4 DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13

A report by the Deputy Chief Executive incorporating the draft Annual Governance Statement (AGS) for the 2012/13 financial year was presented for the Committee's consideration and comment along with a Governance Action Plan for 2013/14 which set out the principal governance issues requiring attention in the coming year. The Committee was informed that the current draft of the AGS as presented is still at consultation and challenge stage and will go on to Officers and Members for comment before a definitive version is brought back to the Audit Committee for approval at its September meeting.

Taking into consideration observations made by Mr Andy Bruce regarding the WAO's evaluation of the Authority's AGS (refer to item 5) the Head of Service proceeded to provide the Members a visual presentation which highlighted some of the challenges in formulating the 2012/13 AGS as the Authority emerged from a period of intervention in terms of managing the changes and addressing issues in the way of an existing fragmentary governance framework parts of which may have been developed several times over the course of intervention meaning that they are not necessarily linked to the Council's vision; multiple viewpoints; the lack of a system to evaluate effectiveness and time limitations. Consequently recommendations have been formulated not only with regard to strengthening the Authority's corporate governance but also with regard to improving working practices in terms of collating information, broadening the governance framework and streamlining self- assessments. An officer workgroup has been established to facilitate this process. The Head of Service referred to the expectations on the Audit Committee in relation to its oversight responsibilities and its duty to obtain assurance regarding the robustness of the Authority's Governance framework and arrangements and to monitor progress against the Governance Action Plan.

Members were given the opportunity to question the officer on the contents of the AGS and whether its description of the governance arrangements provides sufficient and accurate coverage of those arrangements and whether in its conclusions on significant governance issues it strikes the key notes. Members raised certain points of clarification on the Statement and whilst they accepted the AGS as a reflection of the governance arrangements in place at the time they noted that it could be more specific in places particularly in terms of monitoring performance and in terms of setting out targets that are clearly defined and which thus demonstrate a resoluteness to improve on the previous year's performance. Members were also keen to know whether the Action Plan would be translated into specific timescales and outputs on the basis that it would be easier for the Audit Committee to monitor progress if it knew what the projected outcomes are and the timeframe for their achievement.

It was resolved to note the draft Annual Governance Statement for 2012/13 along with the comments made in respect of better defining targets within the Statement.

ACTION ARISING: Deputy Chief Executive to provide the Audit Committee with regular updates on the Governance Action Plan.

5 EXTERNAL AUDIT REVIEW OF LOCAL GOVERNANCE 2013

The External Audit report in respect of the Local Authority's Review of Governance was presented for the Committee's information. The report set out the scope of the WAO study, the overall conclusion along with a more detailed evaluation of the range, robustness and thoroughness of the Authority's review of governance and its recognition of areas in need of improvement and plans for addressing them.

Mr Andy Bruce, WAO informed the Committee that the External Audit study had concluded that whilst the Council's review of governance is developing and is based on firm principles, the arrangements need to be broadened to provide further assurance on the Council's vision and outcomes for the public. The Council's review of governance arrangements provides a level of assurance but there is scope to evaluate the effectiveness of its controls. The Officer said that most significantly, the Council has identified important issues from its governance arrangements and is taking positive steps to improve its arrangements. The results from all Council reviews of governance will be collated and then developed into a national report identifying common trends and themes.

It was resolved to note the WAO report on the Authority's review of governance and to thank the Officer for the feedback.

NO FURTHER ACTION ARISING

6 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE

The WAO update on the status of current and planned work (both national and Anglesey specific) under the Performance Work Programme was presented and noted for information purposes.

NO FURTHER ACTION ARISING

7 EXTERNAL AUDIT - PROGRESS ON FINANCIAL AUDIT

The External Audit financial audit progress report was presented for the Committee's information.

Mrs Lynn Pamment, Engagement Partner PwC informed Members that the purpose of the report is to provide management and the Audit Committee with an update on the financial audit's progress against the final key milestones set out in the 2012/13 Financial Audit Outline and in respect of grant certification work.

The Officer referred to the following aspects of the financial audit position statement with progress to date -

- The schedule and status of the financial audit work around the audit of the 2012/13 Statement of Accounts leading to the delivery of the Audit opinion and completion certificate.

- The position with regard to the completion of the 2011/12 Statement of Accounts following the receipt of a number of objections to the accounts by a local elector which required further information and investigation. The outstanding issues with regard to this matter have now been concluded. Prior to issuing a completion certificate, certain significant estimates in the accounts were revisited in order to obtain assurance that in light of any subsequent events or information the estimates were not materially misstated. The Officer confirmed that the completion certificate had now been issued by the Appointed Auditor.
- All 2011/12 grant claims have now been certified with the exception of the Housing Benefit grant which is in its final technical review phase.
- With regard to 2012/13 grant claims fieldwork has commenced on the Communities First and Housing Benefit claims.

It was resolved to accept the report and to note its contents.

NO FURTHER ACTION ARISING

8 EXTERNAL AUDIT - ANNUAL FINANCIAL AUDIT OUTLINE

The Annual Financial Audit Outline for the 2012/13 audit year was re-presented for the Committee's information. The report set out the approach to the audit of the financial statements; the main operational and financial risks faced by the Authority which could affect the audit; the role of External Audit in evaluating the Authority's arrangement for securing economy efficiency and effectiveness in the use of resources along with the proposed audit fee.

The Chair referred to recruitment as a risk area with regard to accounts preparation in terms of filling positions permanently in the Finance team and he suggested that perhaps the Audit Committee has a role in promoting the Finance Service as a career pathway with the local secondary school population and in encouraging apprenticeships in Finance.

It was resolved to accept the report for information purposes.

NO FURTHER ACTION ARISING.

9 EXTERNAL AUDIT - CERTIFICATION OF GRANTS AND RETURNS 2011/12

The External Audit report in respect of the certification of grants and returns for the 2011/12 financial year was presented for the Committee's information. The report provided a summary of the number of grant claims and financial returns certified and the total value thereof; information about the number of unqualified claims as well as those claims requiring qualification or amendment and the reasons for the qualification/ amendment. Whilst the Authority was judged to have generally improved the arrangements in place for the production and submission of its 2011/12 grant claims, the auditor concluded that there is room for improvement and the report contains a total of 8 recommendations for the Authority to further improve performance in managing grant schemes and their associated claims. A detailed analysis of the grants certified, a schedule of amendments and qualifications, a table of recommendations and a synopsis of work remaining were provided at appendices 1 to 4 to the report.

Members considered the report and it was pointed out that some of the recommendations appear elementary and cover procedures which one would expect are carried out as a matter of course in managing and compiling grant clams. Mrs Lynn Pamment, Engagement Partner, PwC said that some of the areas noted as requiring improvement are common to other authorities as well, for example evidencing staff costs and providing supporting documentation for re-charges.

It was resolved to accept the report and to note its contents.

NO FURTHER ACTION ARISING.

10 RISK MANAGEMENT AND INSURANCE

A report by the Head of Function (Resources) on progress on implementing the Risk Management Framework along with a revised version of the Corporate Risk Register and an update on Insurance Claims was presented for the Committee's consideration.

The Head of Function (Resources) informed the Members that the report outlines the position with regard to embedding risk management arrangements across the Authority. Those arrangements continue to embed and it is recognised also that there are certain risks which require further officer clarification.

The Risk and Insurance Manager said that the Performance Review Group reviewed the Service Risk Registers and the Corporate Risk register on 2nd July, 2013. The Group's recommendations have been incorporated in the revised version of the Corporate Risk Register including its identification of the top four risks to the Council as outlined in the report. The Officer proceeded to refer to the Council's Insurance claims experience for the period from 1 April, 2007 to 31st March 2013 which is notable for the 40% increase in public liability claims received during 2012/13 and which is attributable to claims for damage to vehicles due to the condition of the Council's roads.

Members considered the report and they highlighted the following matters as points of discussion –

- The overstatement of reputational damage as a risk remains a feature of the revised Corporate Risk Register especially as its identification in relation to certain areas appears random and unnecessary and draws attention to what is a historical issue.
- That the Corporate Risk register appears overly busy which it was felt does not assist the Committee in its function of overseeing risk management within the Authority. It was pointed out that it was reported to the Committee in December 2012 that the Risk Register would be streamlined to provide coverage of the ten principal risk areas.
- A lack of information regarding expected outcomes with regard to managing the risk areas meaning that the register is input rather than output loaded.
- The reasons for the change in the top risks in the period since the previous update to the Audit Committee at its February, 2013 meeting. It was pointed out that whilst three of the five top level risks reported in February had fallen out of that category, there were now two new entries within the top four with no commentary to explain why.

The Insurance and Risk Manager explained that the Performance Review Group continues to consider reputational damage as a risk in several areas but will keep the position under review. The Senior Leadership Team did review the register and decided to retain the full register format rather than a streamlined version.

The Head of Function (Resources) said that the Corporate Risk Register in its current format is under development and it is recognised that it does not reflect outcomes and details about removing/mitigating risks. Over the coming months the register will be further developed to include information from the relevant officers. The Officer confirmed that the Performance Review Group has and does review the register and that there have been movements in and out but that she would from now on report those changes to the Audit Committee and why they have happened.

It was resolved to accept the report and accompanying Corporate Risk Register and note their contents.

ACTION ARISING: Head of Function (Resources) to report movements of risks within, and in and out of the Corporate Risk Register and reasons therefore to the Audit Committee.

11 INFORMATION MANAGEMENT AND DATA SECURITY

A report by the Audit Manager on current developments in relation to Information Management and data security with particular reference to an audit of the Council's arrangements for the processing of personal data carried out by the Information Commissioner's auditors during July, 2013 was presented for the Committee's consideration.

The Corporate Information Officer provided Members with a summary of the legislative background to information management and data security including the powers of the Information Commissioner and the financial penalties which can be imposed in cases of a breach of the Data Protection Act 1998. The Officer reported that significant control weaknesses with regard to the Council's arrangements for information management, information governance and data security have been identified in a number of regulatory reports and the Annual Improvement report this year also highlighted this area as a limiting factor in the Council's ability to improve. The Audit Committee has been kept informed of progress made in addressing these issues. Following breaches of the Data Protection Act 1998 by the Council, formal undertakings were made by the Council under the Act with the Information Commissioner Officer in January 2011 and January 2012. As a result, the Council agreed to the IC's Office undertaking a consensual audit of the Council's arrangements for processing personal data. The fieldwork for the audit was carried out in the first week of July. The resultant report of the ICO's auditors is likely to re-iterate and possibly add to the recommendations made in previous regulatory reports. However, the Council's readiness to report to the Information Commissioner on these matters along with its reporting systems allowing for the prompt review of such occurrences and identification of appropriate steps to reduce the risk have been recognised by the IC's Office. The Officer informed the Committee that a project on information governance was initiated in anticipation of the Information Commissioner's then forthcoming audit covering the specific areas noted in the report and the project's work programme will include progressing the action plan that is expected for the Information Commissioner's consensual audit.

Members considered the report and were keen to obtain assurance that the necessary resources are available to address the matters that have been identified as requiring attention and to allow for that process to be completed speedily. Given that non- compliance with data protection has been highlighted as one of the Council's top risks the assumption is that significant funding will be allocated to this area. Members emphasised that having been prioritised, action on information management matters needs to be taken quickly and assurance given that the resources are in place and a timetable has been set that is expeditious. The Committee requested a further update at its September meeting.

The Audit Manager said that the Information Commissioner's final report is expected to be issued in September and that the Senior Leadership Team will determine the level of resources required and available for addressing the recommendations arising therefrom. It was suggested that the Information Commissioner's auditors be invited to address the September meeting of the Audit Committee on their perspective on the information management arrangements within the Council along with a representative of the SLT to provide a response to the report.

It was resolved to accept the report and to note its contents.

ACTION ARISING: Corporate Information Officer to invite the Information Commissioner's auditors to the September meeting of the Audit Committee along with a representative of the SLT to provide a response to the IC's report.

12 INTERNAL AUDIT - ANNUAL REPORT 2012/13

The Internal Audit Annual report for 2012/13 was presented for the Committee's information. The report provided a synopsis of the audit activity during the 2012/13 financial year including outputs in the form of audit reviews carried out; performance against internal targets, the overall audit conclusion on the areas audited and the level of risk to the Authority which that reflects as well specific areas which require further attention.

The Audit Manager highlighted the key points by way of a visual presentation as follows –

- In all 60 reviews (final and draft/nearing draft) were carried out during 2011/12 compared to 61 the previous year. The 60 reviews include thirteen unplanned final reports issued in 2012/13 which were undertaken for risk and/or compliance purposes or as the result of work relating to referrals.
- 81% of the 2012/13 audit plan was completed to draft in the year against a target of 90%
- The 53% of High and Medium recommendations implemented is below the target of 80%; however the percentage of High recommendations implemented is greater at 74%.Internal

Audit will carry out a review of outstanding recommendations and will again be working with services in 2013/14 to update the 4action system with the latest implementation data which it is hoped will show an improvement against target.

- The overall grades for both systems and schools review of a Green/Amber audit opinion translates to a low risk to the Authority based on the scope of the work carried out, the action recommended to management being implemented, and those systems continuing to operate as intended.
- Areas where significant weaknesses in control would prevent the Council placing reliance on the systems of internal control in respect of those systems reviewed during the year are noted below –

    - Business Continuity
    - Risk Management
    - Governance
    - Information Management

It was resolved to accept the Internal Audit Annual Report for 2012/13 and to note its contents.

NO FURTHER ACTION ARISING

13 INTERNAL AUDIT - IA STRATEGY AND PERIODIC PLAN 2012/15

The Internal Audit Strategic Plan for 2012/2015 and Periodic Plan for 2013/14 were presented for the Committee's consideration and comment.

The Audit Manager highlighted the key points by way of a visual presentation as follows –

- The audit approach is risk based and in order to identify the areas that require internal audit coverage, the risks facing the organisation need to be understood. A revised needs assessment has been undertaken for 2013/14 to 2014/15 using the processes and criteria set out under section 2 of the Plan.
- The Internal Audit Operational Plan outlines the internal audit coverage for the financial year and is documented under Appendix A to the report. The Plan is based on the Audit Needs Assessment and on the resources available to Internal Audit in the period.
- An analysis of the available resources in the Internal Audit service for 2013/14 (a total of 1444 days) is provided in Appendix B to the report. Based on these available resources and taking into account non chargeable days in relation to annual and sick leave, training, administration and committee work which activities are not directly involved with audit reviews, as well as days set aside for non-programmed work, the total number of internal audit days available for programmed internal audit work against the 2013/14 plan is therefore 686 days.

Members considered the report and questioned the officers on the adequacy of the resources available to internal audit to carry out the programmed work taking into consideration also the likelihood of the receipt of requests for reviews in areas not planned for. The process for funding reviews specifically requested by services as well as the possibility of bringing in additional resources to undertake non-programmed work was discussed.

In response to Members' enquiries about the adequacy of the resources to allow Internal Audit to undertake and fulfil what the service has planned for 2013/14, the Audit Manager said that the flexibility of reviews will be discussed with individual services. The Officer added that he was satisfied that Internal Audit can carry out 56 reviews with the current staff, and that he was of the view that the level of resources as at present is appropriate to be able to give assurance to management.

It was resolved to accept the IA Strategic Plan for 2012/15 and IA Operational Plan for 2013/14.

NO FURTHER ACTION ARISING

14 INTERNAL AUDIT - PROGRESS REPORT QUARTER 1 2013/14

A progress report on the work of Internal Audit for the first quarter of 2013/14 was presented for the Committee's consideration.

The Audit Manager highlighted the key points by way of a visual presentation as follows:

- Table 1 of the report shows the status of the reviews currently in progress and/or having been completed to final report in the period along with the overall audit opinion
- The main findings from the reports issued are set out in section 2 of the report.
- No Red Assurance audit reviews were issued. However the advisory review in relation to the Partnership Framework did identify gaps in arrangements particularly the absence of a formal Partnership Governance framework which is considered a significant risk.
- The percentage of the Audit Plan completed stands at 50% for the first quarter. This is expected due to the quarter commencing with the completion and issuing of eight final reports relating to the previous financial year and not included in the percentage target figure.
- The percentage of High and Medium categorised recommendations implemented is below target at 51%.Internal Audit has reviewed the reporting lines for implementation of recommendations and will be reporting back to the next Audit Committee on the results of this work. The intention is to raise the profile of recommendation implementation amongst senior managers and thus improve implementation rates.

It was resolved to accept the report and to note its contents.

NO FURTHER ACTION ARISING

15 ANNUAL TREASURY MANAGEMENT REVIEW 2012/13

The Annual Treasury Management Review report for 2012/13 was presented for the Committee's consideration.

The Accountancy Manager informed the Committee that treasury management activities in 2012/13 were in line with the strategy agreed on 5th March, 2012 in advance of the 2012/13 financial year. The strategy has operated successfully and the report sets out the results of that strategy in the form of borrowing and investment performance during the year. The report also makes reference to capital activity, the actual prudential and treasury indicators; interest rate movements, and detailed debt activity. The Officer elaborated on the Council's net borrowing position and its approach to borrowing which was undertaken for capital purposes only. The borrowing activity is constrained by prudential indicators for net borrowing and the CFR (Council's underlying borrowing need) and by the authorised limits. The 2012/13 financial year continued the challenging investment environment of previous years in the form of low investment returns and continued heightened counterparty risks. It was confirmed that no institutions in which the Authority had made investments had any difficulty in repaying investments and interest on time and in full during the year.

Members considered the report and they indicated that they would wish to see a continuation of a risk averse approach to investment.

It was resolved to accept the Treasury Management Review Report for 2012/13 and to forward it to the County Council.

NO FURTHER ACTION ARISING

16 AUDIT COMMITTEE DATES OF MEETINGS FOR 2013/14

The Audit Committee's dates of meetings for 2013/14 were presented and noted for information purposes.

Councillor R.Ll.Jones
(Chair)

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	24 SEPTEMBER 2013
TITLE OF REPORT:	FINAL ACCOUNTS 2012/13
PURPOSE OF REPORT:	COVERING REPORT FOR PRESENTATION OF FINALISED STATEMENT OF ACCOUNTS, COMMENTING ON THE MAIN ISSUES ARISING FROM THE AUDIT OF THE ACCOUNTS
REPORT BY:	HEAD OF FUNCTION (RESOURCES)
ACTION:	TO RECOMMEND ACCEPTANCE OF THE STATEMENT

1. BACKGROUND

1.1 The County Council's draft accounts for 2012/13 were presented for audit on 28 June 2013. The detailed audit work is now substantially complete and the Auditor's Report has been issued. A number of amendments to the draft have been incorporated into the Accounts. Subject to the County Council's confirmation, the accounts will be signed by the Head of Function (Resources), the Council's Section 151 Officer, and will be published following receipt of the Auditor's opinion.

2. QUALITY OF PROCESS

2.1 I am pleased to say that 2012/13 is the second consecutive year in which the statutory deadline for completion of the audited accounts has been met.

2.2 I am also pleased to recognise the improvements in the audit process identified last year have continued and that all the issues that have arisen throughout the audit were dealt with promptly and in a satisfactory manner.

3. AMENDMENTS TO THE ACCOUNTS

3.1 The details of the main amendments to the draft accounts are as set out in Appendix 3 to the Auditor's Report and so will not be listed again here. There may be minor corrections of narrative and consistency to be applied again before the accounts are signed.

3.2 The significant amendments required to the draft statements have been largely confined to:

- Changes to the Balance Sheet in respect of movements in the valuations of fixed assets.
- Changes to the analysis contained within the Comprehensive Income and Expenditure Statement to adjust for compensating errors in both income and expenditure.
- Changes to the levels of reserves and provisions to reflect revised requirements following audit, particularly in respect of the Penhesgyn landfill site, where a transfer has been made between reserves and provisions to comply with advice from the Welsh Audit Office concerning after-care costs of this type of facility.

4. LATE CHANGES AND ADDITIONAL INFORMATION

4.1 The Statement of Accounts brings together a number of items of information which are the responsibility of a third party but which impact on the Council's financial position. We draw areas of concern to the attention of this Committee. This year, I wish to draw the Committee's attention to the position of the Gwynedd Pension Fund. Each year the Council includes an estimate of the Council's pension liability based on figures provided by the actuary appointed by Gwynedd Pension Fund. The audit of the Pension Fund accounts has brought to light discrepancies between the number of active and deferred members within the scheme between February and August 2013, which might materially affect the value of the pensions liability within the 2012/13 accounts. Work is being progressed to determine if the potential change to the pensions liability is a material sum but Members should be aware that there is the potential for a delay to the issue of the final audit certificate for 2012/13 should this work not be completed within the statutory deadline for the closure of the accounts. A verbal update will be provided at the meeting.

5. ANNUAL CORPORATE GOVERNANCE STATEMENT 2012/13

5.1 The Statement of Accounts includes the Annual Governance Statement for 2012/13. The current Statement presented with this report is an updated version of the draft considered by the Audit Committee in July and incorporates the comments of the Audit Committee and those of officers and Members. The document has also been amended for regulators' reports relating to the relevant year. The main amendments from the draft considered in July are :

- to include reference to the WAO's report on Scrutiny;
- to include an outline of the Member governance arrangements;
- to include context in relation to assurance requirements;
- in response to the comments of officers and other consultees.

6. THE APPROVAL PROCESS

6.1 The responsibility for approval of the accounts now lies with the County Council. The responsibility for scrutinising the accounts remains with the Audit Committee. I am, therefore, recommending that the Audit Committee requests the County Council to approve the accounts on 26 September 2013.

7 3 TOWNS PROGRAMME

7.1 At the last meeting of the Audit Committee, Members requested further information on the 3 Towns Programme as the Statement of Accounts referred to slippage in spending within 2012/13. The total capital budget for the project is £8.25m, of which this Council's capital programme includes an overall budget of £6.85m. The balance of £1.4m relates to direct funding with Menter Môn. At the end of March 2013, total spending was almost £5.6m, with a split of the spending between the 3 towns as follows:

- Holyhead - £2.3m
- Llangefni - £1.8m
- Amlwch - £1.5m

This leaves a balance of £2.65m available to spend during the remaining life of the programme, which has been extended with the agreement of funding partners to 30 June 2014. This balance will be spent in the main on the Holyhead Townscape Heritage Scheme, which is designed to renovate properties in the town centre to bring them back into use and to reinstate and protect their unique architectural features.

8. RECOMMENDATION

8.1 It is proposed that the Audit Committee makes a recommendation to the County Council to confirm acceptance of the 2012/13 Statement of Accounts.

8.2 That the Audit Committee approves the Annual Governance Statement and refers the document to the Leader of the Council and the Chief Executive for signature.

CLARE WILLIAMS — **13 SEPTEMBER 2013**
HEAD OF FUNCTION (RESOURCES)

ISLE OF ANGLESEY COUNTY COUNCIL

STATEMENT OF ACCOUNTS 2012/13

CONTENTS

EXPLANATORY FOREWORD

1. INTRODUCTION

The Statement of Accounts for 2012/13 has been prepared using best accounting practice set down by the Chartered Institute of Public Finance and Accountancy (CIPFA). The foreword provides an understandable guide to the most significant matters reported in the Accounts and an overview of the Council's overall financial position.

The Council's Accounts for 2012/13 consist of the following;-

- **Statement of Responsibilities for the Statement of Accounts -** which sets out the respective responsibilities of the Council and the Council's Section 151 Officer, the Head of Function (Resources);

- **Annual Governance Statement** – this sets out the framework within which corporate governance is managed and reviewed, including arrangements for internal audit;

- **Financial Statements** – the Statement of Accounts includes four core financial statements which are:-

  a) **The Movement in Reserves Statement (MIRS)** – which shows the movement in the year of the different reserves held by the Council analysed between usable and unusable reserves;

  b) **The Comprehensive Income and Expenditure Statement (CIES)** – which shows the cost of providing services in the year using accepted accounting practices, rather than the amount to be funded from taxation and general grants in accordance with statutory regulation;

  c) **The Balance Sheet** – which sets out the financial position of the Council at 31 March 2013 as reflected in the level of balances and reserves at the Council's disposal and the level of assets and liabilities held by the Council;

  d) **The Cash Flow Statement** – which summarises the cash inflows and outflows during the year, arising from transactions with third parties for revenue and capital purposes.

- **Notes to the Financial Statements** – which are intended to explain the key figures shown in the financial statements. The notes include the Statement of Accounting Policies which supports and explains the basis of the figures in the Accounts and it sets out the significant accounting policies and estimation techniques used to prepare the Accounts.

2. STATUTORY FRAMEWORK

Regulation 7 of the Accounts and Audit (Wales) Regulations 2005 (SI 2005/368 (W.34), as amended) requires Welsh Local Authorities to prepare a Statement of Accounts in accordance with proper practices.

Regulation 25 of the Local Authorities (Capital Finance and Accounting) (Wales). Regulation 2003 (SI 2003/3239 (W.319), as amended), identifies proper practices for the preparation of the Statement of Accounts. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13 issued by CIPFA, supported by International Financial Reporting Standards (IFRS).

3. CHANGES IN ACCOUNTING TREATMENT

There are no changes to accounting treatment required for 2012/13 and consequently there are no changes to the accounting policies in use at the Council.

4. REVENUE EXPENDITURE AND INCOME 2012/13

What is Revenue Expenditure and Income?

Before the start of a financial year, the Council prepares its annual revenue budget, which reflects the expenditure and income expected to be needed during the year to provide services. Expenditure relates to running costs such as employee salaries and overheads, repair and maintenance, energy costs, rates and other costs of occupying Council buildings, the cost of running its vehicle fleet and the cost of supplies and services to support the Council's departments. Income relates to receipts from sales of good and fees and charges from the Council's service users and grants and contributions from the Welsh Government and other external bodies.

What we planned to spend

The revenue budget approved by Council for 2012/13 amounted to £119m, after including general grant of £0.729m and use of balances of £1.2m. This was funded by the Council's Revenue Support Grant from the Welsh Assembly of £73.544m, receipts from the National Non-Domestic Rates Pool of £18.787m and Council Tax receipts of £26.704m.

What we actually spent

a) Council Fund Services

The net revenue budget for 2012/13 was set at £119m, which incorporated spending reductions of £3.7m and required the use of £1.2m from reserves.

The Council's Executive Committee received a provisional out-turn report at its meeting of 10 June 2013, which showed a net underspend of £1.1m, against the Council's approved budget.

Generally the underspend has been achieved by

- A spending moratorium on certain types of expenditure in the latter part of the year;
- General restraints on spending by services in response to the forecast financial position of the Council;
- A series of significant budget variances across all service areas, details of which are provided in the following paragraphs;

Lifelong Learning

- An overspend of £0.358m in the Education Integration budget;
- Additional grant of £0.230m has been received to fund sixth form places;
- An underspend of the Youth Service of £0.093m;
- An improvement in the net cost of school meals service, which is £0.2m better than budget.

Community Services

- A net overspend of £0.303m in Children and Families. This due to increases in the number and costs of Looked After Children giving rise to an overspend of £0.663m and additional costs of agency staff of £0.160m. The overspend has been offset by savings of £0.532m from the cost of fostering and adoption £0.179m, Activities and Other Family Services £0.203m and the closure of the Queens Park Centre £0.150m.
- A net overspend of £0.381m in the Provider Unit due mainly to increases in the costs of residential homes, Telecare facilities and Sheltered Housing.
- A net overspend of £0.068m in Leisure and Community Services arising mainly from overspends in Parks and Outdoor facilities £0.097m, Archives £0.049m and Museums £0.065m. These overspends have been offset by a saving in the cost of operating leisure centres of £0.111m.

Sustainable Development

- A saving of £0.143m in the cost of Planning and the Environment service is due to the over-achievement of income streams within the service.
- A net surplus in the activities within Property Services of £0.180m arising from savings to the cleaning contract of £0.096m and other property activities of £0.074m.
- Savings of £0.254m in Highways and Transportation, due mainly to savings in Street Lighting costs of £0.191m and in the Works Administration Account of £0.102m.
- Savings of £0.270m in Waste Services, due to reductions in the net cost of managing the Penhesgyn Site of £0.198m and a small net saving of £0.072m in other waste services.

Deputy Chief Executive

- A saving of £0.254m in the operational cost of the Information Communication Technology Service due to staffing savings.

Corporate Risks

- Significant reduction in the cost of providing out of county Education and Social Services places which has resulted in savings of £0.149m and £0.333m respectively.
- A reduction in the cost of housing benefits of £0.183m due to a change in the expected level of subsidy to be received in respect of the 2011/12 financial year.

The overall improvement shown in the provisional out-turn position for 2012/13 meant that the forecasted use of earmarked reserves and general balances for the year of £1.2m would reduce to £0.092m. This position released resources, which will help the Council meet any potential funding shortfall arising from the current constraints on public sector finances.

Since the figures were reported to the Executive, the actual out-turn position has been finalised and a further improvement has been identified, with an increase in the general balance of £0.212m taking place, rather than a reduction of £0.092m as reported previously.

b) Housing Revenue Account

The Housing Revenue Account (HRA) identifies costs and income expended and received in respect of the Council's own housing stock. In 2012/13 the account successfully funded all operational expenditure and made capital contributions of £2m towards the long-term maintenance and upgrading of the stock, while retaining a working balance of £0.482m.

Further information on the HRA can be found in the Supplementary Statements to the Accounts on page 78.

Use of revenue reserves and balances

Council Fund

The 2012/13 budget assumed that £0.9m would be taken from the Council Fund balance to support services. At out-turn the balance on the Council Fund at 31 March 2013 increased by £0.114m from £5.796m to £5.910m. In year movements on the Council Fund can be found in Movement in Reserves Statement on page 12.

Earmarked Reserves

At 1 April 2012, the Council held earmarked reserves of £12.882m. The 2012/13 budget assumed that £0.3m would be taken from earmarked reserves to support the revenue budget. The improved out-turn position has led to a significant increase in the value of earmarked reserves, which now stand at £16.627m, an increase of £3.745m in the year. The improvement arises mainly from a technical change in the categorisation of £2.1m of ring-fenced grant income for Supporting People (previously shown in the accounts as receipts in advance), a net increase of £1.1m in other service reserves and the creation of a major repairs reserve of £0.860m within the Housing Revenue Account.

Schools Balances

School reserves are limited to the uses approved by the individual schools and the position varies from school to school. Ten schools had a deficit at the end of the financial year (fourteen at the end of the previous year) and a number of other schools are projecting deficits in future years.

During the year, net spending by schools reduced their reserves (in total) by £0.068m, so that the total value of schools reserves at 31 March 2013 stood at £1.18m (£1.25m 2011/12). Details of the breakdown of the value of the reserves by school type can be found in note 9 to the Accounts on page 38.

HRA balance

The HRA balance stood at £0.482m at 31 March 2013, an increase of £0.235m over the balance of £0.247m held at 31 March 2012, which is an acceptable level for the HRA balance.

CAPITAL EXPENDITURE 2012/13

What is Capital Expenditure?

Capital expenditure relates to the cost of providing or enhancing assets or other spending where the benefits last beyond the financial year in question.

What we planned to spend

The Council approved a capital programme of £32.274m for 2012/13, largely to meet the Council's commitment to bring its housing stock up to Welsh Housing Quality Standards (WHQS) and to implement major projects for the relocation of Ysgol y Bont, the 3 town's regeneration initiative and improvements to small holdings.

What we actually spent

The Executive considered a capital out-turn report at its meeting of 10 June 2013, which showed that the Council actually spent £25.4m on capital projects in 2012/13. Details of spending against individual project budgets are as follows:

Project	Budget for 2012/13 £000	Actual spend in 2012/13 £000	Variance in Year £000	Cumulative Spend £000	Total Project Budget £000
Ysgol y Bont, relocation	6,203	4,335	(1,868)	4,562	10,932
Housing Stock – WHQS	6,650	7,378	728	28,470	35,000
Other Council Housing projects	3,150	1,373	(1,777)	1,373	3,150
Council Fund Housing	2,315	1,088	(1,227)	1,088	2,315
3 Towns Regeneration	1,601	669	(932)	4,765	8,248
Coastal environment	502	538	36	4,718	4,590
Penhesgyn Civic Amenities Site	992	986	(6)	986	1,000
Small Holdings – improvements	(546)	1,043	1,589	3,489	6,300
Local Government Borrowing initiative	1,700	1,795	95	1,796	5,300
Strategic Infrastructure on Anglesey	150	0	(150)	0	2,013
Other	9,557	6,223	(3,334)	6,223	9,557
Total	**32,274**	**25,428**	**(6,846)**	**57,470**	**88,405**

Total capital spending of £25.428m was £6.846m less than the approved budget for the capital programme. The main reasons for the underspend are

- Construction of the new building at Ysgol y Bont is behind schedule due to delays brought about by bad weather. Completion is now expected in January 2014.
- Work on energy efficiency works in council housing is behind schedule and will slip into 2013/14 due to contractual delays with external suppliers.
- A delay in approving the Council's new renewal strategy, which only occurred towards the end of 2012, has resulted in significant slippage to the improvements grant programme.
- A time extension to the 3 Towns Scheme to 2014/15 has been agreed as a result of significant slippage in spending on the project.
- Improvements to small holdings show a significant overspend against budget. This is due to the fact that the programme is intended to be self financing and be funded from the sale of the properties. At the end of 2011/12, spending on the scheme exceeded income by £0.546m, leading to the negative budget position. It is expected that position will correct itself during 2013/14, when income is expected to far exceed works costs.
- The budget for Other Schemes included £0.9m for the 21st century schools programme which has been deferred until 2013/14.The remaining underspends relate to slippage on Highways schemes (£0.523m), Property Services (£0.676m) and other Departmental Schemes (£1.248m) to 2013/14.

How the capital programme was paid for

Funding for the Capital Programme is dependent on resources from grants, from anticipated capital receipts, and on a level of borrowing close to the level assumed by the Welsh Assembly when calculating revenue support.

A small number of projects have been approved for unsupported borrowing to be financed through budgets or new income sources. The most notable of these is the Housing WHQS project which has been part funded in this way since 2010.

	Council Fund £000	Housing Revenue Account £000	Total £000
Capital Expenditure	**16,677**	**8,751**	**25,428**
Grants and Contributions	8,518	2,600	11,118
Revenue Contributions	1,209	2,000	3,209
Capital Receipts	929	30	959
Supported Borrowing	3,084	0	3,084
Unsupported Borrowing	2,937	4,121	7,058
Total Financing	**16,677**	**8,751**	**25,428**
Resources available at 31 March 2013	1,000	0	1,000
Capital Expenditure Reserve	196	0	196
Leisure Improvement Reserve	2,901	0	2,901
Supported Borrowing carried forward	**4,097**	**0**	**4,097**
Total available			

Capital commitments outstanding at the year end were £6.8m. Capital reserves of £1m and an unused approved borrowing capacity of £2.9m, have been set aside to partially meet these commitments. It is anticipated that the remaining balance of the current capital commitments and the cost of new projects that are brought forward in future years will be financed from capital grants, receipts from projected asset sales and borrowing.

BORROWING AND INVESTMENTS

No loans matured during the year and no new long term borrowing was taken out as it was decided that utilising cash balances would be most beneficial approach in the current economic climate. This resulted in external borrowing at the year end of £96.1m, unchanged from the balance at 31 March 2012 resulting in an average external borrowing rate for 2012/13 of 5.53%, which was unchanged from 2011/12.

As a result of these transactions and changes in debtors, creditors and other items, there was a reduction in the total level of investments and cash on the balance sheet date of £3.8m to £12.4m by the year end, partly as a result of an increase in short term debtors.

BALANCE SHEET POSITION AT 31 MARCH 2013

During 2012/13, the Council's estimated net pension liability has risen by £16.3m to £80.0m (2011/12 £17.1m increase and a liability of £63.7m). This estimate is very dependent on the assumptions used and was mostly attributable to falling bond yields and poor investment returns. The projected pensions' expense for next year has also risen for the same reasons, reducing the expected rate of return on assets.

The increase in the pensions liability is the single largest factor affecting the movement in the Council's balance sheet with the Council's net worth reducing from £163.596m in 2011/12 to £150.461m by 31 March 2013.

SIGNIFICANT ITEMS

The best assessment of financial standing is the extent to which the Authority has made provisions for known liabilities and the amount of distributable reserves available to cover other risks and uncertainties. The Council has made full provision for all identified liabilities wherever proper accounting practice requires this. The circumstances that require specific provision to be made are shown in item 13 under Note 1 to the Statement. Earmarked reserves have been established where they are required to meet statutory or regulatory requirements, by grant conditions, by specific Council plans, or where it is prudent to do so to allow for risks and uncertainties. As set out above, the Council had originally planned to use £1.2m of balances to support spending in 2012/13, but the year-end position actually showed an increase in general balances of £0.114m to £5.9m, representing a significant strengthening of the Council's underlying financial position. While this would be welcome news at any time, it is particularly welcome at a time when the Council is both undertaking a programme of corporate transformation and planning to meet an increasingly challenging economic and financial situation.

Within the Earmarked Reserves of £16.6m (£12.9m at 31 March 2012), £2.7m (£2.0m at 31 March 2012) has been set aside for costs arising from the implementation of Single Status and Job Evaluation, although this does not represent an estimate of the actual liability. In addition, a further £9.4m is identified for specific purposes (e.g. the Insurance Fund of £2.4m) or ring-fenced by grant conditions. Schools balances stand at £1.2m (£1.3m at 31 March 2012) and the HRA balance at £0.48m, an increase of £0.23m in the year.

PENSIONS

- **TEACHERS PENSION SCHEME**

  Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by 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.

- **LOCAL GOVERNMENT PENSION SCHEME**

  As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits by participating in the Gwynedd Pension Fund administered by Gwynedd County Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. Benefits will not actually be payable until employees retire but the Council has a commitment to make the payments to the Pension Fund that need to be disclosed at the time that the employees earn their future entitlement.

  International Accounting Standard (IAS) 19 – Employee Benefits applies to all local authorities and relates to the Gwynedd Local Government Pension Fund administered by Gwynedd County Council. The net pension liability is recognised in the Balance Sheet and has increased by £16.3m from £63.7m to £80.0m during 2012/13. The Council's actual liability is reviewed every three years as part of the triennial valuation of the Pension Fund and an investment strategy is determined which aims to recover the deficit over a stated period (currently 25 years). However, it is important to note that this does not represent an immediate call on the Council's reserves as it is a notional amount which shows how much the Council's pension liabilities exceed its share of the Fund's assets.

  The Movement in Reserves Statement and the Comprehensive Income and Expenditure Statement shows the pensions benefits earned in the year, adjusted as necessary to reflect that part of the pensions costs that are not met from council taxpayers.

PROVISIONS

Total provisions held by the Council amounted to £6.438m at 1 April 2012. During the year the balance increased by £1.16m to £7.598m largely due to the requirement to provide an additional provision to meet liabilities in respect of after-care costs of the Penhesgyn landfill site, the MMI Scheme of Arrangement and to meet increased equal pay liabilities.

Details of the movements in provisions are shown in note 27 to the Accounts on page 51.

CONTINGENT LIABILITIES

A number of contingent liabilities are disclosed in the accounts in relation to issues where an event has taken place that gives the Council potential obligations whose existence will only be confirmed by the occurrence or otherwise of uncertain future events that are not wholly within the control of the Council. The value of these potential liabilities and the probability that a cash outflow to meet these obligations are both uncertain at this time. For 2012/13 the disclosures covered;

- Equal Pay, Single Status and Job Evaluation claims
- Recovery of charges made by the Council under Section 117 of the Mental Health Act 1983
- A potential contractual obligation arising from the renovation of Beaumaris Pier.

Full details of these contingent liabilities are provided in note 42 to the Accounts on page 69.

CONTINGENT ASSETS

The Council retains a number of legal charges over privately owned residential properties, where it provided support to the buyers under schemes for assisted home purchase, with the Council being entitled to a share of proceeds on the sale of the properties. Further details are provided in note 43 to the Accounts on page 70.

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Isle of Anglesey County Council's responsibilities

The Isle of Anglesey County Council is required to:

* make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Function (Resources) who is the designated Section 151 Officer.

* manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

* approve the statement of accounts.

The Section 151 Officer's responsibilities

The Section 151 Officer is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("The Code").

In preparing this statement of accounts, the Section 151 Officer has:

* selected suitable accounting policies and then applied them consistently.
* made judgements and estimates that were reasonable and prudent.
* complied with The IFRS Code of Practice.

The Section 151 Officer has also:

* kept proper records, which were up to date.
* taken reasonable steps for the prevention and detection of fraud and other irregularities.

<u>Certificate</u>

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Isle of Anglesey County Council at the accounting date and its income and expenditure for the year ended 31 March 2013.

Signed: ....

CLARE J. WILLIAMS
HEAD OF FUNCTION (RESOURCES) & SECTION 151 OFFICER

27 SEPTEMBER 2013

MOVEMENT IN RESERVES STATEMENT
FOR YEAR ENDED 31 MARCH 2013

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The ’Surplus/(Deficit) on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the Council Fund Balance for council tax setting purposes and the Housing Revenue Account for rent setting purposes. The 'Net Increase / (Decrease) before transfers to earmarked other reserves' line shows the in year movement on the Council Fund and Housing Revenue Account balances before any discretionary transfers to or from earmarked reserves are made by the Council.

	Council Fund Balance	Earmarked Council Fund Reserves (Note 8)	HRA Balance (Supplementary Financial Statements)	Capital Receipts Reserve (Note 10)	School Balances (Note 9)	Capital Grants Unapplied (Note 14)	HRA Earmarked Reserve	**Total Usable Reserves**	**Total Unusable Reserves**	**Total Reserves of the Council**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance 1 April 2011	**6,743**	**11,645**	**255**	**0**	**2,246**	**0**	**0**	**20,889**	**168,264**	**189,153**
Movement in reserves during the year										
(Deficit) on provision of services	(3,520)	0	(4,957)	0	0	0	0	**(8,477)**	**0**	**(8,477)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	**0**	**(17,080)**	**(17,080)**
Total Comprehensive Income and Expenditure	**(3,520)**	**0**	**(4,957)**	**0**	**0**	**0**	**0**	**(8,477)**	**(17,080)**	**(25,557)**
Adjustments between accounting basis and funding basis under regulations (note 7)	2,816	0	4,949	0	0	0	0	**7,765**	**(7,765)**	**0**
Net (Decrease) before Transfers to Earmarked Reserves	**(704)**	**0**	**(8)**	**0**	**0**	**0**	**0**	**(712)**	**(24,845)**	**(25,557)**
Transfers to/(from) Earmarked Reserves (note 8)	(243)	1,237	0	0	(994)	0	0	**0**	**0**	**0**
Increase/(Decrease) I n Year	**(947)**	**1,237**	**(8)**	**0**	**(994)**	**0**	**0**	**(712)**	**(24,845)**	**(25,557)**
Balance 31 March 2012	**5,796**	**12,882**	**247**	**0**	**1,252**	**0**	**0**	**20,177**	**143,419**	**163,596**
Movement in reserves during the year										
Surplus/(Deficit) on provision of services	6,135	0	(6,776)	0	0	0	0	**(641)**	**0**	**(641)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	**0**	**(12,494)**	**(12,494)**
Total Comprehensive Income and Expenditure	**6,135**	**0**	**(6,776)**	**0**	**0**	**0**	**0**	**(641)**	**(12,494)**	**(13,135)**
Adjustments between accounting basis and funding basis under regulations (note 7)	(3,360)	0	8,027	14	0	262	0	**4,943**	**(4,943)**	**0**
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**2,775**	**0**	**1,251**	**14**	**0**	**262**	**0**	**4,302**	**(17,437)**	**(13,135)**
Transfers to/(from) Earmarked Reserves	(2,661)	2,729	(1,016)	0	(68)	0	1,016	**0**	**0**	**0**
Increase/(Decrease) in Year	**114**	**2,729**	**235**	**14**	**(68)**	**262**	**1,016**	**4,302**	**(17,437)**	**(13,135)**
Balance 31 March 2013	**5,910**	**15,611**	**482**	**14**	**1,184**	**262**	**1,016**	**24,479**	**125,982**	**150,461**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
FOR YEAR ENDED 31 MARCH 2013

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

2012/13					2011/12		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
5,684	(5,405)	279	Central Services		5,719	(5,413)	306
8,344	(3,297)	5,047	Cultural and related services		8,154	(3,356)	4,798
67,857	(13,364)	54,493	Children and educational services		71,486	(12,720)	58,766
15,489	(4,832)	10,657	Highways and transport services		16,981	(4,374)	12,607
13,080	(13,172)	(92)	Council housing (HRA)		10,256	(12,426)	(2,170)
21,688	(20,140)	1,548	Other housing services		21,976	(19,525)	2,451
32,934	(13,587)	19,347	Adult social care		33,883	(11,590)	22,293
8,739	(3,446)	5,293	Planning and development		9,405	(3,510)	5,895
12,351	(3,045)	9,306	Environmental services		11,374	(3,173)	8,201
6,808	(1,395)	5,413	Corporate and democratic core		8,355	(1,284)	7,071
243	0	243	Non distributed costs		419	0	419
193,217	**(81,683)**	**111,534**	**Deficit on Continuing Operations**		**198,008**	**(77,371)**	**120,637**
		20,809	Other operating expenditure	12			19,660
		6,610	Financing and investment income and expenditure	13			4,392
		(138,312)	Taxation and non-specific grant Income	14			(136,212)
		641	**Deficit on Provision of Services**				**8,477**
		(6,124)	(Surplus) on revaluation of non current assets	15-16			(1,807)
		18,618	Actuarial Losses on pension assets / liabilities	41			18,887
		12,494	**Other Comprehensive Income and Expenditure**				**17,080**
		13,135	**Total Comprehensive Income and Expenditure**				**25,557**

BALANCE SHEET AS AT 31 MARCH 2013

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

	Note	31 March 2013 £000	31 March 2012 £000
Property, plant and equipment	15	303,537	299,444
Heritage assets	17	3,306	3,040
Investment property	18	7,991	8,379
Intangible assets	19	213	74
Long term investments	44	0	0
Long term debtors	24	433	450
Long Term Assets		**315,480**	**311,387**
Short term investments	44	10,101	5,058
Assets held for sale	21	196	180
Inventories	23	545	675
Short term debtors	24	25,798	22,363
Cash and cash equivalents	25	2,304	11,164
Current Assets		**38,944**	**39,440**
Short term borrowing	44	(8,447)	(1,946)
Short term creditors	26	(18,223)	(18,856)
Provisions	27	(4,184)	(4,296)
Capital Grants receipts in advance	37	(71)	(144)
Current Liabilities		**(30,925)**	**(25,242)**
Long term creditors	26	(0)	(4)
Provisions	27	(3,414)	(2,142)
Long term borrowing	44	(89,590)	(96,097)
Other long term liabilities	41	(80,034)	(63,746)
Long Term Liabilities		**(173,038)**	**(161,989)**
Net Assets		**150,461**	**163,596**
Usable reserves	8-10	24,479	20,177
Unusable reserves	11	125,982	143,419
Total Reserves		**150,461**	**163,596**

CASH FLOW STATEMENT – FOR YEAR ENDED 31 MARCH 2013

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

	Note	2012/13 £000	2011/12 £000
Net Surplus/(Deficit) on the provision of services		**(641)**	**(8,477)**
Adjustments to net surplus or deficit on the provision of services for non- cash movements	28	20,058	14,319
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	28	(12,166)	(10,976)
Net cash flows from operating activities		**7,251**	**(5,134)**
Net cash flows from investing activities	29	**(16,105)**	**13,347**
Net cash flows from financing activities	30	**(6)**	**(6,506)**
Net increase in cash and cash equivalents		**(8,860)**	**1,707**
Cash and cash equivalents at the beginning of the financial year	25	11,164	9,457
Cash and cash equivalents at the end of the financial year	25	**2,304**	**11,164**

NOTES TO THE ACCOUNTS

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES

This section discloses the specific accounting policies adopted by the Council for completion of the accounts.

Policy Reference	Policy Title
1	General Principles
2	Accruals of Income and Expenditure
3	Events After the Balance Sheet Date
4	Jointly Controlled Operations and Jointly Controlled Assets
5	Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors
6	Value Added Tax (VAT)
7	Property, Plant and Equipment
8	Investment Property
9	Intangible Assets
10	Inventories and Long Term Contracts
11	Cash and Cash Equivalents
12	Financial Instruments
13	Provisions, Contingent Liabilities and Contingent Assets
14	Reserves
15	Revenue Recognition
16	Internal Interest
17	Leases
18	Minimum Revenue Provision (MRP)
19	Grants Receivable
20	Revenue Expenditure Funded from Capital Under Statute (REFCUS)
21	Overheads and Support Services
22	Foreign Currency
23	Charges to Revenue for Non-Current Assets
24	Employee Benefits
25	Equal Pay, Single Status and Job Evaluation Claims

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2005 (as amended 2010), which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS).

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

All principal accounting policies have been applied consistently throughout the year.

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and bank deposits and payable on borrowings (including bank overdrafts) is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than necessarily the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that may not be collected.

3. Events after the Balance Sheet date

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

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

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

4. Jointly Controlled Operations and Jointly Controlled Assets

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

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

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Value Added Tax (VAT)

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

7. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located in cases where, in order to bring an asset into use, any relocation of the asset is required,

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

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

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

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

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

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value. 'Short Useful life' typically means 7 years or less, although it may be longer for specialist items of plant & equipment.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. In practice, the Council undertakes valuations of its assets based on a five-year rolling programme. Individual items within distinct classes of asset, e.g. primary schools, smallholdings, etc are valued in a single year, in order to ensure that all assets of any one type are revalued within a short period. In the years between valuations, reference is made to the relevant indices and adjustments made to valuations if there is any indication of material change. Increases in asset values are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, revaluation gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

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

Valuations are currently carried out at the start of the financial year. It is therefore necessary to review the valuations at the Balance Sheet date to determine if there have been any material changes during the year to the value of the assets. This is usually due to identifiable indexation increases that affect property values. As with formal valuations increases from indexation are reflected in the Balance Sheet by debiting fixed assets and crediting the Revaluation Reserve. However as these increases do not arise from formal property valuations, then the value of the increase arrived at through indexation is reversed from the Balance Sheet when formal revaluations of relevant assets takes place.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

Examples of events and changes in circumstances that indicate impairment may have incurred include:

- significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period, that is specific to the asset;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the Council to undertake a significant reorganisation; and
- a significant adverse change in the statutory or other regulatory environment in which the Council operates.

Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement;
- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation, that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over periods of up to 75 years, as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over 5 to 10 years, dependent on the initial value of the asset;
- infrastructure – straight-line allocation over periods of up to 45 years, dependant on the value of the asset.

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

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset (or disposal group) will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset (or disposal group) is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets (or a disposal group) no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

A ‘disposal group’ is a group of assets, possibly with some associated liabilities, which the Council intends to dispose of in a single transaction. The measurement basis required for non-current assets classified as held for sale is applied to the group as a whole, and any resulting loss reduces the carrying amount of the non-current assets in the disposal group in the order of allocation required by IAS 36.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is set aside to reduce the need to borrow and to match debt charges funded from housing subsidy. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Council Fund Balance in the Movement in Reserves Statement.

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

Heritage Assets

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the Council in pursuit of its overall objectives to the preserve the heritage of the Isle of Anglesey. Heritage Assets held by the Council include historical buildings and works of art.

Operational Heritage Assets (i.e. those that, in addition to being held for their heritage characteristics, are also used by the Council for other activities or to provide other services) are valued and accounted for as operational assets, in the same way as other assets of that general type (e.g. operational buildings). For completeness, information in respect of operational Heritage Assets, in addition to being incorporated into disclosures under the relevant operation heading(s) (e.g. Property, Plant and Equipment), is separately identified and disclosed together with those relating to other Heritage Assets.

Heritage Assets are valued on the basis which is most appropriate and relevant in respect of the individual asset or class of assets. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, Heritage Assets are measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). Where Heritage Assets are measured at valuation, then the carrying amount is measured with sufficient frequency to ensure that the valuations remain current, and at intervals of no greater than five years.

Where a Heritage Asset has a finite life, depreciation is provided for on the same bases as for other classes of asset (for detail see under ‘Property, Plant and Equipment’).

Depreciation is not provided on Heritage Assets which have indefinite lives.

The carrying amount of a Heritage Asset is reviewed where there is evidence of impairment; for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment is recognised on the same basis as for other classes of asset (for detail see under ‘Property, Plant and Equipment’).

The Council does not currently actively seek further acquisitions of Heritage Assets, but responds to opportunities to enhance its portfolio as they arise. The art collections are housed at Oriel Ynys Môn, with maintenance work being carried out as required. Parts of the collection are on display at any one time, while access to the remainder is available by arrangement. The Heritage Properties are managed and maintained, with due regard for their heritage characteristics, as part of the Council’s overall portfolio of land and buildings.

8. Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s-length. Properties are not depreciated but are revalued annually according to market conditions at the balance sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Council Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Council Fund Balance. The gains and losses are, therefore, reversed out of the Council Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

9. Intangible Assets

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

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

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

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

10. Inventories and Long Term Contracts

Inventories are included in the balance sheet at the lower of cost or net realisable value. The cost of inventories is assigned using the 'First In, First Out' (FIFO) costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Work in progress is included in the balance sheet at cost.

11. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

12. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are subsequently carried at their cost less accumulated amortisation. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the Council Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the Council Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured atamortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

13. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

14. Reserves

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

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

15. Revenue Recognition

The revenue recognition policy covers the sale of goods (produced by the Council for the purpose of sale or purchased for resale), the rendering of services (excluding services directly related to construction contracts), interest, royalties and dividends, non-exchange transactions (i.e. council tax) and where previously a liability had been recognised (i.e. creditor) on satisfying the revenue recognition criteria.

Revenue is recognised and measured at the fair value of the consideration receivable. However, if payment is on deferred terms, the consideration receivable is recognised initially at the cash price equivalent. The difference between this amount and the total payments received is recognised as interest revenue in the Surplus or Deficit on Provision of Services. Short duration receivables with no stated interest rate are measured at original invoice amount where the effect of discounting is immaterial. There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions i.e. revenue relating to council tax and general rates, and, therefore, these transactions are measured at their full amount receivable.

16. Internal Interest

The Council invests its cash balances in accordance with its Treasury Management and Investment Policies for periods up to 5 years and the interest is accrued and credited to the Council Fund. Interest is credited to trust funds and other third party funds based on the rate of interest earned by the Council. Some reserves receive interest by way of an appropriation calculated on the same basis.

17. Leases

The Council acting as a lessee

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. The Council does not hold any leases of this type and therefore the leases that the Council does hold are classified as operating leases.

Operating Leases

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

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

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

The Council as Lessor

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. The leases granted by the Council do not meet these conditions and are therefore all classified as operating leases.

Operating Leases

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

18. Minimum Revenue Provision (MRP)

The Local Government Act 2003 requires the Council to charge the Council Fund a provision for the redemption of debt. This is then reduced by the amount of depreciation charge already made to the Comprehensive Income and Expenditure Account to leave the net MRP chargeable to the Council Fund.

New regulations were issued by the Welsh Government in 2008/09 requiring local authorities in Wales to make a prudent provision for MRP, including an option to provide a MRP over the life of an asset. The policy also allows MRP to be deferred until the asset is commissioned.

The Council however, continues to calculate using the capital financing requirement methodology as follows:

- the Housing Revenue Account (HRA) provision is calculated as being 2% of the opening HRA Capital Financing Requirement (CFR).

- the Council Fund provision is based on 4% of the opening Non-HRA CFR up to 2007/08, in line with Regulations implemented under the Local Government Act 2003. Since 2007/08, MRP is based on the useful life of the asset.

An exception to this policy arises in respect of expenditure, which is subject to a capitalisation direction issued under Section 40(6) of the Local Government and Housing Act 1989. Any such expenditure will be amortised either in accordance with the above policy or over the number of years specified within the direction.

19. Grants Receivable

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

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

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

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

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

20. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

21. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Chartered Institute of Public Finance Accounting (CIPFA) Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

22. Foreign Currency

The Council has a number of grant aided schemes under the 'Interreg' programme where the lead body is an Irish Institution and grants are denominated in Euros. A Euro Bank account was opened to support these schemes and to limit the exposure to movements in exchange rates. The balance on this bank account at the year-end is converted at the spot exchange rate at 31 March with resulting gains or losses being recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

23. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are, therefore, replaced by the contribution in the Council Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Transactions in relation to investment properties are recorded against the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

24. Employee Benefits

Benefits Payable During Employment

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

The Council does not award long term employee benefits i.e. those which are not expected to be paid or settled within 12 months of the Balance Sheet date.

Termination Benefits

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

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

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by the Department for Education;

- The Local Government Pension Scheme administered by Gwynedd Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

Teachers' Pension Scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified to the Council. The scheme is, therefore, accounted for as if it was a defined contributions scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children and Educational Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers Pension Agency in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Gwynedd Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees;

- Liabilities are discounted to their value at current prices, using a real discount rate that is based on the indicative rate of return on UK Government bonds adjusted for an addition to the yield that reflects the extra risk involved in using AA Corporate Bond yields – known as the credit spread;

- The assets of Gwynedd Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

    - Quoted securities – current bid price;
    - Unquoted securities – professional estimate;
    - Property – market value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement;

- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services to the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- actuarial gains and losses – changes on the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited / (credited) to the Pensions Reserve;

- contributions paid to the Gwynedd Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any employee (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

25. Equal Pay, Single Status and Job Evaluation Claims

The Council is the subject of equal pay, single status and job evaluation claims from current and former employees which it intends to defend. However, the Council has prudently set up both a reserve and a provision to meet the costs arising from these potential liabilities. The Statement of Accounts therefore does not currently reflect the actual value of the claims but rather an estimate of the financial liability which will arise from them.

NOTE 2 – ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

Changes to the following accounting standards have been issued but not yet adopted;

- IAS 1 – amendments to the Presentation of Financial Statements (other comprehensive income) issued in June 2011.
- IFRS 7 – amendments to Financial Instruments: Disclosures (offsetting financial assets and liabilities) issued in December 2011.
- IAS 12 – amendments to Income Taxes (deferred tax; recovery of underlying assets) issued in December 2010.
- IAS 19 – Employee benefits issued in June 2011.
- IFRS 13 - Fair value Measurement issued in May 2011.

These changes will only apply from financial year 2013/14 and details of the disclosures required will be included in the Accounting Code of Practice for that year.

This note however also sets out the position on the accounts had the new standards already been in force. The only material impact relates to the way that pension and termination costs are reflected in the Council's Accounts.

- The IAS19 requirements will change the way in which the interest costs on the net pension liability are shown. At present, the Financing and Investment Income line within the Comprehensive Income and Expenditure Statement is credited with an expected return on assets based on an actuary's assessment of the likely long-term returns the Pension Fund will achieve on its assets held on behalf of the Council. This is based on achieving different returns for different classes of assets (shares, bonds, property etc.). In 2012/13 the return on assets was valued at £9.424m

  Following adoption of the new standard this will be replaced by a calculation of interest on assets held based on the presumption that the long-term return on assets will be calculated solely on yields from corporate bonds at the time the Accounts are prepared. The project return on assets using the new standard for 2013/14 is £8.632m, a reduction of £0.792m over the return on assets contained within the Comprehensive Income and Expenditure Statement for 2012/13. The value of the Financing and Investment Income line would therefore reduce by £0.792m resulting in increases of the same value to the reported deficit on the provision of services and the total deficit on the Comprehensive Income and Expenditure Statement.

  However, interest costs on the net pension liability form part of the statutory adjustments to the Accounts and therefore there is no impact to the level of balances held by the Council Fund or to the balance sheet.

- The other change resulting from the introduction of IAS19 relates to the point at which the Council recognises termination benefits. Under the new standard, recognition takes place when the Council cannot withdraw an offer. This generally matches the current recognition practices at the Council so there will be no material changes arising from the implementation of this standard.

NOTE 3 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- The Accounts have been prepared on a going concern basis, which assumes that the functions and services provided by the Council will continue in operational existence for the foreseeable future.
- The Council has determined that a number of assets which are used for social or economic development purposes are not solely held for income generation or capital appreciation purposes and therefore do not meet the definition of investment properties. As a consequence these assets are shown as Property, Plant and Equipment within the Balance Sheet.
- In accordance with current guidance regarding the treatment of certain types of school, only the value of the land for voluntary controlled and foundation schools is included in the Balance Sheet. As the Council does not own these types of school and does not have access to them for valuation purposes, the value of the buildings is excluded from the Balance Sheet.
- Capital and grants are reviewed regularly to assess if the terms and conditions attached to the respective grants have been met. If the terms and conditions have been met they will be recognised within the Comprehensive Income and Expenditure Statement in the year. If not, they will be carried within the balance sheet as deferred income until such time as either the terms and conditions associated with the grant are met or the grant is repaid to the grant provider should the terms and conditions not be met. This treatment can result in material balances being carried in the balance sheet as deferred income in the year.
- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

NOTE 4 – ASSUMPTIONS MADE ABOUT FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

The following items in the Council's Balance Sheet at 31 March 2013 may be considered to be most vulnerable for estimating error in the forthcoming financial year:

Property, Plant and Equipment – Assets are depreciated over useful lives in accordance with standard accounting practices. Any difference between the depreciation applied and actual deterioration to assets will naturally reflect in future spending patterns. Information relating to Property, Plant and Equipment is contained in Note 15 on page 43.

The accounting policy for the depreciation of Property, Plant and Equipment (page 18) identifies that:

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

Applying this in practice requires two judgements to be made, to establish:

- the proportion of the cost of an asset which is considered to represent a significant part of the asset, and

- the cost threshold, below which the separate calculation of depreciation on part of an asset would not have a significant effect on the amount of depreciation as a whole.

The Council has set these figures at 20% of the total cost of the asset and £2m respectively. As is stated above in respect of depreciation in general, physical deterioration of the individual parts of an asset may, over time, lead to spending patterns which have not been fully reflected in the levels of depreciation previously provided for.

Council Housing - The Council's Housing stock is valued under a standard methodology, part of which requires the application of an adjustment factor to allow for the difference between rents and yields on private sector and social housing. There is currently no published adjustment factor for Wales, and so the Council has selected the most comparable of the English regions and applied the published factor for that, which was 31%. Should a specific factor be published, either for Wales as a whole, or on a regional basis, then this will be applied. Each 1% of any resulting change would increase or decrease the reported value of the stock by approximately £3.4m.

Provisions –The Council has made provision for a series of uncertainties which could result in significant costs in later years. These principally relate to equal pay, after-care costs for the Penhesgyn landfill site, prospective termination benefits for staff leaving the Council and possible liabilities arising from insurance liabilities. Full details are contained in Note 27. A change in the anticipated value of settlements for legal claims by 10% would increase or decrease the expected value of the liability by approximately £0.4m.

Pensions Liability – The Pension Liability position as contained within the accounts is based on a number of complex assessments and judgments as provided by actuaries engaged by the administering Council. Further details are contained in Notes 40 and 41 on page 65.

Doubtful Debts Impairment/Allowance – A certain impairment level of doubtful debts is contained within the accounts, which is based on a specific policy. Any departure between the impairment level applied and the actual arrears position will naturally reflect in future spending patterns. Doubtful Debts impairments are contained within the figures for Short Term Debtors contained in Note 24 on page 49.

NOTE 5 – MATERIAL ITEMS OF INCOME AND EXPENSE

There are no material items of income or expenditure that have not been disclosed elsewhere in the accounts.

NOTE 6 – EVENTS AFTER BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Council's Section 151 Officer on 27 September 2013.

Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

NOTE 7 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

2012/13	Usable Reserves				Movement In Unusable Reserves
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and amortisation of non current assets	7,626	5,324	0	0	(12,950)
Revaluation losses / (gains) on Property, Plant and Equipment	1,031	0	0	0	(1,031)
Movements in the market value of Investment Properties	91	0	0	0	(91)
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(8,780)	(2,600)	0	262	11,118
Revenue expenditure funded from capital under statute	2,197	0	0	0	(2,197)
Carrying amount of non current assets sold	2,972	8,184	0	0	(11,156)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Minimum Revenue Provision For Capital Funding	(3,523)	(782)	0	0	4,305
Capital expenditure charged against the Council Fund and HRA balances	(1,209)	(2,000)	0	0	3,209
Adjustments involving the Capital Receipts Reserve:					
Proceeds From Sale of Non Current Assets	(929)	(119)	1,048	0	0
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(959)	0	959
Other Capital Receipts	(14)	0	14	0	0
Capital Receipts Reserve set aside to repay debt	0	0	(89)	0	89
Adjustments involving the Financial Instruments Adjustment Account:					
Amounts 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	104	31	0	0	(135)
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	6,072	0	0	0	(6,072)
Employer's pensions contributions and direct payments to pensioners payable in the year	(8,402)	0	0	0	8,402
Adjustment involving the Accumulating Compensated Absences Adjustment Account					
Adjustments in relation to Short-term compensated absences	(596)	(11)	0	0	607
Total Adjustments	**(3,360)**	**8,027**	**14**	**262**	**(4,943)**

2011/12 (Comparative)	Usable Reserves Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and amortisation of non current assets	7,819	2,760	0	(10,579)
Revaluation losses / (gains) on Property, Plant and Equipment	1,376	0	0	(1,376)
Movements in the market value of Investment Properties	(395)	0	0	395
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(7,359)	(2,623)	0	9,982
Revenue expenditure funded from capital under statute	3,811	0	0	(3,811)
Carrying amount of non current assets sold	1,512	8,720	0	(10,232)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Minimum Revenue Provision For Capital Funding	(3,272)	(603)	0	3,875
Capital expenditure charged against the Council Fund and HRA balances	(445)	(3,200)	0	3,645
Adjustments involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(944)	944
Proceeds From Sale of Non Current Assets	(855)	(139)	994	0
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals	0	5	(5)	0
Other Capital Receipts	(53)	(19)	72	0
Capital Receipts Reserve set aside to repay debt	0	0	(117)	117
Adjustments involving the Financial Instruments Adjustment Account:				
Amounts 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	107	28	0	(135)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	6,544	115	0	(6,659)
Employer's pensions contributions and direct payments to pensioners payable in the year	(8,256)	(115)	0	8,371
Adjustment involving the Unequal Pay Back Pay Adjustment Account:				
Amounts by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	1,935	0	0	(1,935)
Adjustment involving the Accumulating Compensated Absences Adjustment Account				
Adjustments in relation to Short-term compensated absences	347	20	0	(367)
Total Adjustments	**2,816**	**4,949**	**0**	**(7,765)**

NOTE 8 – EARMARKED RESERVES

	Balance as at 01 April 2011 £000	Transfers In 2011/12 £000	Transfers Out 2011/12 £000	Balance as at 31 March 2012 £000	Transfers In 2012/13 £000	Transfers Out 2012/13 £000	Balance as at 31 March 2013 £000
Capital Expenditure	988	478	(466)	1,000	1,209	(1,209)	1,000
Penhesgyn Waste Landfill Site Reserve	886	0	0	886	0	(886)	0
Service Reserves	1,918	1,115	(1,526)	1,507	1,540	(1,156)	1,891
Restricted Services	1,333	827	(379)	1,781	4,037	(754)	5,064
Equal Pay, Single Status and Job Evaluation	1,222	776	(32)	1,966	701	0	2,667
Recycling	1,161	312	0	1,473	302	(986)	789
Performance Management Reserve	1,170	196	(312)	1,054	412	(26)	1,440
Major Repairs Reserve (HRA)	0	0	0	0	860	0	860
Insurance Fund	2,145	417	(33)	2,529	0	(178)	2,351
Other	822	110	(246)	686	0	(121)	565
Total	**11,645**	**4,231**	**(2,994)**	**12,882**	**9,061**	**(5,316)**	**16,627**

Purpose of Earmarked Revenue Reserves

Capital Expenditure - to fund capital expenditure in future years. This has been created to ensure committed capital expenditure, including expenditure which has slipped from previous years, is fully financed.

Penhesgyn Waste Landfill Site Reserve - This reserve was created from the net cash assets, less winding up and capping costs, of Cwmni Gwastraff Môn-Arfon Cyf which is in the process of being wound up. The reserve has been transferred in the year to provisions to meet future after-care liabilities for the site.

Service Reserves - under the Council's Financial Procedure Rules over and under-spending is carried forward as earmarked reserves to the level set by the Executive.

Restricted Service Reserves - earmarked budgets within service areas which remain unspent at year end.

Equal Pay, Single Status and Job Evaluation - As a result of the 'Single Status' agreement, the Council, in common with most other local authorities, is required to introduce a new pay and grading system with effect from 1 April 2007. The extent to which this may involve an obligation to back pay is uncertain. Negotiations are proceeding on a revised pay and grading structure. A sum has been set aside in the Job Evaluation reserve towards the overall cost of the exercise, including the administrative costs, the cost of new pay scales, any pay protection and any back pay. Although the individual elements cannot be estimated with certainty, the Council is of the view that the sums set aside are adequate.

Recycling - landfill cost savings created by diverting waste to recycling. The reserve will be utilised towards recycling initiatives.

Performance Management Reserve - amounts earmarked towards performance improvement measures from the Outcome Agreement Grant.

Major Repairs Reserve – amounts set aside from HRA balances to fund capital spending on council housing.

Insurance Fund - The Council runs an internal insurance account which pays for self insured losses and which receives 'premiums' from service accounts. The known losses at year end are provided for. This reserve is the surplus on the internal insurance account plus interest on balances and is intended to cover claims which have been incurred but have not been reported.

Other - This balance comprises the aggregation of the balances of 7 individual reserves, which individually hold balances of less than £0.5m, which are not considered to be material amounts.

NOTE 9 – SCHOOLS BALANCES

These balances are reserved for each school's use in pursuance of its educational objectives.

	Balance 01 April 2011 £000	Addition / (Reduction) for 2011/12 £000	Balance 31 March 2012 £000	Addition / (Reduction) for 2012/13 £000	Balance 31 March 2013 £000
Community and Voluntary Primary Schools	975	(309)	666	180	846
Community Secondary Schools	1,013	(629)	384	(224)	160
Community Special School	149	(59)	90	(62)	28
Foundation Primary School	109	3	112	38	150
	2,246	**(994)**	**1,252**	**(68)**	**1,184**

At 31 March 2013 all schools had balances in surplus apart from 8 primary schools (12 as at 31 March 2012) and 2 secondary schools (2 as at 31 March 2012) which had a combined deficit of £0.994m (£0.839m as at 31 March 2012). Copies of the Section 52 Statements which each Council is required to prepare after the end of each financial year under Section 52(2) of the School Standards and Framework Act 1998, can be obtained from the Finance Department.

NOTE 10 – CAPITAL RECEIPTS RESERVE

These are cash receipts from the sale of Council assets, which have not yet been used to finance capital expenditure. From April 2004, all receipts are usable, although some of the HRA receipts are set aside on a voluntary basis to repay debt, in order to match the subsidy on the HRA. The amounts set aside were transferred to the Capital Adjustment Account

	2012/13 £000	2011/12 £000
Balance 1 April	0	0
Capital Receipts in year (net of reduction for administration costs)	1,062	1,061
	1,062	**1,061**
Less:		
Receipts set aside to repay debt	(89)	(117)
Capital Receipts used for financing	(959)	(944)
Balance 31 March	**14**	**0**

NOTE 11 – UNUSABLE RESERVES

	31 March 2013 £000	31 March 2012 £000
Capital Adjustment Account	172,400	179,315
Financial Instruments Adjustment Account	140	275
Revaluation Reserve	36,477	31,183
Pensions Reserve	(80,034)	(63,746)
Unequal Pay Reserve	(1,935)	(1,935)
Accumulating Compensated Absences Adjustment Account	(1,066)	(1,673)
Total Unusable Reserves	**125,982**	**143,419**

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 costs such as depreciation, impairment losses and amortisations that are charged to the Comprehensive Income and Expenditure Statement and postings from the Revaluation Reserve to convert fair value figures to historic cost.

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. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 on page 35 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2012/13		2011/12	
	£000	£000	£000	£000
Balance at 1 April		**179,315**		**185,174**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and amortisation of non-current assets	(12,950)		(10,579)	
Revaluation losses on Property, Plant and Equipment	(1,031)		(1,376)	
Revenue expenditure funded from capital under statute	(2,197)		(3,811)	
Amounts of non-current assets written off on disposal or sale (including Impairment) as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(11,156)		(10,232)	
		(27,334)		**(25,998)**
Adjusting amounts written out of the Revaluation Reserve		830		1,181
Net written out amount of the cost of non-current assets consumed in the year		**(26,504)**		**(24,817)**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	959		944	
Capital Receipts Reserve set aside to repay debt	89		117	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	11,118		9,982	
Statutory provision for the financing of capital investment charged against the Council Fund and HRA balances	4,305		3,875	
Capital expenditure charged against the Council Fund and HRA balances	3,209		3,645	
		19,680		**18,563**
Movements in the market value of Investment Properties charged to the Comprehensive Income and Expenditure Statement		(91)		395
Balance at 31 March		**172,400**		**179,315**

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 Council Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the Council Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2013 will be charged to the Council Fund over the next 6 years.

	2012/13 £000	2011/12 £000
Balance at 1 April	**275**	**410**
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	(135)	(135)
Balance at 31 March	**140**	**275**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment, Heritage and Intangible Assets.

The balance is reduced when assets with accumulated gains are:

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

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created.

Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2012/13 £000	2011/12 £000
Balance at 1 April	**31,184**	**30,557**
Revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	6,123	1,808
Difference between fair value depreciation and historical cost depreciation	(830)	(1,151)
Revaluation balances on assets scrapped or disposed of	0	(30)
Balance at 31 March	**36,477**	**31,184**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

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

The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2012/13 £000	2011/12 £000
Balance at 1 April	**(63,746)**	**(46,572)**
Actuarial gains / (losses) on pensions assets and liabilities	(18,618)	(18,887)
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	2,330	1,712
Balance at 31 March	**(80,034)**	**(63,746)**

Unequal Pay Reserve

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

	2012/13 £000	2011/12 £000
Balance at 1 April	**(1,935)**	**0**
Increase in provision for back pay in relation to Equal Pay cases	0	(1,935)
Cash settlements paid in the year	0	0
Balance at 31 March	**(1,935)**	**(1,935)**

Accumulating Compensated Absences Adjustment Account

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

	2012/13 £000	2011/12 £000
Settlement or cancellation of accrual made at the end of the preceding year	1,673	1,306
Amounts accrued at the end of the current year	(1,066)	(1,673)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**607**	**(367)**

NOTE 12 – OTHER OPERATING EXPENDITURE

	2012/13 £000	2011/12 £000
Police Council and Community Council Precepts (See below)	7,323	7,100
Losses on the disposal of non-current assets (Including De-recognition)	10,109	9,243
Levies	3,391	3,389
Other	(14)	(72)
Total	**20,809**	**19,660**

Precepts

	2012/13 £000	2011/12 £000
Precept paid to Police Council	6,406	6,232
Precept paid to Community Councils	917	868
Total	**7,323**	**7,100**

NOTE 13 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2012/13 £000	2011/12 £000
Interest payable and similar charges	5,316	5,407
Pensions interest cost and expected return on pensions assets	1,669	180
Interest receivable and similar income	(284)	(273)
Income and expenditure in relation to investment properties and changes in their fair value (See Below)	(91)	(764)
Total	**6,610**	**4,550**

Income, Expenditure and changes in Fair Value of Investment Properties

	2012/13 £000	2011/12 £000
Income/Expenditure from Investment Properties:		
Income including rental income	(698)	(728)
Expenditure	516	360
Net income from investment properties	**(182)**	**(368)**
(Surplus) on sale of Investment Properties:		
Proceeds from sale	(350)	(40)
Carrying amount of investment properties sold	350	39
(Surplus)/Deficit on sale of Investment Properties:	**0**	**(1)**
Changes in Fair Value of Investment Properties	**91**	**(395)**
Total	**(91)**	**(764)**

NOTE 14 - TAXATION AND NON SPECIFIC GRANT INCOME

Taxation and Non-Specific Grant Income

	2012/13 £000	2011/12 £000
Council Tax Income	33,872	32,243
Non Domestic Rates Redistribution	18,787	16,324
Non-ringfenced Government Grants	74,273	77,663
Capital Grants Applied to fund Capital Expenditure	11,118	9,982
Capital Grant Unapplied Houses into Homes	262	0
Total Taxation and Non-Specific Grant Income	**138,312**	**136,212**

Central Government Grants

	2012/13 £000	2011/12 £000
Revenue Support Grant	73,544	77,112
Other	729	551
Total	**74,273**	**77,663**

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (PPE)

Current Year

	Property, Plant and Equipment							
	Council Dwellings £000	Land and Buildings £000	Infrast-ructure Assets £000	Vehicles, Plant and Equipment £000	Community Assets £000	PPE Under Constr-uction £000	Surplus Assets £000	Total £000
Cost or Valuation								
At 1 April 2012	**98,557**	**157,994**	**54,186**	**7,067**	**9**	**2,660**	**2,030**	**322,503**
Additions (Note 20)	8,751	3,661	4,969	775	0	4,860	0	**23,016**
Revaluation increase / (decrease) to Revaluation Reserve	0	4,033	0	0	0	0	127	**4,160**
Revaluation increase / (decrease) to Surplus or Deficit on the Provision of Services	0	(1,224)	0	0	0	0	0	**(1,224)**
Derecognition - Disposals	(63)	(92)	0	(8)	0	0	0	**(163)**
Derecognition – Other	(8,751)	(2,779)	0	0	0	0	0	**(11,530)**
Reclassifications & Transfers	0	(218)	2,958	0	0	(2,958)	218	**0**
Reclassified to Held for Sale	0	0	0	0	0	0	(16)	**(16)**
Balance as at 31 March 2013	**98,494**	**161,375**	**62,113**	**7,834**	**9**	**4,562**	**2,359**	**336,746**
Depreciation and Impairment								
At 1 April 2012	**4,373**	**6,435**	**8,582**	**3,578**	**0**	**0**	**91**	**23,059**
Depreciation Charge	2,660	4,751	2,166	701	0	0	60	**10,338**
Depreciation written out to Revaluation Reserve	0	(1,608)	0	0	0	0	(26)	**(1,634)**
Depreciation written out to Surplus or Deficit on the Provision of Services	0	(200)	0	0	0	0	(1)	**(201)**
Impairment losses/reversals to Surplus or Deficit on the Provision	2,534	0	0	0	0	0	0	**2,534**
Derecognition – Disposals	(6)	(11)	0	(8)	0	0	0	**(25)**
Derecognition – Other	(624)	(238)	0	0	0	0	0	**(862)**
Reclassifications and Transfers	0	0	0	0	0	0	0	**0**
Balance as at 31 March 2013	**8,937**	**9,129**	**10,748**	**4,271**	**0**	**0**	**124**	**33,209**
Net Book Value								
Balance as at 31 March 2013	**89,557**	**152,246**	**51,365**	**3,563**	**9**	**4,562**	**2,235**	**303,537**
Balance as at 31 March 2012	**94,184**	**151,559**	**45,604**	**3,489**	**9**	**2,660**	**1,939**	**299,444**

2011/12

	Property, Plant and Equipment							
	Council Dwellings £000	Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant and Equipment £000	Community Assets £000	PPE Under Constr-uction £000	Surplus Assets £000	TOTAL PPE £000
Cost or Valuation								
At 1 April 2011	**98,623**	**156,639**	**52,326**	**6,509**	**9**	**1,825**	**1,855**	**317,786**
Additions (Note 20)	9,237	3,764	1,855	558	24	2,079	2	**17,519**
Revaluation increase / (decrease) to Revaluation Reserve	0	(20)	0	0	0	0	(8)	**(28)**
Revaluation increase / (decrease) to Surplus or Deficit on the Provision of Services	0	(2,299)	0	0	0	0	0	**(2,299)**
Derecognition - Disposals	(66)	(211)	0	0	0	0	0	**(277)**
Derecognition – Other	(9,237)	(754)	0	0	(24)	0	(3)	**(10,018)**
Reclassifications & Transfers	0	875	5	0	0	(1,244)	364	**0**
Reclassified to Held for Sale	0	0	0	0	0	0	(180)	**(180)**
Balance as at 31 March 2012	**98,557**	**157,994**	**54,186**	**7,067**	**9**	**2,660**	**2,030**	**322,503**
Depreciation and Impairment								
At 1 April 2011	**2,326**	**4,121**	**6,422**	**2,889**	**0**	**0**	**126**	**15,884**
Depreciation Charge	2,630	4,970	2,160	689	0	0	50	**10,499**
Depreciation written out to Revaluation Reserve	0	(1,718)	0	0	0	0	(53)	**(1,771)**
Depreciation written out to Surplus or Deficit on the Provision of Services	0	(898)	0	0	0	0	(39)	**(937)**
Derecognition – Disposals	(3)	(5)	0	0	0	0	0	**(8)**
Derecognition – Other	(580)	(28)	0	0	0	0	0	**(608)**
Reclassifications and Transfers	0	(7)	0	0	0	0	7	**0**
Balance as at 31 March 2012	**4,373**	**6,435**	**8,582**	**3,578**	**0**	**0**	**91**	**23,059**
Net Book Value								
Balance as at 31 March 2012	**94,184**	**151,559**	**45,604**	**3,489**	**9**	**2,660**	**1,939**	**299,444**
Balance as at 31 March 2011	**96,297**	**152,518**	**45,904**	**3,620**	**9**	**1,825**	**1,729**	**301,902**

Details of depreciation and revaluation methodologies are shown in the Accounting Policies (policy 7 on page 18).

The status for accounting purposes of the assets of voluntary controlled & voluntary aided schools is currently under review. Pending the outcome of this, the following position has been adopted:

- Voluntary Controlled Schools: the land has been included on the Balance Sheet but not the buildings;
- Voluntary Aided Schools: neither the land nor the buildings are included in the Balance Sheet;
- Additionally, neither the land nor the buildings of Caergeiliog Foundation School are included on the balance sheet, as these assets rest with the trustees of the school.

Revaluations

The Council has £303.537m recognised as Property, Plant and Equipment on its Balance Sheet as at 31 March 2013. The Council has now adopted a 5 year rolling programme for the valuation of its land and property. The programme is constructed in such a way as to ensure that entire classes of assets within its land and property portfolio (e.g. primary schools, small holdings, car parks) are revalued in a single year. The valuations are undertaken by the Council's in-house valuation team who are members of the Royal Institute of Chartered Surveyors (RICS). Non-property assets have not been revalued as the Council has judged that the carrying value of these assets is approximate to fair value, given their relatively short useful economic lives and the relative value of these assets.

All land and property assets of the Council were however valued as at 31 March 2011, prior to the implementation of the on-going 5-year rolling programme.

NOTE 16 - SIGNIFICANT CAPITAL COMMITMENTS

At 31 March 2013, the Council had two significant construction contracts in progress giving rise to a significant capital commitment for financial year 2013/14 as follows:

Contract	Commitment £000
New Special Educational Needs school – Ysgol Y Bont	6,501
Smallholding Programme of Improvement	313
Total	6,814

NOTE 17 – HERITAGE ASSETS

2012/13

	Art Collections: Oriel Ynys Môn £000	Heritage Land & Buildings £000	Total Heritage Assets £000
Cost or Valuation			
At 1 April 2012	**1,454**	**1,644**	**3,098**
Additions	0	0	0
Revaluation taken to the Revaluation Reserve	330	0	330
Revaluation taken to the Surplus/Deficit on the Provision of Service	(8)	0	(8)
At 31 March 2013	**1,776**	**1,644**	**3,420**
Accumulated Depreciation and Impairment			
At 1 April 2012	**0**	**58**	**58**
Depreciation Charge	0	56	56
Depreciation written out to the Revaluation Reserve	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0
At 31 March 2013	**0**	**114**	**114**
Net Book Value			
At 31 March 2013	**1,776**	**1,530**	**3,306**
At 31 March 2012	**1,454**	**1,586**	**3,040**

2011/12

	Art Collections: Oriel Ynys Môn £000	Heritage Land & Buildings £000	Total Heritage Assets £000
Cost or Valuation			
At 1 April 2011	**1,454**	**1,643**	**3,097**
Additions	0	10	10
Revaluation taken to the Revaluation Reserve	0	6	6
Revaluation taken to the Surplus/Deficit on the Provision of Service	0	(15)	(15)
At 31 March 2012	**1,454**	**1,644**	**3,098**
Accumulated Depreciation and Impairment			
At 1 April 2011	**0**	**59**	**59**
Depreciation Charge	0	58	58
Depreciation written out to the Revaluation Reserve	0	(59)	(59)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0
At 31 March 2012	**0**	**58**	**58**
Net Book Value			
At 31 March 2012	**1,454**	**1,586**	**3,040**
At 31 March 2011	**1,454**	**1,584**	**3,038**

Revaluation of Heritage Assets

A number of Land & Buildings assets have been identified as meeting the definition of Heritage Assets. At 31 March 2013, there were four such assets (unchanged from 31 March 2012):

Beaumaris Gaol
Beaumaris Courthouse
Mill, Melin Llynnon
Pilot Cottages, Ynys Llanddwyn

Revaluation of these assets follows the Council's standard revaluation procedures for land and property. The last revaluation for these properties was carried out as at 1st April 2011.

An updated valuation for the Art Collections was obtained during the year and the resulting value has been reflected in the 2012/13 Accounts The latest valuation is based on a representative sample of the collections. The valuation was carried out by Bonhams of London, a firm of international art auctioneers and valuers.

Five Year Summary of Transactions

There have been no transactions in respect of heritage assets during the current or previous four accounting periods that require disclosure other than amounts relating to the identified heritage land and buildings and the revaluation of the art collection in 2012/13. These items are shown in the tables that precede this note.

NOTE 18 – INVESTMENT PROPERTIES

Income/Expenditure from Investment Properties:	2012/13 £000	2011/12 £000
Rental income from investment property	(698)	(728)
Direct operating expenses arising from investment property	516	360
'Net (Gain) included in Financing and Investment Income in the Comprehensive Income and Expenditure Statement'	**(182)**	**(368)**

	2012/13 £000	2011/12 £000
Balance at start of the year	8,379	7,874
Additions:		
- Subsequent expenditure	53	149
Disposals	(350)	(39)
Net gains/(losses) from fair value adjustments	(91)	395
Transfers:		
-(to)/from Property, Plant and Equipment	0	0
Balance at end of the year	**7,991**	**8,379**

There are no investment properties held under an Operating or Finance Lease. There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or carry out repairs, maintenance or enhancement to existing investment properties.

NOTE 19 – INTANGIBLE ASSETS

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.02m charged to revenue in 2012/13 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are five years.

The Movement in Intangible Assets for the Year is as Follows:

	2012/13 £000	2011/12 £000
Balance at start of year:		
Gross carrying amounts	708	689
Accumulated amortisation	(634)	(612)
Net carrying amount at start of year	**74**	**77**
Additions	160	19
Amortisation for the financial year	(21)	(22)
Net carrying amount at end of year	**213**	**74**
Comprising:		
Gross carrying amounts	868	708
Accumulated amortisation	(655)	(634)
Net carrying amount at end of year	**213**	**74**

NOTE 20 - CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, 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 that has yet to be financed.

The net movement in the Capital Financing Requirement illustrates the change in the underlying need for the Council to borrow during the year to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

	2012/13 £000	2011/12 £000
Opening Capital Financing Requirement	**100,660**	**97,716**
Capital Invested in Year		
Property, Plant and Equipment	23,016	17,529
Investment Properties	53	149
Intangible Assets	160	19
Other	2	111
Revenue Expenditure Funded from Capital Under Statute	2,197	3,811
	25,428	**21,619**
Source of Finance		
Capital Receipts and Reserves	(959)	(944)
Government Grants and Contributions	(11,118)	(10,092)
Revenue Provisions	(3,209)	(3,646)
Minimum Revenue Provision and Set Aside	(4,394)	(3,993)
	(19,680)	**(18,675)**
Net Increase/(Decrease) in Capital Financing Requirement	**5,748**	**2,944**
Closing Capital Financing Requirement	**106,408**	**100,660**
Explanation of movement in year		
Increase in underlying need to borrow supported by Government assistance	2,937	3,579
Increase in underlying need to borrow unsupported by Government assistance	7,205	3,358
Minimum Revenue Provision and Voluntary Set Aside	(4,394)	(3,993)
Net Increase/(Decrease) in Capital Financing Requirement	**5,748**	**2,944**

NOTE 21 – ASSETS HELD FOR SALE

	Current		Non-Current	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Balance outstanding at start of year	180	514	0	0
Assets newly classified as held for sale:				
Transferred from Property, Plant & Equipment during the year	16	180	0	0
Cost of Assets Sold	0	(514)	0	0
Balance outstanding at year-end	**196**	**180**	**0**	**0**

NOTE 22 – LEASES

Operating Leases

The Council has leased 71 properties at 31 March 2013 for its homelessness function (127 properties at 31 March 2012) and the lease rentals for the year totalled £0.382m (£0.739m 2011/12). These properties have break clauses at twelve months. This was due to a deliberate policy to return empty leased properties to their owners rather than pay rental on an empty property.

The Council also holds certain items of plant and equipment under operating leases or rental agreements within schools and other council departments The charge to revenue for these items is £0.25m in 2012/13 (£0.1m 2011/12).

NOTE 23 – INVENTORIES

In undertaking its work the Council holds reserves of inventories together with amounts of uncompleted work (work in progress). The figure shown in the Balance Sheet may be subdivided as follows:

	31 March 2013 £000	31 March 2012 £000
Work In Progress	108	153
Central Stores – Building supplies	129	155
Gofal Môn - Social Services supplies	125	91
Other – Stationery and other consumables, fuel and goods held for resale	183	276
Total	**545**	**675**

NOTE 24 - DEBTORS

	Long Term Debtors 31 March 2013 £000	Long Term Debtors 31 March 2012 £000	Short Term Debtors 31 March 2013 £000	Short Term Debtors 31 March 2012 £000
Government Departments	0	0	10,070	9,005
NNDR and Council Tax	0	0	4,942	3,894
Other Local Authorities	0	0	980	1,030
Rents	0	0	400	415
Public Corporations and Trading Funds	0	0	22	283
Employee car loans	242	249	184	177
Health Service	0	0	1,541	1,424
VAT	0	0	1,945	1,242
Prepayments	0	0	743	644
Trade debtors	97	97	450	508
Other	94	104	4,521	3,741
Total	**433**	**450**	**25,798**	**22,363**

The above debtors figures are net of bad debt provisions totalling £4.403m (£3.982m 2011/12), which can be analysed as follows:

	31 March 2013 £000	31 March 2012 £000	Movement in Year £000
Council Tax	1,128	1,032	96
NNDR	622	489	133
Rents	458	420	38
Trade Debtors	2,195	2,041	154
Total	**4,403**	**3,982**	**421**

NOTE 25 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

	31 March 2013 £000	31 March 2012 £000
Cash and Bank balances	5,834	12,070
Bank Overdraft	(3,530)	(906)
Total	**2,304**	**11,164**

Note, bank overdrafts are shown separately from cash and cash equivalents where they are not an integral part of a Council's cash management.

NOTE 26 – CREDITORS

Short Term Creditors

	31 March 2013 £000	31 March 2012 £000
Government Departments	4,542	7,473
Other Authorities	1,263	1,107
Public corporations and trading funds	589	0
Bodies External to Central Government	150	80
Trust Balances	1,074	1,244
HRA	0	326
Remuneration due to employees	327	432
Accumulated Absences	1,066	1,673
Receipts in advance	592	701
Trade creditors	6,163	3,443
Other	2,457	2,377
Total Short Term Creditors	**18,223**	**18,856**

Long Term Creditors

	31 March 2013 £000	31 March 2012 £000
Other creditors falling due after more than one year		
Other	0	4
Total Long Term Creditors	**0**	**4**

NOTE 27 - PROVISIONS

2012/13

	Balance at 1 April 2012	Increase in Provisions during year	Utilised during year	Balance at 31 March 2013
	£000	£000	£000	£000
Insurance Claims Provision	253	539	(336)	456
Penhesgyn Waste Site	1,894	775	(0)	2,669
Termination Benefits	326	116	(195)	247
MMI Scheme of Arrangement	0	40	(0)	40
Other	3,965	221	(0)	4,186
	6,438	**1,691**	**(531)**	**7,598**
Current Provisions	4,296	83	(195)	4,184
Long Term Provisions	2,142	1,608	(336)	3,414
	6,438	**1,691**	**(531)**	**7,598**

2011/12

	Balance at 1 April 2011	Increase in Provisions during year	Utilised during year	Balance at 31 March 2012
	£000	£000	£000	£000
Insurance Claims Provision	409	29	(185)	253
Penhesgyn Waste Site	1,977	0	(83)	1,894
Termination Benefits	978	326	(978)	326
Other	2,118	1,935	(88)	3,965
	5,482	**2,290**	**(1,334)**	**6,438**
Current Provisions	1,072	4,290	(1,066)	4,296
Long Term Provisions	4,410	(2,000)	(268)	2,142
	5,482	**2,290**	**(1,334)**	**6,438**

Purpose of Main Provisions

Insurance Claims Provision

The Council's external insurance policies have excesses deductible amounts which means that the first part of any loss or claim under these policies is self insured and protected by means of a stop-loss. The Council's general and education properties are not externally insured against the following perils: escape of water from any tank or pipe, flood, impact, theft, accidental damage, subsidence, ground heave, landslip. With the exception of theft and accidental damage, losses resulting from these perils are normally funded from the insurance reserve. The balance on the insurance provision is the expected liability for the self insured element of known claims which had not been settled at year end.

Penhesgyn Waste Site

The provision has been provided for the aftercare of the areas of the site formerly used for landfill. There is no defined timescale for this work to be completed.

Termination Benefits

The provision is to meet known future liabilities arising from staff reductions following the restructure of Council departments. Benefits are currently being paid either in the year in which the termination is agreed or by payments in instalments to Gwynedd Pension Fund, All benefits are expected to be paid in full over the next four years.

Municipal Mutual Insurance (MMI)

In January 1994 the insurer of the Council's predecessor authorities, Municipal Mutual Insurance (MMI), made a scheme of arrangement with its creditors. The Scheme was set up to generate resources for the Company to allow it to agree a final settlement with its creditors and allow it to cease trading in case the Company was unable to achieve a solvent "run-off". The Council was notified on 13 November 2012 that the scheme of arrangement has been triggered as a solvent "run-off" was not now expected. The current estimated liability is estimated to be 15% of claims paid on behalf of the Council since January 1994, which equates to £0.17m. Guidance has been received through the Council's external auditors that the part of liability relating to settled claims should be treated within the accounts as a creditor with the balance being included within provisions. The Council is now therefore making a provision £0.04m for this liability, with the balance of £0.13m being recognized as a creditor. The provision will be met initially from the insurance reserve. Settlement of the outstanding liability is expected to take place during financial year 2013/14.

Other - This provision has been provided for a number of legal claims made against the Council, which are currently on-going.

NOTE 28 – ANALYSIS OF ADJUSTMENTS TO SURPLUS / DEFICIT ON THE PROVISION OF SERVICES

	2012/13 £000	2011/12 £000
Adjustment to surplus or deficit on the Provision of Services for non cash movements		
Depreciation	12,928	10,557
Depreciation written out to the surplus or deficit on the provision of services, impairment and downward revaluations(and non-sale derecognitions)	1,031	1,376
Amortisation	21	22
(Increase) / Decrease in Inventories	130	(176)
(Increase) in Debtors	(3,839)	(3,240)
Increase in Bad Debts Provision	421	407
(Decrease) in Creditors	(710)	(3,864)
Increase in Interest Creditors	0	156
Transactions within the CIES relating to retirement benefits	(2,331)	(1,712)
Carrying amount of non-current assets sold	11,156	10,232
Contributions to Other Reserves/Provisions	1,160	956
Movement in value of investment properties- Impairment and downward revaluations (and non-sale derecognitions)	91	(395)
	20,058	**14,319**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of Property, Plant and Equipment, investment property and intangible assets	(1,048)	(994)
Capital grants included in "Taxation and non-specific grant income"	(11,118)	(9,982)
Total	**(12,166)**	**(10,976)**

NOTE 29 – CASH FLOW FROM INVESTING ACTIVITIES

	2012/13 £000	2011/12 £000
Purchase of property,plant and equipment, heritage assets, investment property and intangible assets	(23,229)	(17,697)
(Purchase) / Sale of Short Term Investments (not considered to be cash equivalents)	(5,042)	20,068
Proceeds from the sale of property, plant and equipment, heritage assets, investment property and intangible assets	1,048	994
Capital Grants and Contributions Received	11,118	9,982
Net Cash flows from Investing Activities	**(16,105)**	**13,347**

NOTE 30 – CASH FLOW FROM FINANCING ACTIVITIES

	2012/13 £000	2011/12 £000
Cash Receipts from Short and Long Term Borrowing	0	5,000
Repayment of Short and Long Term Borrowing	(6)	(11,506)
Net Cash flows from Financing Activities	**(6)**	**(6,506)**

NOTE 31 – AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement and shows how the figures in the analysis of departmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Amounts Reported For Resource Allocation Decisions

2012/13 – Directorate Analysis

	Education & Lifelong Learning	Community Services	Sustainable Development	Deputy Chief Executive	Corporate and Democratic Core	Housing Revenue Account	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, Charges and Other Service Income	12,014	16,204	10,169	1,023	1,581	17,696	**58,687**
Government Grants	10,618	6,271	6,616	24,515	0	410	**48,430**
Total Income	**22,632**	**22,475**	**16,785**	**25,538**	**1,581**	**18,106**	**107,117**
Employee expenses	46,032	13,200	11,174	6,597	940	1,336	**79,279**
Other Service Expenditure	14,728	40,238	25,166	26,879	5,337	12,845	**125,193**
Support Service Expenditure	2,469	44	879	0	0	1,373	**4,765**
Total Expenditure	**63,229**	**53,482**	**37,219**	**33,476**	**6,277**	**15,554**	**209,237**
Net Expenditure	**40,597**	**31,007**	**20,434**	**7,938**	**4,696**	**(2,552)**	**102,120**

2011/12 – Directorate Analysis

	Education & Lifelong Learning	Community Services	Sustainable Development	Deputy Chief Executive	Corporate and Democratic Core	Housing Revenue Account	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, Charges and Other Service Income	8,362	21,196	8,677	446	2,020	17,218	57,919
Government Grants	8,268	5,728	6,100	23,687	87	410	44,280
Total Income	**16,630**	**26,924**	**14,777**	**24,133**	**2,107**	**17,628**	**102,199**
Employee expenses	43,175	19,374	11,037	6,238	527	32	80,383
Other Service Expenditure	14,389	39,370	25,259	25,953	6,237	15,646	126,854
Support Service Expenditure	757	742	277	23	0	1,121	2,920
Total Expenditure	**58,321**	**59,486**	**36,573**	**32,214**	**6,764**	**16,799**	**210,157**
Net Expenditure	**41,691**	**32,562**	**21,796**	**8,081**	**4,657**	**(829)**	**107,958**

Reconciliation of the Directorate Analysis to the amounts in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012/13 £000	2011/12 £000
Net expenditure in the Directorate analysis	102,120	107,958
Net expenditure of services and support services not included in the analysis	19,141	12,679
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	1,813	0
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(11,540)	0
Net Expenditure in the Comprehensive Income and Expenditure Statement	**111,534**	**120,637**

Reconciliation of the Directorate Analysis to the Deficit on the provision of services within the Comprehensive Income and Expenditure Account

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2012/13

	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to manage-ment for decision making £000	Amounts not included in CIES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	58,687	0	(698)	0	57,989	698	**58,687**
Surplus or deficit on associates and joint ventures	0	0	0	0	0	0	**0**
Interest and investment income	0	0	0	0	0	358	**358**
Income from council tax	0	0	0	0	0	33,872	**33,872**
Government grants and contributions	48,430	0	(98)	0	48,332	104,440	**152,772**
Total Income	**107,117**	**0**	**(796)**	**0**	**106,321**	**139,368**	**245,689**
Employee expenses	79,279	(397)	(2,100)	(1,669)	75,113	1,669	**76,782**
Other service expenses	125,193	6,883	92	(9,721)	122,447	515	**122,962**
Support Service recharges	4,765	(108)	0	0	4,657	0	**4,657**
Depreciation, amortisation and impairment	0	12,763	3,006	(150)	15,619	90	**15,709**
Interest Payments	0	0	19	0	19	5,392	**5,411**
Precepts & Levies	0	0	0	0	0	10,713	**10,713**
Payment to Housing Capital Receipts Pool	0	0	0	0	0	0	**0**
Gain or Loss on Disposal of Fixed Assets	0		0	0	0	10,096	**10,096**
Total expenditure	**209,237**	**19,141**	**1,017**	**(11,540)**	**217,855**	**28,475**	**246,330**
Surplus or deficit on the provision of services	**102,120**	**19,141**	**1,813**	**(11,540)**	**111,534**	**(110,893)**	**641**

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2011/12

	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to manage-ment for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	57,919	0	0	0	0	57,919	728	**58,647**
Surplus or deficit on associates and joint ventures	0	0	0	0	0	0	0	**0**
Interest and investment income	0	0	0	0	0	0	473	**473**
Income from council tax	0	0	0	0	0	0	32,242	**32,242**
Government grants and contributions	44,280	0	0	0	0	44,280	103,970	**148,250**
Total Income	**102,199**	**0**	**0**	**0**	**0**	**102,199**	**137,413**	**239,612**
Employee expenses	80,383	(1,566)	0	0	0	78,817	180	**78,997**
Other service expenses	126,854	(1,501)	0	0	0	125,353	360	**125,713**
Support Service recharges	2,920	0	0	0	(20)	2,900	0	**2,900**
Depreciation, amortisation and impairment	0	15,766	0	0	0	15,766	(543)	**15,223**
Interest Payments	0	0	0	0	0	0	5,595	**5,595**
Precepts & Levies	0	0	0	0	0	0	10,489	**10,489**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	0	9,172	**9,172**
Total expenditure	**210,157**	**12,699**	**0**	**0**	**(20)**	**222,836**	**25,253**	**248,089**
Surplus or deficit on the provision of services	**107,958**	**12,699**	**0**	**0**	**(20)**	**120,637**	**(112,160)**	**8,477**

NOTE 32 – SIGNIFICANT TRADING OPERATIONS

Trading operations are those which the Council carries out in a competitive environment. The Council operates one trading operation that has a material turnover in excess of £0.5m, which is Môn Care Services.

Môn Care Services is the in-house provider, within the Community Services Directorate, of the following services: Home Care, Residential and Day-care, Sheltered Employment Workshops, Sheltered Housing and Meals on Wheels.

The financial objective of Môn Care Services is to break-even on its activities. It is treated as part of the operation of Social Services. The transactions of the organisation for the last two years are as follows:

2012/13			2011/12		
Turnover £000	Expenditure £000	Deficit £000	Turnover £000	Expenditure £000	Deficit £000
(8,805)	10,100	1,295	(9,547)	10,797	1,250

NOTE 33 - MEMBERS' ALLOWANCES

A total of £0.668m (£0.619m in 2011/12) was paid in respect of allowances to Council Members during the year as follows;

	2012/13 £000	2011/12 £000
Basic and Special responsibility allowances	560	520
Chairman and Deputy Chairman's Allowance	12	11
Pension Costs	45	45
National Insurance Costs	34	31
Travel Costs	16	11
Miscellaneous	1	1
Total	**668**	**619**

NOTE 34 – OFFICERS' REMUNERATION

The following table provides details of remuneration paid to senior employees who are employed on a permanent basis and whose annual salaries and other benefits exceed £0.06m per annum. Senior employees whose remuneration exceeds £0.150m per annum are also named individually to comply with statutory requirements.

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2012/13

	Salary, Fees and Allowances £000	Expenses Allowances £000	Compensation for loss of Office £000	Pension Contribution £000	Total £000
Chief Executive (Richard Parry Jones)	141	2	0	31	174
Deputy Chief Executive – Appointed 02/07/2012	85	0	0	19	104
Director (Lifelong Learning) – Appointed 02/07/2012	74	1	0	16	91
Director (Sustainable Development)	98	2	0	22	122
Head of Function (Resources) – Appointed 07/01/2013	19	0	0	4	23
Director (Community) – Appointed 28/08/2012	59	0	0	13	72
Head Of Function – Legal & Administration	72	0	0	16	88
Total	548	5	0	121	674

In addition the Council employed two senior officers on an interim basis during 2012/13 pending the appointment of permanent staff. The staff in question related to the Council's Directors of Finance and Housing & Social Services and the costs incurred in the year for the respective members of staff were £0.105m and £0.093m. The contract of the Interim Finance Director terminated in March 2013, and the contract of the Interim Director of Housing & Social Services terminated in August 2012 due to the restructuring of the Council services. The senior officers shown in the above table have been appointed to posts in 2012/13 to the new departmental structure.

Comparative figures for 2011/12 are shown in the following table

	Salary, Fees and Allowances £000	Expenses Allowances £000	Compensation for loss of Office £000	Pension Contribution £000	Total £000
Chief Executive	102	2	0	23	127
Corporate Director (Environment and Technical)	78	2	0	17	97
Corporate Director (Finance)	75	2	0	16	93
Corporate Director (Housing and Social Services) (T. Gwyn Jones)	83	2	79	13	177
Director of Legal Services / Monitoring Officer	64	0	0	14	78
Total	402	8	79	83	572

Senior Employees' Remuneration

The number of employees whose remuneration paid in 2012/13, excluding pension contributions but including severance pay, was £0.06m or more was:

	Including Severance Pay 2012/13 No. of Employees	Including Severance Pay 2011/12 No. of Employees	Excluding Severance Pay 2012/13 No. of Employees	Excluding Severance Pay 2011/12 No. of Employees
£60,000 to £65,000	1	1	1	1
£65,001 to £75,000	0	0	0	0
£75,001 to £80,000	0	1	0	1
£80,001 to £85,000	1	1	0	2
£85,001 to £100,000	1	0	0	0
£100,001 to £105,000	0	1	0	1
£105,001 to £160,000	0	0	0	0
£160,001 to £165,000	0	1	0	0
£165,001 to £180,000	0	0	0	0
Total	**3**	**5**	**1**	**5**

NOTE 35 - TERMINATION PAYMENTS

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:

Exit package cost band (including special payments)	Number of Compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13 £000	2011/12 £000
£0 - £20,000	14	0	2	27	16	27	67	217
£20,001 - £40,000	5	0	4	9	9	9	258	280
£40,001 - £60,000	1	0	3	12	4	12	182	553
£60,001 - £80,000	1	0	1	1	2	1	134	70
£80,001 - £100,000	0	0	0	5	0	5	0	448
£200,000 - £250,000	1	0	0	0	1	0	244	0
Total	**22**	**0**	**10**	**54**	**32**	**54**	**885**	**1,568**

This cost is included within the deficit on the provision of services within the Comprehensive Income and Expenditure Account for 2012/13.

NOTE 36 – EXTERNAL AUDIT FEES

The Council has incurred the following costs relating to external audit and inspection:

	2012/13 £000	2011/12 £000
Fees payable to Wales Audit Office with regard to external audit services carried out by the appointed auditor for the year	155	155
Fees payable to the Wales Audit Office in respect of statutory inspections	170	174
Fees payable to PricewaterhouseCoopers LLP for the certification of grant claims and returns for the year	143	145
Fees payable to Wales Audit Office in respect of other services	4	0
Total	**472**	**474**

NOTE 37 – GRANTS INCOME

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

	Note	2012/13 £000	2011/12 £000
Credited to Taxation and Non Specific Grant Income			
Revenue Support Grant (Non-ringfenced Government Grants)	14	73,544	77,112
Capital Grants and Contributions (Capital Grants and Contributions)	14	8,518	7,359
Grant - Major Repairs Allowance (Capital Grants and Contributions)	14	2,600	2,623
Other (Non-ringfenced Government Grants)	14	729	551
		85,391	**87,645**
Credited to Services			
Grants:			
Council Tax Benefit Granted		5,218	5,032
Post 16 Grant (Education)		3,383	3,272
Foundation Phase Grants (Education)		2,255	2,133
Concessionary Fares Grant		664	687
Housing Benefit Subsidy		18,459	17,890
Supporting People Grant (SPG & SPRG)		2,859	1,992
Sustainable Waste Management		1,715	1,636
		34,553	**32,642**
Other Grants:			
Cultural and Related Services		612	664
Children and Education Services		4,305	4,656
Highways and Transport Services		2,451	2,037
Other Housing Services		801	900
Adult Social Care Grants		1,353	1,344
Planning and Development		2,400	2,033
Environmental Services		132	166
Corporate and Democratic Core		819	743
Trading Operations		117	479
		12,990	**13,022**
Contributions:		**9,285**	**6,564**
Total		**142,219**	**139,873**

Capital Grants Received in Advance

	2012/13 £000	2011/12 £000
Opening balance	144	502
Add: new capital grants received in advance (condition of use not met)	9,953	8,768
Capital Grants Repaid	(75)	(17)
Less: amounts released to the Comprehensive Income and Expenditure Account (conditions met)	(9,951)	(9,109)
Closing Balance	**71**	**144**

NOTE 38 – RELATED PARTIES

The Council appoints members to certain public, charitable and voluntary bodies. During 2012/13, a total of £4,861m was paid in grants for the purchase of services from these bodies (£3.242m 2011/12). The Council has assessed the materiality of individual benefits arising through related parties and the following disclosures are concerned with transactions between the Council and the related party that have a value in excess of £0.02m:

The Council is a member of the Welsh Local Government Association, to which subscriptions of £0.069m were paid in 2012/13 (£0.071m 2011/12).

Members have declared interests in contracts, or in organisations which may have dealings with the Council, in the Statutory Register of Members' Interests. A total of £0.783m was paid by the Council in 2012/13 in relation to these interests (£0.313m 2011/12).

- Councillor F M Hughes – Husband a director of Huw's Gray builders merchant, and the value of payments made to the company in 2012/13 was £0.161m.
- Councillor R Medi – payments in employment to Medrwn Môn £0.047m, and payments of £0.024m to Siop Cwpwrdd Cornel, a book supply company, her husband is a partner in this company.
- Councillor G Winston – payments of £0.104m to Parys Training which is owned by Councillor Winston.

Some payments of housing benefit are made direct to landlords; in 2012/13 such payments totalling £0.036m were made directly to four members of the Council (and their related parties) in this capacity (£0.014m 2011/12).

- Councillor G Winston – Housing Benefits payments of £0.022m made in the year in respect of properties in Amlwch.

The Welsh Government sets the national priorities, strategic context and overall level of funding for services. The Councils have the responsibility to deliver these services on a local level within the national context. This relationship means the Welsh Assembly exercises a significant influence over the Council. Notes 14, 38 and 47 provide information on the funding relationship which exists between the Council and the Welsh Assembly.

Betsi Cadwalader University Health Board, through common control by central Government, is a related party to the Council. Payments made by the Council for 2012/13 to BCUHB amounted to £1.351m, and no further amounts were owed at year end. Receipts taken in by the Council from BCUHB came to £3.119m with £1.489m due from our related party at year end.

INTERESTS IN COMPANIES

The Council has a 50% interest in two companies and in each case the other member is Gwynedd Council:-

Cwmni Gwastraff Môn-Arfon Cyf

Cwmni Gwastraff Môn-Arfon Cyf is a Local Council Waste Disposal Company established jointly by predecessors of the Anglesey and Gwynedd Councils in 1994. The company operated two waste management sites in Anglesey and Gwynedd which were leased from the Local Authorities. Most of the company's activity related to contracts with the two Local Authorities.

Following a change in legislation, the two Councils decided to close the company down during 2007/08 and to undertake the work in-house. The relevant operational assets and liabilities and the staff were transferred to the Council in January 2008 together with a balancing amount in cash. The investment has been re-valued each year and most of the shareholders funds have been returned to the two Councils. The remaining interest in the company at 31 March 2013 is not material to the accounts of the Council.

Cwmni Cynnal Cyf

This company was established jointly by Ynys Môn and Gwynedd Councils on local government reorganisation. It provides education support services under contract to maintained schools and to the local education authorities and schools inspection services to Estyn. The income of the company can only be applied towards the promotion of its objectives. The company is limited by guarantee, not having a share capital, and the Council's liability is limited to one pound. Payments made by the Council, including its schools, in 2012/13 total £1.802m (£1.789m 2011/12).

The company accounts for 2011/12 show a net income of £0.52m (£0.20m in 2010/11). The turnover for 2011/12 was £5.91m (£5.69m 2010/11). The company's published accounts show net assets of £0.42m as at 31 March 2012 (net assets £0.36m 2010/11).

Copies of the financial statements are available from Cwmni Cynnal Cyf, Plas Llanwnda, Caernarfon, Gwynedd. The auditor's report on the accounts for the financial year ended 31 March 2012 is not qualified.

The Council has interests in the following companies as follows:-

Welsh Joint Education Committee - WJEC CBAC Limited

The Council is a member of WJEC CBAC Limited, a charitable company whose members are the 22 Welsh unitary authorities and whose objectives are to provide examination services and to provide and promote other educational and cultural services. The company is limited by guarantee, not having a share capital, and the Council's liability is limited to one pound.

During 2012/13 the Council paid £0.36m (£0.40m 2011/12) for purchase of services from the company.

The Company accounts for 2011/12 show a net positive movement in funds of £3.98m (net positive movement in funds of £4.27m 2010/11). The turnover for 2011/12 was £40.67m (£35.1m 2010/11) and net assets totalled £19.47m as at 30 September 2012 (£15.50m as at 30 September 2011).

Copies of the company's accounts can be obtained from WJEC CBAC Limited, 245 Western Avenue, Llandaff, Cardiff, CF5 2YX. The auditor's report for the financial year ended 30 September 2012 is not qualified.

Menter Môn Cyfyngedig

The Council is a member of Menter Môn Cyf, and was one out of a total of 3 members at 31 March 2013. The company's objectives are to promote economic growth in rural Anglesey. The company is limited by guarantee, not having a share capital, and the Council's liability is limited to one pound.

During 2012/13 the Council made payments of £1.360m to the company in support of the activities (£1.817m 2011/12).

The company accounts for the financial year ended 31 December 2011 shows net income after tax of £0.030m (net income of £0.2m 2010). The turnover for 2011 was £3.00m (£2.52m 2010) and net assets totalled £1.03m as at 31 December 2011 (£1.18m 2010).

Copies of the company's accounts can be obtained from Menter Môn, Llys Goferydd, Bryn Cefni Industrial Estate, Llangefni, Ynys Môn. The auditor's report on the accounts for the financial year ended 31 December 2011 is not qualified.

Caergeiliog Foundation School

Balances for current assets and liabilities controlled by Caergeiliog Foundation School are included in these accounts, and so the school's reserves as stated in this balance sheet, represents only the net current assets. The school also has non-current assets which are stated on the school's balance sheet at £0.674m (£0.678m at 31 March 2012) on a combination of valuation and historical cost, less depreciation. The non-current assets are vested in the school's Governing Body and are not consolidated in this Council's balance sheet.

NOTE 39 - TRUST FUNDS

The Council acts as trustee for a number of trust funds. The funds are not assets of the Council so they are not included in the Council's Consolidated Balance Sheet. Their accounts are available from the Finance Department. Besides the legacies left for purposes such as prize funds at schools and comforts and improvements in Social Services establishments, the Council is also responsible for the following Trust funds:

Isle of Anglesey Charitable Trust (Reg. No. 1000818)

The Council is the sole trustee of the Isle of Anglesey Charitable Trust which was established to administer investments purchased from monies received from Shell (U.K.) Limited when the company ceased operating an oil terminal on Anglesey. The objectives of the Charitable Trust are to provide amenities and facilities for the general public benefit of persons resident in the Isle of Anglesey. This is achieved by contributing towards spending on public services and by making grants to charitable and voluntary organisations.

The fund is administered by the Council free of charge. In 2012/13 the Council received £0.230m (£0.250m 2011/12) towards the running costs of Oriel Ynys Môn.

Welsh Church Fund

The investments of this fund are currently being administered by Gwynedd Council on behalf of the successor authorities of Gwynedd County Council although there are plans to transfer them to this Council. The scheme for the administration of the fund provides that the income is to be applied to charitable purposes - educational, recreational and social - at the discretion of the Council.

Anglesey Further Education Trust (Reg. No. 525254)

75% of net income from the David Hughes Charity Estate forms part of the Anglesey Further Educational Trust Fund of which the Council is Trustee. The income is used for specified educational purposes. The other 25% is paid to the "David Hughes Charity for the Poor", which is not administered by the Council.

On 31 March 2013 the balances of these Trust funds (at market value of the assets) are:-

	2012/13 Income £000	2012/13 Expenditure £000	2012/13 Assets £000	2012/13 Liabilities £000
Isle of Anglesey Charitable Trust (*)	2,038	426	19,472	1,584
Welsh Church Fund (**)	16	18	536	11
Anglesey Further Education Trust Fund (***)	81	88	1,838	0

	2011/12 Income £000	2011/12 Expenditure £000	2011/12 Assets £000	2011/12 Liabilities £000
Isle of Anglesey Charitable Trust (*)	553	559	17,368	1,093
Welsh Church Fund (**)	21	32	553	25
Anglesey Further Education Trust Fund (***)	65	59	1,845	0

(*) 2011/12 figures restated to reflect the final accounts
(**) Council Portion Only
(***) Prior year figures subject to Audit

The total value of the other funds including investments at market value is £0.213m as at 31 March 2013 (£0.236m as at 31 March 2012).

NOTE 40 – TEACHERS PENSION SCHEME

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by 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 purpose of this Statement of Accounts, it is, therefore, accounted for on the same basis as a defined contribution scheme.

In 2012/13, the Council paid £3.1m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.2% of pensionable pay (£3.106m and 14.1% 2011/12) In addition, payments relating to enhancements for early retirement etc. made on a pay-as-you-go basis amounted to £0.006m (£0.595m 2011/12). There were no contributions remaining payable at the year-end.

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 benefits basis and detailed in Note 41 below.

NOTE 41 – LOCAL GOVERNMENT DEFINED BENEFIT PENSION SCHEME

Retirement Benefits

Participation in the Local Government Pension Scheme

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

The Council participates in the Gwynedd Pension Fund administered by Gwynedd County Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the Cost of Services on Continuing Operations when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge the Council is required to make against the Council Tax is based on the cash payable in the year, and the real cost of retirement benefits is reversed out in the adjustments between accounting basis and funding basis under regulations line, in the Movement In Reserves Statement. The following transactions have been made in the CIES and the adjustments between accounting basis and funding basis under regulations line, in the Movement In Reserves Statement during the year:

	2012/13 £000	2011/12 £000
Net cost of services:		
Current service cost	4,160	6,060
Past service costs	0	93
Gains and losses on settlements or curtailments	243	326
Net operating expenditure:		
Interest cost	11,092	11,664
Expected return on scheme assets	(9,423)	(11,484)
Net charge to the CIES	**6,072**	**6,659**
Adjustments between accounting basis and funding basis under regulations:		
Reversal of net charges made for retirement benefits in accordance with IAS 19	**(6,072)**	**(6,659)**
Actual amount charged against the Council Fund balance for pensions in the year:		
Employers' contributions payable to scheme	**8,402**	**8,371**
Net charge to the Council Fund Summary	**2,330**	**1,712**

The service cost figures include an allowance for administration expenses of 0.5% of pay.

In addition to the recognised gains and losses included in the Surplus / Deficit on the Provision of Services, actuarial losses of £18.617m (£18.887m gain 2011/12) were included in other comprehensive income and expenditure in the CIES. The cumulative amount of actuarial gains and losses recognised in other comprehensive income and expenditure up to 31 March 2013 is a loss of £70.054m (£51.436m loss 2011/12).

Assets and liabilities in Relation to Retirement Benefits

Reconciliation of Present Value of the Scheme liabilities

	2012/13 £000	2011/12 £000
Balance as at 1 April	**230,971**	**212,133**
Current service cost	4,160	6,060
Interest cost	11,092	11,664
Contributions by members	2,057	2,070
Actuarial losses	30,566	7,287
Past service costs	0	93
Losses on curtailments	243	326
Liabilities assumed in a business combination		
Estimated unfunded benefits paid	(1,031)	(1,052)
Estimated benefits paid	(7,252)	(7,610)
Balance as at 31 March	**270,806**	**230,971**

Reconciliation of present value of the scheme assets:

	2012/13 £000	2011/12 £000
Balance as at 1 April	**167,224**	**165,561**
Expected return on assets	9,423	11,484
Contributions by members	2,057	2,070
Contributions by employer	7,372	7,319
Contributions in respect of unfunded benefits	1,031	1,052
Actuarial (losses)/gains	11,949	(11,600)
Liabilities assumed in a business combination		
Unfunded benefits paid	(1,031)	(1,052)
Benefits paid	(7,252)	(7,610)
Balance as at 31 March	**190,773**	**167,224**

The expected return on scheme assets is based on the long-term future expected investment return for each asset class as at the beginning of the financial year.

The actual return on scheme assets in the year was a loss of £21.416m (2011/12 gain of £0.098m).

Fair Value of Plan Assets

	31 March 2013 £000	31 March 2012 £000
Equity Investments	146,896	130,436
Bonds	24,800	21,739
Property	15,262	13,377
Cash	3,815	1,672
	190,773	**167,224**

Major categories of plan assets as percentage of total plan assets

The Gwynedd Pension Fund's assets consist of the following categories, by proportion of the total assets held:

	31 March 2013	31 March 012
Equity investments	77%	78%
Bonds	13%	13%
Property	8%	8%
Cash	2%	1%
	100%	**100%**

The Council's share of the Net Pension Liability (included in the Balance Sheet):

	31 March 2013 £000	31 March 2012 £000
Fair Value of Employer Assets	190,773	167,226
Present value of funded liabilities	(254,865)	(215,720)
Net Underfunding in Funded Plans	**(64,092)**	**(48,494)**
Present Value of Unfunded Liabilities	(15,942)	(15,252)
Net Liability	**(80,034)**	**(63,746)**
Amount in the Balance sheet:		
Liabilities	(270,807)	(230,972)
Assets	190,773	167,226
Net Liability	**(80,034)**	**(63,746)**

Scheme History

Analysis of scheme assets and liabilities

	31 March 2013 £000	31 March 2012 £000	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Fair Value of Assets in pension scheme	190,773	167,226	165,562	175,644	123,950
Present Value of Defined Benefit Obligation	(270,807)	(230,972)	(212,134)	(311,535)	(192,983)
Deficit in the Scheme	**(80,034)**	**(63,746)**	**(46,572)**	**(135,891)**	**(69,033)**

Amount recognised in Other Comprehensive Income and Expenditure:

	31 March 2013 £000	31 March 2012 £000	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Actuarial (losses)/gains	(18,618)	(18,887)	68,656	(66,106)	(26,645)
Cumulative actuarial losses	(70,054)	(51,436)	(32,549)	(101,205)	(35,099)
History of experience gains and losses:					
Experience (losses) and gains on assets	11,949	(11,600)	(25,169)	40,897	(43,474)
Experience (losses) and gains on liabilities	(23)	(2,669)	62,574	(510)	(377)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £270.807m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a net liability of £ 80.034m.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the Gwynedd Pension Fund will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	31 March 2013 %	31 March 2012 %	31 March 2011 %	31 March 2010 %	31 March 2009 %
Experience (losses) and gains on Assets	(6.26)	(6.94)	(15.20)	23.28	(35.07)
Experience (losses) and gains on liabilities	0.01	1.16	(29.50)	0.16	0.20

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The Council Funds liabilities have been assessed by an independent firm of actuaries, estimates for the Council Fund being based on data pertaining to the latest full valuation of the scheme as at 31 March 2013.

	2012/13	2011/12
Long-term expected rate of return on assets in the scheme:		
Equity investments	4.5%	6.2%
Bonds	4.5%	3.3%
Property	4.5%	4.4%
Cash	4.5%	3.5%
Mortality assumptions:		
Longevity at 65 current pensioners:		
Men	20.5 years	20.5 years
Women	23.0 years	23.0 years
Longevity at 65 for future pensioners:		
Men	23.3 years	23.3 years
Women	25.6 years	25.6 years
Inflation/Pension Increase Rate	2.8%	2.5%
Salary Increase Rate	5.1%	4.8%
Expected Return on Assets	4.5%	5.6%
Discount Rate	4.5%	4.8%
Take-up of option to convert annual pension into retirement lump sum:		
Service to April 2010	50.0%	50%
Service post April 2010	75.0%	75%

Estimated contributions to be paid to Gwynedd Pension Fund in 2013/14

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £7m.

NOTE 42 – CONTINGENT LIABILITIES

Equal Pay, Single Status and Job Evaluation

The Council is the subject of 360 equal pay claims from 300 current and former employees which have been lodged at the tribunal. The Council intends to defend these claims. Both a reserve and a provision have been established in the Council's accounts towards the potential costs arising from Equal Pay, Single Status, Job Evaluation and Equal Pay.

The element of provision relating to equal pay claims has been calculated on the basis of the number of existing claims and the estimate of the financial liability which will arise from them. The final amount that will be payable is, however, uncertain both because of possible variations in settlement amounts for current claims and because of the possibility that some further claims may yet be lodged.

Section 117 Mental Health Act 1983

Following judgements confirmed at the House of Lords and a recent report by the Local Government Ombudsman on test cases elsewhere, there was no power to charge for services provided under Section 117 of the Mental Health Act 1983 and the Council is liable to repay any such charges. Six cases have been settled. The total amount of this liability is difficult to quantify but £0.299m remains from the sum set aside in an earmarked reserve for such repayments (£0.299m 2011/12).

Beaumaris Pier

Beaumaris Pier has been renovated as part of the Coastal Environment Project. Although the renovation has been completed, there are on-going discussions over the actual value of the works carried out under the contract. This may result in the Council being required to pay an additional sum under the works contract but the value of this sum cannot be assessed with any certainty at this time.

NOTE 43 – CONTINGENT ASSETS

The Council retains a number of legal charges over privately owned residential properties, where it provided support to the buyers under schemes for assisted home purchase, with the Council being entitled to a share of proceeds on the sale of the properties. At 31 March 2013 there were 143 such properties and it was estimated that the maximum amount that might potentially be received was approximately £9.4m (£4.6m 2011/12). However, the actual amount that will be received will vary, dependent upon both the selling prices of individual properties and the nature of any other legal charges against them which may take precedence over the Council's. The timing of any receipts is dependent upon the occurrence of sales.

NOTE 44 – FINANCIAL INSTRUMENTS

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

	Long Term		Current	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Investments				
Loans and receivables	0	0	10,101	5,058
Cash balances				
Loans and receivables	0	0	5,834	12,070
Total cash and investments	**0**	**0**	**15,935**	**17,128**
Debtors				
Loans and Receivables	433	450	8,098	7,578
Total Debtors	**433**	**450**	**8,098**	**7,578**
Borrowings				
Financial Liabilities at Amortised Cost	89,590	96,097	11,977	2,852
Total Borrowings	**89,590**	**96,097**	**11,977**	**2,852**
Creditors				
Financial Liabilities at Amortised Cost	0	4	11,563	9,442
Total Creditors	**0**	**4**	**11,563**	**9,442**

Debtors and creditors within this table exclude transactions with government departments, the notional accrual of the value of accumulated absences due to staff, and income and payments arising from taxation, which also means that transactions involving council tax and business rates are also excluded..

Income,Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation financial instruments are made up as follows;

	2012/13			2011/12		
	Financial Liabilities	Financial Assets	Total	Financial Liabilities	Financial Assets	Total
	measured at cost less accumulated amortisation	Loans and receivables		measured at cost less accumulated amortisation	Loans and receivables Restated	
	£000	£000	£000	£000	£000	£000
Interest expense	5,316	0	5,316	5,407	0	5,407
Total expense in Surplus or Deficit on the Provision of Services	**5,316**	**0**	**5,316**	**5,407**	**0**	**5,407**
Interest income	0	(284)	(284)	0	(273)	**(273)**
Total income in Surplus or Deficit on the Provision of Services	0	(284)	**(284)**	**0**	**(273)**	**(273)**
Net gain/(loss) for the year	**5,316**	**(284)**	**5,032**	**5,407**	**(273)**	**5,134**

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Fair Values of Assets and Liabilities

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

- Estimated ranges of interest rates at 31 March 2013 of 1.41% to 4.41% for loans from the Public Works Loans Board (PWLB) and 0.67% for other loans receivable and payable, based on new lending rates for equivalent loans at that date;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, carrying amount is assumed to be approximate to fair value;
- The fair value of short-term debtors and creditors is deemed to be equivalent to their carrying amount at the Balance Sheet date.

Analysis of Loans by Maturity:

2012/13

		2012/13 Outstanding Principal £000	2012/13 Accrued Interest £000	2012/13 Cost less accumulated amortisation £000
>25 years		60,515	0	60,515
15-25 years		2,213	0	2,213
10-15 years		4,482	0	4,482
5-10 years		16,848	0	16,848
2-5 years		5,526	0	5,526
1-2 years		6	0	6
Total Long Term Borrowing		**89,590**	**0**	**89,590**
Total Short Term Borrowing	**(< 1 year)**	**6,507**	**1,940**	**8,447**

2011/12

		2011/12 Outstanding Principal £000	2011/12 Accrued Interest £000	2011/12 Cost less accumulated amortisation £000
>25 years		60,515	0	60,515
15-25 years		3,911	0	3,911
10-15 years		5,083	0	5,083
5-10 years		20,057	0	20,057
2-5 years		24	0	24
1-2 years		6,507	0	6,507
Total Long Term Borrowing		**96,097**	**0**	**96,097**
Total Short Term Borrowing	**(< 1 year)**	**6**	**1,940**	**1,946**

The fair values calculated are as follows:

	31 March 2013 Carrying Amount £000	31 March 2013 Fair Value £000	31 March 2012 Carrying Amount £000	31 March 2012 Fair Value £000
Financial Liabilities	99,627	126,953	97,009	118,706
Long term creditors	4	4	4	4

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Council would have to pay, if the lender requested, or agreed to, early repayment of loans.

	31 March 2013 Carrying Amount £000	31 March 2013 Fair Value £000	31 March 2012 Carrying Amount £000	31 March 2012 Fair Value £000
Loans and receivables	16,368	16,482	17,578	17,639

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2013) attributable to the commitment to receive interest above current market rates.

NOTE 45 - THE 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.

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 overall management of significant risks arising from Financial Instruments is supported by the Council's Treasury Management Strategy Statement and Annual Investment Strategy which is approved by Full Council.

Credit Risk

Credit Risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers (debtors on the Balance Sheet).

Deposits are not made with banks and financial institutions unless, having been rated independently, they have attained a minimum credit rating or level of government guarantee, and credit limits are set for each counterparty. The Council has set a number of limits based on credit quality for different types of institutions, different periods and amounts and has a policy of not lending more than £10m to any one institution other than the UK government. It monitors credit ratings regularly and is alerted to changes by its Treasury Management consultants. Appropriate action is taken following any changes in accordance with the Annual Investment Strategy. An Annual Treasury Report is produced to report on investment activity.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last two decades.

	Amount 31 March 2013 £000	Historical Experience of default %	Estimated Maximum Exposure * £000
Deposits with Banks and Financial Institutions	2,297	0	0
UK Nationalised / Part Nationalised Banks	10,101	0	0
UK Local Authorities	0	0	0
Trade Debtors under 1 year	2,869	10	287
Trade Debtors between 1-2 years	406	20	81
Trade Debtors between 2-6 years	946	30-70	468
Trade Debtors 6+ years	214	100	214
Total Trade Debtors	4,435		1,050

*Estimated Maximum Exposure to Default and Uncollectability

All deposits outstanding at year end were originally made for less than one year.

There were no breaches of credit limits during the financial year and there were no breaches of the counterparty criteria. The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. The current credit crisis has raised the overall possibility of default and the Council has adopted stricter credit criteria for investment counterparties within its overall policy.

Trade debtors shown in this section relate to debts to be collected only through the Council's sundry debtors system. The debtors figures shown in note 24 to the Statements refer to the full amount due to the Council from all sources, including government grants, council tax and business rates, which are collected separately from sundry debtors.

The Council does not generally allow credit for customers; it has prescribed collection procedures for amounts owed by its customers and appropriate provisions are made for potential bad debts. In some circumstances, the Council obtains a legal charge on property to cover deferred debts such as self-funding of residential care.

The Council's trade debtors can be analysed by age as follows:

	31 March 2013 £000	31 March 2012 £000
Less than three months	1,828	1,386
Three to six months	625	279
Six months to one year	416	394
More than one year	1,566	1,683
Total	**4,435**	**3,742**

The Council also has a number of longer term debtors including car loans to employees and residual mortgages from a closed scheme offering home loans to tenants and to members of the public. The car loans are considered to be low risk due to the ability to deduct repayments of car loans from employees' salaries, reciprocal arrangements with other local authorities for any staff transferring with outstanding car loans, insurance for loans unpaid due to death in service and normal debt recovery procedures for any employees who leave local government employment. The mortgages are low risk due to the first charge held by the Council on mortgaged properties.

Liquidity Risk

Liquidity Risk is low as the Council had no difficulty in the past in obtaining finance and has ready access to the Public Works Loans Board (PWLB) as lender of last resort. Therefore, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. However, there is a risk that the Council will need to renew a significant proportion of its borrowings at a time of unfavourable interest rates. The practice is to ensure that not more than 30% of loans are repayable within any three year period and to continuously assess the market rates and forecasts in order to replace maturing loans or reschedule existing loans at the most beneficial time. To assist in achieving this, the Council uses external treasury management advisors. The maturity analysis of outstanding loans is shown at note 44 on page 70.

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk – The Council faces potential risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For example, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Comprehensive Income and Expenditure Account would rise;
- borrowings at fixed rates – the fair value of the borrowings liabilities would fall;
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Comprehensive Income and Expenditure Account would rise;
- investments at fixed rates – the fair value of the assets would fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and effect the Council Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Council policy is to borrow mainly at fixed rates from the PWLB, thus obtaining certainty as to interest payable over the period of the loans. The Council, supported by its treasury advisors, continually monitors the prevailing interest rates and the market forecasts. If there was a significant risk of a sharp rise in long and short term rates, then the portfolio position would be re-appraised with the likely outcome being that fixed rate funding would be drawn down whilst interest rates were still relatively cheap. If there was a significant risk of a sharp fall in long and short term rates then long term borrowings would be postponed, and any appropriate rescheduling from fixed rate funding into short rate funding would be undertaken.

All of the Council's current and long-term borrowing is held at fixed rates. The effect of a 1% increase in interest rates would therefore only affect interest received on its current investments. If interest rates had been 1% higher, with all other variables remaining constant, the financial effects would have been:

Interest Rate Risk	2012/13 £000	2011/12 £000
Increase in interest payable on current variable rate borrowings	0	0
Increase in interest payable on long-term variable rate borrowing	0	0
Increase in interest receivable on current variable rate investments	285	437
Share of overall impact paid to the Housing Revenue Account	8	12
Net impact on the Comprehensive Income and Expenditure Account	**293**	**449**

Foreign Exchange Risk – The Council has a number of relatively small grant aided schemes under the 'Interreg' programme where the lead body is an Irish Institution and grants are denominated in Euro. A Euro Bank account was opened to support these schemes and to limit the exposure to movements in exchange rates. The balance on this account at year end was 1.219m Euro (0.507m Euro in 2011/12): equivalent to £1.035m (£0.422m in 2011/12).

NOTE 46 - JOINT COMMITTEES

The Council and Gwynedd County Council are parties to joint committees as follows:

- Joint Planning Committee
- Special Educational Needs Joint Committee

Gwynedd County Council is responsible for the operation of the two joint committees and the year-end balances are reflected in their balance sheet, details of which are shown in the following table:

Balance Sheet at 31 March 2013	Joint Planning Committee £000	Special Educational Needs Joint Committee £000
Short-term debtors	107	189
Short-term creditors	(107)	(24)
Net Assets	**0**	**165**

NOTE 47 – HOUSES INTO HOMES

The six North Wales councils act as agents of the Welsh Government in providing recyclable loans under the Houses into Homes Scheme, for the repair of properties which have been long-term vacant with the aim of bringing them back into use. Flintshire County Council is the lead/banker authority for the North Wales region and is responsible for administering the fund. Total income of £2.333m was received from the Welsh Government during 2012/13 with payments against this sum amounting to £1.847m, of which £0.301m was allocated to this Council.

NOTE 48 – COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into nine valuation bands estimating 1 April 2003 values for this specific purpose. Charges are calculated by taking the amount of income required for the Council and the North Wales Police Council for the forthcoming year and dividing this amount by the Council Tax base. The Council Tax base is the total number of properties in each band adjusted by a proportion to convert the number to a band D equivalent and adjusted for discounts. The Council Tax base for 2012/13 was 29,856.38 (29,768.15 2011/12).

The amount for a band D property in 2012/13, £1,139.68 (£1,094.41 2011/12) is multiplied by the proportion specified for the particular band to give the amount due by band. Individual amounts due are calculated by applying discounts and benefits to the amount due by band.

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

Band	A	B	C	D	E	F	G	H	I
Multiplier	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	21/9

The Council's Council Tax Base is calculated as follows:

Band	A*	A	B	C	D	E	F	G	H	I	Total
Total Dwellings	15	3,918	5,833	5,881	6,516	4,881	2,294	970	144	42	30,494
Multiplier	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	21/9	
Band "D" Equivalent	8.06	2,611.83	4,536.78	5,227.11	6,515.50	5,965.36	3,312.83	1,617.08	287.00	98.00	30,179.55

Band D equivalent as above	30,179.55
Collection Rate	98.5%
Revised Band D equivalent	29,726.86
MOD Properties – Band D equivalent	129.52
Council Tax Base for 2012/13	**29,856.38**

Analysis of the net proceeds from Council Tax:	**2012/13 £000**	**2011/12 £000**
Council Tax Collectable	33,939	32,496
Less: provision for non-payment not previously accounted for	(67)	(254)
Net Proceeds from Council Tax	**33,872**	**32,242**

NOTE 49 – NATIONAL NON-DOMESTIC RATES (NNDR)

NNDR is organised on a national basis. The Welsh Government specifies an amount for the rate – 45.2p in 2012/13 (42.8p 2011/12), and local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from ratepayers in its area but pays the proceeds into the NNDR pool administered by the Welsh Government. The Welsh Government then redistributes the sums paid into the pool back to local authorities on the basis of a fixed amount per head of population.

NNDR income, after reliefs and provisions (including Small Business Rates Relief provided by the Welsh Government), totalled £14.606m for 2012/13 (£15.126m 2011/12) and was based on rateable value at the year end of £40.292m (£44.194m 2011/12). The average rateable value for the year was £41.793m (£43.293m 2011/12).

Analysis of the net proceeds from non-domestic rates:	**2012/13 £000**	**2011/12 £000**
Non – domestic rates collectable	14,606	15,126
Cost of collection allowance	(143)	(142)
Interest paid on overpayments	1	0
Provision for bad debts	(133)	(358)
Contribution to cost of charitable relief/rural rate relief	68	40
Payments into national pool	**14,399**	**14,666**
Redistribution from national pool	18,787	16,324

SUPPLEMENTARY FINANCIAL STATEMENT
HOUSING REVENUE ACCOUNT

Income and Expenditure Statement for the year ending 31 March 2013

	2012/13 £000	2011/12 £000
Income		
Gross Rent Income:		
-Dwelling rents	(12,413)	(11,769)
-Non Dwelling rents	(184)	(180)
-Charges for facilities and services	(20)	(19)
-Contributions towards expenditure	(428)	(452)
Other	(71)	(6)
Total Income	**(13,116)**	**(12,426)**
Expenditure		
Repairs and Maintenance	3,331	3,292
Supervision and Management:		
-General	1,753	1,424
-Special	634	452
Rents, Rates and Taxes	104	108
Housing Revenue Account Subsidy payable	1,888	2,122
Depreciation and Impairment of Non Current Assets	5,324	2,760
Debt Management Costs	15	15
Allowance for Bad Debts	46	63
Total Expenditure	**13,095**	**10,236**
Net Cost of HRA Services	**(21)**	**(2,190)**
Accumulated absences accrual movement	(11)	20
Net Cost of HRA Services per Comprehensive Income and Expenditure Statement	**(32)**	**(2,170)**
HRA Services Share of Corporate and Democratic Core	55	53
Net Cost of HRA Services	**23**	**(2,117)**
Loss on sale of HRA Non Current Assets	8,065	8,567
Interest Payable and Similar Charges	1,296	1,133
HRA Investment Income	(8)	(3)
Capital grants and contributions receivable	(2,600)	(2,623)
Deficit for Year on HRA Services	**6,776**	**4,957**

Statement of Movements on the HRA Balance

Items included in the HRA Income and Expenditure Account but excluded from the movements on HRA Balance for the year

	2012/13 £000	2011/12 £000
Difference between amounts charged to income and expenditure for Amortisation of premiums and discounts determined in accordance with the Code and the charge for the year in accordance with statute	(31)	(28)
Depreciation and Impairment of Non Current Assets	(5,324)	(2,760)
Accumulated absences accrual	11	(20)
(Loss) on sale of HRA Non Current Assets (including derecognition)	(8,065)	(8,567)
Net charges made for retirement benefits in accordance with IAS 19	0	0
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year	**(13,409)**	**(11,375)**
Transfer to / (from) reserves	3,616	2,623
HRA Minimum Revenue Provision	782	603
Employer's contributions payable to the Gwynedd Pension Fund and retirement benefits payable direct to pensioners	0	0
Capital expenditure funded by the HRA	2,000	3,200
	6,398	**6,426**
Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	**(7,011)**	**(4,949)**

Note to the Statement of Movement on the HRA balance

	2012/13 £000	2011/12 £000
Deficit for Year on HRA services	6,776	4,957
Net additional amount required by statute to be debited/(credited) to the HRA	(7,011)	(4,949)
Decrease in HRA Balance	**(235)**	**8**
HRA Account Balance B/Fwd	(247)	(255)
HRA Account Balance C/Fwd	**(482)**	**(247)**

NOTES TO THE HOUSING REVENUE ACCOUNT

NOTE 1 – HOUSING REVENUE ACCOUNT

The Housing Revenue Account is a record of expenditure on, and income from, the provision of local Council housing, and the form and content of the Account is prescribed by statute. The Housing Revenue Account is "ring-fenced" and must be self-supporting. Contributions both to and from the Housing Revenue Account (e.g. from the Council Fund) are limited to special circumstances.

NOTE 2 – HOUSING STOCK

During 2012/13, the Council sold 2 dwellings under the Right-to-Buy Scheme (see note 5). The number of dwellings in the Council's housing stock, as at 31 March 2013, totalled 3,805 properties. with the split by type of dwelling made up as follows:

	31 March 2013	31 March 2012
Council Owned Stock		
Houses	2,033	2,035
Bungalows	1,044	1,044
Flats	721	721
Bedsits	7	7
Total Council Owned	**3,805**	**3,807**

NOTE 3 – HOUSING REVENUE ACCOUNT CAPITAL EXPENDITURE

	2012/13 £000	2011/12 £000
Capital investment		
Houses	8,751	9,237
	8,751	**9,237**
Sources of funding		
Unsupported borrowing	(4,121)	(3,358)
Capital Receipts	(30)	(56)
Government grants and other contributions	(2,600)	(2,623)
Direct Revenue Financing	(2,000)	(3,200)
Total	**(8,751)**	**(9,237)**

The Major Repairs Allowance for 2012/13 of £2.6m was used in full during the year (£2.6m 2011/12).

NOTE 4 – DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

	2012/13 £000 Impairments	2012/13 £000 Depreciation	2012/13 £000 Total	2011/12 £000 Impairments	2011/12 £000 Depreciation	2011/12 £000 Total
Land	0	0	0	0	0	0
Dwellings	2,534	2,660	5,194	0	2,630	2,630
Other Property - Operational Assets	0	130	130	0	130	130
	2,534	**2,790**	**5,324**	**0**	**2,760**	**2,760**

NOTE 5 – CAPITAL RECEIPTS FROM DISPOSAL OF LAND, HOUSES AND OTHER PROPERTY WITHIN THE HOUSING REVENUE ACCOUNT

	2012/13 No. of Sales	2012/13 £000	2011/12 No. of Sales	2011/12 £000
Council dwellings				
Right to Buy	2	126	2	131
Discounts repaid		0		22
Other Receipts				
Land sales	0	0	2	17
Other property sales				
Mortgage Property		0		3
		126		**173**
Less set aside		8		117
		118		**56**

NOTE 6 – HOUSING SUBSIDY

In 2012/13, the Council paid housing subsidy to the Welsh Government of £1.888m (£2.122m 2011/12)

NOTE 7 – RENT ARREARS AND BAD AND DOUBTFUL DEBTS

Rent arrears at 31 March 2013 stood at £0.757m (£0.649m as at 31 March 2012). This excludes prepayments of £0.135m at 31 March 2013 (£0.101m as at 31 March 2012).

Allowance has been made in the Balance Sheet for bad and doubtful debts. These stood at £0.458m against rents and £0.572m in total against rent payers (£0.420m and £0.538m in 2011/12).

NOTE 8 – PENSION COSTS

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

The Council participates in the Local Government Pension Scheme administered by Gwynedd Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the Housing Revenue Account is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Housing Revenue Account after Net Operating Expenditure. The following transactions have been made in the Housing Revenue Account during the year:

HRA Income and Expenditure Account	2012/13 £000	2011/12 £000
Current Service Cost	(169)	(115)
Employer Contributions actually paid	169	115
Contribution to Pension Reserve	**0**	**0**

It has not been possible to determine how much of the pension interest costs and expected return on assets per the actuarial report relate to the Housing Revenue Account, so these have been fully allocated to the Council Fund.

GLOSSARY

ACCOUNTING PERIOD
The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April. The end of the accounting period is the Balance Sheet date.

ACCRUALS
Sums included in the final accounts to recognise revenue and capital income and
expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

ACTUARIAL GAINS AND LOSSES
For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or

- The actuarial assumptions have changed.

ASSET
An item having value to the Council in monetary terms. Assets are categorised as either current or non current:

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and inventories);

- A non current asset provides benefits to the Council and to the services it provides for a period of more than one year and may be tangible (e.g. a community centre), or intangible, (e.g. computer software licences).

AUDIT OF ACCOUNTS
An independent examination of the Council's financial affairs.

BALANCE SHEET
A statement of the recorded assets, liabilities and other balances at the end of the financial year.

BUDGET
The forecast of net revenue and capital expenditure over the financial year.

CAPITAL EXPENDITURE
Expenditure on the acquisition of a non current asset, which will be used in providing services beyond the current financial year, or expenditure which adds to, and not merely maintains, the value of an existing non current asset.

CAPITAL FINANCING
Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL PROGRAMME
The capital schemes the Council intends to carry out over a specific period of time.

CAPITAL RECEIPTS
The proceeds from the disposal of land or other non current assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government, but they cannot be used to finance revenue expenditure.

CIPFA
The Chartered Institute of Public Finance and Accountancy.

COMMUNITY ASSETS
Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

CONSISTENCY
The concept that the accounting treatment of like items within a financial year and from one year to the next are the same.

CONTINGENT ASSET
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY
A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or

- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
The revenue account of the Council that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

CORPORATE AND DEMOCRATIC CORE
The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus, over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

CREDITOR
Amount owed by the Council for work done, goods received or services rendered within the financial year but for which payment has not been made by the end of that financial year.

CURRENT SERVICE COST (PENSIONS)
The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current year.

DEBTOR
Amount owed to the Council for works done, goods received or services rendered within the financial year, but for which payment has not been received by the end of that financial year.

DEFINED BENEFIT PENSION SCHEME
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

DEPRECIATION
The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Council's non current assets during the financial year, whether from use, the passage of time or obsolescence through technical or other changes.

DISCRETIONARY BENEFITS (PENSIONS)
Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

EXPECTED RETURN ON PENSION ASSETS
For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXTRAORDINARY ITEMS
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items, nor do they include prior year items merely because they relate to a prior year.

FAIR VALUE
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCE LEASE
A lease that transfers substantially all of the risks and rewards of ownership of a non current asset to the lessee.

GOING CONCERN
The concept that the Statement of Accounts is prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

GOVERNMENT GRANTS
Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be specific to a particular scheme or may support the revenue spend of the Council in general.

HERITAGE ASSETS
An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

HOUSING BENEFITS
A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by central government.

HOUSING REVENUE ACCOUNT (HRA)
A separate account to the Council Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Council.

IMPAIRMENT
A reduction in the value of a non current asset to below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS
Non current assets belonging to the Council that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

INTANGIBLE ASSETS
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Council's intangible assets comprise computer software licences.

INTEREST COST (PENSIONS)
For a defined benefit scheme, the expected increase during the financial year of the present value of the scheme liabilities because the benefits are one financial year closer to settlement.

INVENTORIES
Items of raw materials and stores a Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and work in progress.

INVESTMENTS (PENSION FUND)
The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

INTEREST RECEIVABLE OR PAYABLE
The effective interest rate method is used to measure the carrying value of a financial asset or liability measured at cost less accumulated amortisation, and to allocate associated interest income or expense to the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to equal the amount at initial recognition. The effective interest is adjusted to the actual interest payment or receipt through the Movement in Reserves Statement to ensure only actual interest is charged to Council Tax.

For financial assets and liabilities carried at cost because the effective rate of interest is the same as the carrying rate of interest, the carrying value is adjusted for accrued interest.

LIABILITY
A liability is where the Council owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next financial year, e.g. creditors or cash overdrawn.

- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

LIQUID RESOURCES
Current asset investments that are readily disposable by the Council without disrupting its business and are either:

- Readily convertible to known amounts of cash at or close to the carrying amount; or

- Traded in an active market.

LONG-TERM CONTRACT
A contract entered into for the design, manufacture or construction of a single
substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one financial year.

MATERIALITY
The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

NEGATIVE SUBSIDY
The Housing Revenue Account Subsidy calculation shows that the Council's assumed income exceeds expenditure giving rise to a "negative subsidy". In this case the Council must pay an amount equivalent to the deficit, from its Housing Revenue Account to the Welsh Assembly Government.

NET BOOK VALUE
The amount at which non current assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

NET DEBT
The Council's borrowings less cash and liquid resources.

NET WORTH
The Council's value of total assets less total liabilities.

NON-DISTRIBUTED COSTS
These are overheads for which no user now benefits and as such are not apportioned to services.

NATIONAL NON-DOMESTIC RATES (NNDR)
The National Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by the government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the Council on behalf of central government and then redistributed back to support the cost of services.

NON-OPERATIONAL ASSETS
Non current assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

OPERATING LEASE
A lease where the ownership of the non current asset remains with the lessor.

OPERATIONAL ASSETS
Non current assets held and occupied, used or consumed by the Council in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

PAST SERVICE COST (PENSIONS)
For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior financial years arising in the current financial year as a result of the introduction of, or improvement to, retirement benefits.

PENSION SCHEME LIABILITIES
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

PRECEPT
The levy made by precepting authorities on billing authorities, requiring the latter to collect income from Council Tax on their behalf.

PRIOR YEAR ADJUSTMENT
Material adjustments applicable to previous years arising from changes in accounting polices or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISION
An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

PUBLIC WORKS LOANS BOARD (PWLB)
A Central Government Agency which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

RATEABLE VALUE
The annual assumed rental of a hereditament, which is used for NNDR purposes.

RELATED PARTIES
There is a detailed definition of related parties in IAS 24. For the Council's purposes, related parties are deemed to include Central Government, Local Authorities and Other bodies, either precepting or levying demands on the Council. Related Parties can also include subsidiary and associated companies, joint venture and joint venture parties and particularly members and chief officers of the Council.

When considering who is a related party, regard is also taken of transactions involving members of the close family or household of any individual listed.

RELATED PARTY TRANSACTIONS
The Statement of Recommended Practice requires the disclosure of any material transactions between the Council and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

REMUNERATION
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES
The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the Revaluation Reserve cannot be used to meet current expenditure.

RESIDUAL VALUE
The net realisable value of an asset at the end of its useful life.

RETIREMENT BENEFITS
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

REVENUE EXPENDITURE
The day-to-day expenses of providing services.

REVENUE EXPENDITURE FUNDED BY CAPITAL UNDER STATUTE (REFCUS)
Expenditure which can be properly deferred (i.e. treated as capital in nature), but which does not result in, or remain matched with, a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations.

REVENUE SUPPORT GRANT
A grant paid by Central Government to authorities, contributing towards the general cost of their services.

TEMPORARY BORROWING
Money borrowed for a period of less than one year.

TRUST FUNDS
Funds administered by the Council for such purposes as prizes, charities, specific projects and on behalf of minors.

USEFUL ECONOMIC LIFE (UEL)
The period over which the Council will derive benefits form the use of a non current asset.

WORK IN PROGRESS (WIP)
The cost of work performed on an uncompleted project at the Balance Sheet date.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ISLE OF ANGLESEY COUNTY COUNCIL

I have audited the accounting statements and related notes of the Isle of Anglesey County Council for the year ended 31 March 2013 under the Public Audit (Wales) Act 2004.

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

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

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

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

Scope of the audit of the accounting statements

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

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

Opinion on the accounting statements of the Isle of Anglesey County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the Isle of Anglesey County Council as at 31 March 2013 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which I report by exception

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

Certificate of completion of audit

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

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9JL

27 September 2013

ANNUAL GOVERNANCE STATEMENT – 2012-13

1 BACKGROUND

Following a Corporate Governance Inspection in 2009 the Auditor General took intervention measures in the affairs of the Isle of Anglesey County Council under section 15 of the Local Government Act 1999. From March 2011 to September 2012, Commissioners appointed by the then Minister for Social Justice and Local Government exercised the Council's executive function. In October 2012 decision making powers were returned to the Leader and his Executive Committee with safeguards. Following the elections for county council members in May 2013 and the subsequent appointment of a new administration, the intervention was brought to an end at the end of May.

During the period of intervention, the Council worked to the Commissioners' ten improvement themes which included a number of areas to strengthen corporate governance. For 2012-13, Improving Corporate Governance was one of the Council's key Improvement Objectives in order to ensure the Council fully achieves its promise to promote and protect the interests of the Island, its citizens and its communities. In preparation for the new Council with thirty members rather than forty as previously, the County Council's Constitution and in particular the scrutiny arrangements were updated. A Transformation Plan for the authority was adopted in January 2013 setting out the agenda for its work up to 2016. It is a programme of change driven by the Council itself.

2 SCOPE OF RESPONSIBILITY

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

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

The Council has approved and adopted a local code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the local code is on our website at http://www.anglesey.gov.uk/council-and-democracy/governance-and-performance-/corporate-governance/. This statement explains how the Council has complied with the code and it meets the requirements of non-statutory proper practice encouraging the publication of an Annual Governance Statement. It also meets the requirement of regulation 4(2) of the Accounts and Audit (Wales) Regulations 2005 in relation to the publication of a statement on internal control.

3 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2013 and remains applicable up to the date of the approval of the Statement of Accounts. Where new arrangements have been introduced during the year, or following the elections in May 2013, this has been noted.

4 THE GOVERNANCE FRAMEWORK

The current framework as it relates to each of the six Corporate Governance principles is described in the schedules to the Local Code of Governance which is available at http://www.anglesey.gov.uk/council-and-democracy/governance-and-performance-/corporate-governance/ .

The following summary focuses on the areas of weakness and work on development and strengthening of the framework during the 2012-13 financial year. It is also linked back to the Transformation Plan themes.

Principle One: Focusing on the purpose of the authority and on outcomes for the community and creating a vision for the local area

Transformation Theme: Customer, Citizen and Community Focused Committed to Partnership; Achieving

A Community Strategy was in place during the year and a Single Integrated Strategic Plan was being developed in its place under the oversight of the Local Services Board. This change resulted from the national initiative to rationalise partnerships and plans. The Single Integrated Strategic Plan was subsequently approved soon after the end of the year.

A Corporate Plan 2012-15 was in place throughout the year and was reinforced by work undertaken during the year. The New Anglesey Roadmap which was a strategic, high level report, was endorsed by the Council in September 2012. The Transformation Plan to identify the programme of work emanating from the Roadmap and integrating it with the Council's other work programmes was developed by the Senior Leadership Team and adopted in January 2013.

An annual budget and high level Medium Term Revenue Budget Strategy was approved in March 2012 and updated in March 2013 following public consultation. The budget process included discussion in the public domain on the adequacy of reserves; robustness of estimates and treasury management arrangements as required. The Medium Term Financial Strategy needs to be developed.

The Statement of Accounts for 2011-12 were published on a timely basis with a draft being publicly available at the end of June and published with an unqualified audit opinion by the end of September as required. The certificate of completion of the audit was not issued until July as a result of an objection to the accounts by an elector. Arrangements are in place to publish the 2012-13 accounts in line with the statutory timetable.

An Improvement Plan (Performance Review) report was approved by the County Council in October 2012. The Plan looked back to assess how we performed against the priorities and targets as set out in our 2011/12 Corporate Business Plan. This was assessed by the Wales Audit Office in its Improvement Assessment Letter as the Council having complied in full with its improvement reporting duties under the Measure; but the content and structure of the Report could include more qualitative information to provide a more rounded evidence base. A Corporate Self-Assessment was undertaken in April 2013.

Partnership arrangements are in place on a case by case basis but there is no overarching partnership framework in place. This has been identified as a weakness.

Progress is being made on the way service quality standards are set and measured, and the information needs are to be assessed and improved. Target setting continues to be weak. During the autumn of 2012, a series of Service Reviews was undertaken which covered budgets and performance and which informed the budget process.

A Performance Management Framework was in place throughout the year with quarterly challenges to Services and reports to the Executive and Scrutiny. The framework continues to be developed to focus on key areas of risk and transformation.

Financial Management arrangements were in place throughout the year, although there were recognised weaknesses in the old financial ledger and related systems. The implementation of new financial systems which went live in April 2013 will resolve these weaknesses.

Principle Two: Members and officers working together to achieve a common purpose with clearly defined functions and roles

Transformation Theme: Professional and Well Run

The Council has adopted an Executive system with a Leader elected by the Council and an Executive of up to ten members appointed by the Leader. The Executive makes decisions on key strategic issues and is responsible for implementing the agreed policies of the Council. Each Councillor has a portfolio for a particular council function. Five scrutiny committees hold the Executive to account, these are made up of councillors not on the Executive. There are a six regulatory committees including Planning, Licensing, Appeals and Audit, together with a number of other committees set up for specific purposes. From March 2011 to September 2012, Commissioners exercised the Council’s executive function and in October 2012 decision making powers were returned to the Leader and his Executive Committee with safeguards.

Arrangements for committees and a scheme of delegation to officers and members are included in the Council’s constitution. Significant changes have been made to the committee structure and to the scrutiny function over recent years. During 2012-13 new arrangements were developed in preparation for the May 2013 elections to cater for the reduction in members from forty to thirty and for multi member wards.

A new Relationship Protocol for Members and Officers was approved in May 2012 and during 2013 we have agreed a programme supported by the Welsh Local Government Association (WLGA) to help develop the Executive and the way members and senior officers work together; this includes the key roles of Leader and Chief Executive.

The Council’s new senior management structure was completed during the year as the Deputy Chief Executive started in post in June 2012, Directors of Lifelong Learning and

Community in July and September 2012 respectively and a Head of Function (Resources) in January 2013. The approved senior management structure includes a Chief Executive who is the designated Head of Paid Service; a Deputy Chief Executive who is responsible for leading the internal functions of the Council and for ensuring good corporate governance; and three Directors who lead the agenda for their group of services, taking responsibility for the policy, planning and performance of those functions. These five officers form the Authority's Senior Leadership Team (SLT).

Heads of Function for Resources and for Legal and Administration are respectively the authority's designated Chief Financial Officer (CFO) and Monitoring Officer. They both report to the Deputy Chief Executive who is responsible for the management of their performance and for coordinating their governance roles within the wider corporate governance and performance and change management framework.

The approved management model is that the SLT leads on developing the vision and strategic direction of the Council and are held to account in that role; and that the extended management team has an implementation role. The CFO and Monitoring Officer are key members of the extended management team and have access to the Chief Executive and the SLT and its individual members.

It is a requirement that local authorities assess their arrangements on an annual basis against the CIPFA Statement on the Role of the Chief Financial Officer in Local Government and report on compliance or explain any alternative arrangements. Up to January 2013 the interim CFO was a member of the SLT reporting to the Deputy Chief Executive but having access to the Chief Executive. Since January, the approved management model has been in place which is a different model to that envisaged by CIPFA but which is intended to have an equivalent impact to that envisaged by the CIPFA Statement. A protocol is being drawn up to ensure that the Council's arrangements deliver an equivalent impact; this includes access to SLT meetings and papers and other safeguards. The effectiveness of the protocol for committee papers is also being reviewed to ensure that these officers are able to provide advice at the appropriate time. The effectiveness of these arrangements will be reviewed on an annual basis.

Allowances are paid to members in accordance with a local scheme based on the decisions of the Independent Remuneration Panel for Wales. The Panel published specific reports for this Council in respect of the year. Decisions on discretionary matters are taken by the Full Council and both the schemes, and the payments made to members under the scheme, are published on the Council's website.

A Pay Policy Statement was adopted for the first time in March 2012 as required and this was updated in 2013.

Principle Three: Promoting values for the authority and demonstrating the value of good governance through upholding high standards of conduct and behaviour

Transformation Theme: Professional and Well Run

The Corporate Plan for 2012-15 sets out the Council's values and these became embedded in the Vision of the Transformation Plan and the Transformation Culture.

A Local Code of Corporate Governance was adopted in October 2012, drawing together and formalising existing governance arrangements.

There are a number of codes of conduct and protocols in place as part of the Constitution to ensure high standards of conduct and behaviour. There is a Policy for the Prevention of Fraud and Corruption in the Constitution with subsidiary plans in place.

An active and effective Standards Committee is in place and it reported on its work at the end of the year.

Principle Four: Taking informed transparent decisions which are subject to effective scrutiny and managing risk

Transformation Theme: Innovative, Ambitious and Outward Looking

The constitution and associated procedures establish responsibilities for decision making. Decisions are made taking account of appropriate professional advice including legal and financial advice. Executive decisions are published and subject to scrutiny. The arrangements for delegation of Executive decisions to individual members are not well understood across the authority and guidance is being reissued.

In November, the Council introduced new systems to ensure easy access to the Council's agendas, papers and minutes and from May members and the public have had the full benefit of access to committee papers and supporting information. Members have direct access to this electronic system during meetings.

The role of Scrutiny was strengthened as part of the Commissioners' programme of work and an Annual Report was published in May setting out the work done by the Committees during the year. Scrutiny was also the subject of a national Wales Audit Office Improvement Study in early 2013 and the Council conducted a self-evaluation as part of the study. The results of the self-evaluation show a perception that scrutiny is not yet positively supporting the Council and its Services. The results of the self-evaluation will be considered in the context of changes made since May 2013 and the forthcoming national report and guidance From June 2013 the number of scrutiny committees has been reduced from five to two.

Risk Management arrangements have been developing over the last two years and the policies and guidance were reaffirmed and formally adopted in September 2012. Arrangements continue to be embedded in services and corporately.

The management of change has been weak within the authority and project management not embedded. Since the end of the year, significant steps have been taken to develop a new programme and project management framework and to provide capacity to support the Transformation Plan.

An effective Audit Committee is in place. The committee conducted a self-assessment during the year and reported on its work at the end of the year.

There are transparent and accessible arrangements for dealing with complaints and a new Concerns and Complaints Policy came into force in April 2013 based on the Model Policy developed with the Public Services Ombudsman for Wales. There are also formal arrangements for whistle blowing.

Principle Five: Developing the capacity and capability of Members and Officers to be effective

Transformation Theme: Valuing and Developing our People

The Council has been working towards achieving the Member Charter awarded by WLGA. Member job descriptions have been in place since 2012 and personal development reviews and development plans were being introduced. An induction programme for new members was undertaken in June 2013 onwards. The Democratic Services Committee oversees these areas and its Chair serves as Member Development Champion.

A Democratic Renewal Strategy was completed in the year in preparation for the elections held in May 2013. This strategy contributed to increased participation and increased voter turnout.

As a result of public engagement activity over the last few years, there is a pool of citizens who have volunteered to assist the Council in the future.

We have a People Strategy and we retained our Investors in People accreditation in the year. There was an induction programme in place for staff throughout the year and a managers' induction programme was launched in April 2013.

The Corporate Personal Development Review scheme introduced in 2011-12 was further embedded and developed in the year. The scheme covers all staff including senior managers. Over 60% of staff received their appraisal, a similar level to the previous year. Targets have been set to ensure a higher rate during 2013-14. Arrangements are being made to target training and development on a more consistent and focused basis, linked to appraisal, as budgets are reduced.

During 2012 we adopted a Workforce Development Strategy and Succession Planning Strategy. A Talent Strategy was being developed in the year and work is proceeding to embed it into the competency appraisal process. This is due to be fully adopted in 2013.

The People Strategy 2012-15 is due to be reviewed in 2013 and will incorporate the needs of the Transformation Plan and outcomes of the staff survey conducted in May and June 2013.

As part of the activity on the Transformation Plan and staff engagement activity, individuals across the authority have been given an opportunity to work on corporate projects and strategies.

Principle Six: Engaging with local people and other stakeholders to ensure robust accountability

Transformation Theme: Customer, Citizen and Community Focused

The Community Engagement Strategy produced in 2011 was still in place and was supported by Good Practice Consultation and Engagement Guidelines for staff. This strategy is now dated and is to be replaced by a Customer Care Strategy and the new Corporate Communication Strategy.

Arrangements for engagement with groups of stakeholders continued to develop during the year with a Community Council Charter approved in 2012 and a Voluntary Sector Compact formally approved at the end of the year.

Arrangements are in place to engage with Welsh Government, External Audit and other regulators and WLGA. These have been strengthened during the recent periods of intervention and need to be sustained as part of the continuing governance arrangements.

A Communication Strategy produced for 2012-15 was in place for the year and gained formal approval during the year. The strategy has four strands: Citizen and Community Engagement; Media; the Council Brand; and Internal Communication. Internal Communication is a key area for development in the Transformation Plan.

Corporate planning for the year was firmly based on engagement with local people and stakeholders in respect of the Corporate Plan and the Single Integrated Strategic Plan. Corporate Planning was linked to financial planning by consulting jointly on the Improvement Priorities and the Budget Strategy.

Annual reports on their work were published by Scrutiny as well as the Standards and Audit Committees.

There are longstanding arrangements for engaging with employees: with Trade Unions through the Local Joint Consultative Committee and less formal meetings, and communication with staff generally through e.g. monthly staff bulletins. Managers and staff are being consulted and involved in decision making as part of the Transformation Programme.

5 REVIEW OF EFFECTIVENESS

The Isle of Anglesey County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The effectiveness of the governance framework has been evaluated by a combination of:

- the results of the regular in-year review and monitoring by officers and committees;
- a review of relevant documents prepared during the year or relating to the year;
- the reports of the Commissioners leading to the ending of intervention at the end of May 2013;
- the Corporate Self-Assessment Report covering the period November 2012 – April 2013 and the transition back to local control, including reviews of feedback from Estyn and CSSIW and the related recovery boards on the improvement work in relation to Education and Children's Services;
- a series of interviews with key officers;
- discussion with, and receiving comments from, groups of officers and members including the SLT and the Executive.

Regular in-year review and monitoring includes:

- reviews of the Constitution and ethical governance arrangements by the Monitoring Officer, and the review of compliance with the Regulation of Investigatory Powers Act;
- formal risk management activity, including specific consideration of those risks linked to governance processes;
- Internal Audit, whose work takes account of identified risks through regular audits of the major systems, establishments, major projects and major governance processes; including risk management, in accordance with the annual internal audit plan, and which includes 'follow-up' work to ensure that senior officers implement agreed recommendations;

- the annual assessment of Internal Audit by the Council's external auditors;
- the work of the Council's Scrutiny and other Committees, including its Audit and Standards committees;
- the opinions and recommendations of the Council's external auditors and other review agencies and inspectorates;
- the regular monitoring of improvement and performance against the Corporate Plan and its supporting plans and strategies by members and senior managers;
- assessments of the statutory officers, such as the Chief Financial Officer and the Monitoring Officer against regulatory requirements and recommended best practice.

Key policies, and any amendments to them, are approved by the Executive and where appropriate, formally adopted by the County Council.

The sources of assurance have been more formal and more varied on aspects of governance over the last two years because of the additional focus, resulting from intervention, through the Self-Assessments, the Commissioners' reports and the regulators' reports. This assurance was substantial over the key aspects of governance identified by Commissioners although some of the assessment was based on improvements made during the year and work planned for 2013-14.

As the Council moves out of intervention and puts its new governance arrangements in place it is necessary to identify new sources of assurance for future years.

The Audit Committee was asked for views on the effectiveness and completeness of the framework and comments on a draft version of this AGS before final draft was taken back to the Committee for approval.

6 SIGNIFICANT GOVERNANCE ISSUES

Excellent progress was made across a number of governance themes during the year leading to an Annual Improvement Report from Wales Audit Office concluding "that the Council has a comprehensive plan for improvement which will be challenging to achieve, but which has realistic prospects to bring significant improvements to services and the people of Anglesey. [they] found that:

- the Council has discharged its improvement planning duties under the Local Government (Wales) Measure 2009 (the Measure) and has acted in accordance with Welsh Government guidance;
- the Council continues to make steady progress in addressing the proposals for improvement identified in previous assessments;
- the Council has clear and robust financial plans but faces a number of financial challenges with continuing austerity measures; and
- the Council has developed an organisational development plan to support long-term improvement and modernise the way the Council works."

Subsequently, intervention was brought to an end at the end of May 2013.

The report of the Head of Internal Audit gives assurance on the framework for internal control. It identifies three reviews carried out during the year which received a "red" assurance opinion. These reviews related to Business Continuity, Data Security and Modern Records Management. The recommendations from all of these reports have been included in a Corporate Information Management Action Plan. The report also identifies four areas where significant weaknesses in control would prevent the Council placing reasonable reliance on the systems of internal control in respect of those systems reviewed during the year. These areas were:

- Business Continuity;
- Risk Management;
- Governance: compliance with key corporate policies and procedures;
- Information Management.

Good progress was made on a number of the actions resulting from the 2011-12 Annual Governance Statement:

- The Council adopted a Local Code of Governance and signed off the Single Integrated Plan incorporating the Health, Social Care and Wellbeing Strategy;
- We published unqualified accounts by the statutory deadline;
- Work was well underway on the Action Plans developed following adverse reports on the Council's services by Estyn and CSSIW;
- Added impetus was given to the Job Evaluation and Equal Pay processes during the year.

Progress is slower on some of the other areas:

- Risk Management, although the Framework is now formally approved;
- Business Continuity;
- Compliance with key corporate policies, including staff appraisals;
- Data Security and Information Governance.

These items are reflected in the report of the Head of Internal Audit and are included in the governance action plan for 2013-14.

Based on the review outlined above, and in particular, the annual report of the Head of Internal Audit; the findings of the outgoing Commissioners in their Commissioners' Reports; the Annual Improvement Report by the Wales Audit Office; and the work of the Senior Leadership Team in formulating the Council's Transformation Plan, the following issues have been identified as the current significant governance issues in relation to the authority achieving its vision:

Significant Governance Issues	
Issue	**Actions Identified**
The need to ensure that the Transformation Programme is delivered as planned while continuing to provide services effectively	*Establish Transformation Boards; Programme Management Office and Governance arrangements* *Developing internal capacity to support transformation and improvement*
The need to plan for and deliver the savings required of the Council	*Develop a Medium Term Budget Strategy based on existing plans and projections* *Establish the Efficiency Strategy as part of the Council's core strategic plans* *Introduce Commissioning and Procurement Policy and Strategy*
Taking appropriate technical and organisational measures against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data	*The Council has accepted a consensual audit by the Information Commissioner* *Establish a project board to implement existing work plans and the recommendations of the Information Commissioner*

7 CERTIFYING THE ANNUAL GOVERNANCE STATEMENT

We have been advised on the implications of the result of the **review of the effectiveness of the governance framework** by the Audit Committee and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**. The areas already addressed and those to be specifically addressed with new actions planned are outlined in the document.

We propose to take appropriate steps to address these and the other weaknesses identified in the Annual Governance Statement and to further enhance our governance and assurance arrangements in the forthcoming year. We will monitor the implementation and operation of improvements through the Audit Committee and as part of our next annual review.

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Leader of the Council	**Chief Executive**
Date:	**Date:**

On behalf of the Isle of Anglesey County Council

Audit of Financial Statements Report

Isle of Anglesey County Council

Audit year: 2012-13

Issued: September 2013

Document reference: C13317

Purpose of this document

This document is a draft supplied in confidence solely for the purpose of verifying the accuracy and completeness of the information contained in it and to obtain views on the conclusions reached.

Handling prior to publication

Contents

The Appointed Auditor is currently considering the form of his audit opinion on your financial statements in the light of the issues identified regarding the valuation of the pensions liability within the Statements of Account. If these issues are resolved, the Appointed Auditor's intends issue an unqualified audit report on the financial statements. There are some issues to report to you prior to their approval.

Summary report

Introduction

1. Anthony Barrett, as Appointed Auditor, is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the Isle of Anglesey County Council ("the Council") at 31 March 2013 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for the Isle of Anglesey County Council are £2,199,000 for income and expenditure items and working capital balances. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Isle of Anglesey County Council, for 2012-13, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2013 on 28 June 2013, and at the date of our presentation of this report the following were outstanding:
    - Pension scheme membership data testing
    - Manual journals testing
    - Resolution of issues arising from our initial testing of completeness of accruals and accounts payable
    - Testing of the HRA subsidy and reconciliation
    - Final responses to queries on the accounts from the audit team
    - Completion of our work on key judgemental provisions in the accounts in respect of equal pay claims
    - Completion of remaining Whole of Government Accounts procedures
    - Audit completion procedures

    We will update the Audit Committee on the progress of these matters verbally on 24 September 2013.

7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the s.151 officer, Clare Williams.

Proposed audit report

8. The Appointed Auditor is currently considering the form of his audit opinion on your financial statements in the light of the issues identified regarding the valuation of the pensions liability within the Statements of Account. If these issues are resolved, the Appointed Auditor's intends issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in Appendix 1.
9. The proposed audit report is set out in Appendix 2.

Significant issues arising from the audit

Uncorrected misstatements

10. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

<u>Cost of services expenditure</u>

DR Council fund	£126,000
CR Cost of services (expenditure)	£126,000

A trivial £256 error was identified in our testing of cost of services expenditure which related to the 2011/12 period. Were the same rate of error to be replicated across cost of services expenditure, it would give rise to an extrapolated value of £126,000.

<u>Completeness of accruals and accounts payable</u>

DR Cost of services (expenditure)	£402,000
CR Accruals	£402,000

Four trivial errors totalling £17,058 (out of a sample of 14 items) were identified in our testing invoices posted after the year end date for the completeness of accruals and accounts payable. Were the same rate of error to be replicated across our test population, it would give rise to an extrapolated value of £385,000.

<u>Income recognised in error, or miscoded</u>

DR Cost of services (income)	£178,000
CR Cost of services (expenditure)	£85,000
CR Short term debtors	£93,000

Three trivial errors totalling £39,317 (out of a sample of 42 items) were identified in our testing grant income received in year, representing an internal recharge recognised within the balance in error, an overpayment against purchase invoices posted to income in error, and income from another council which is currently being disputed by them. Were the same rate of error to be replicated across our test population, it would give rise to an extrapolated value of £138,000.

Corrected misstatements

11. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in Appendix 3.

Significant audit risks

12. In our Financial Audit Strategy, we set out information regarding the significant audit risks that were identified during the audit planning process. The table below sets out the outcome of our audit procedures in respect of those risks

Risks	Action taken
Revenue and expenditure recognition • There is a specific risk that the Council could manipulate the income it records for capital or revenue grants where there is no substance behind the transaction, before it is entitled to recognise the income, or before the associated terms and conditions of the grant have been met in order to accelerate revenue recognition and achieve a more favourable result for the year. • We consider that there are further specific risks around the completeness and accuracy of accruals, and cutoff procedures whereby the Council could manipulate its recognition of expenditure by recognising expenditure inaccurately or incompletely, or in the	We have understood and evaluated the controls in place to mitigate this risk and: • evaluated key controls to confirm our understanding of the design of the control; • tested key reconciliations; • tested that the Council was entitled to include income recognised in respect of grants funding in its accounts; and • tested that transactions that occurred around year-end were recorded completely, accurately and appropriately classified within the financial year to which they related. We have considered the accounting policies adopted by the Council and subjected income and expenditure to an appropriate

incorrect accounting period in order to achieve a more or less favourable result for the year.	level of testing. We have also considered the work we undertook in relation to the risk of management override of controls (see below). We have identified misstatements as a result of our testing (see below, and appendix 3).
Management override of controls • In any organisation, management may be in a position to override the financial controls that you have in place. A breach of controls of this nature may result in a material misstatement.	• We understood and evaluated internal control processes and procedures as part of our planning work. • We reviewed and tested the appropriateness of a sample of manual journals processed during the year. • We looked carefully at management estimations and considered if they were subject to bias. • We understood the business rationale for significant transactions which appeared out of the normal course of business. • Our audit procedures also included an unpredictable element that varies year on year. We have not identified any misstatements as a result of our testing to date.
Management's estimates • There are a number of management estimates in the financial statements that, given their judgmental nature, may be materially misstated. These may include the Equal Pay / Single Status provision, general provisions such as for bad debts, holiday pay accruals, and the provision for landfill liabilities in respect of Penhesgyn. We have previously proposed adjustments in respect of the Penhesgyn and Equal Pay / Single Status provisions approaching our materiality threshold, and there is therefore a risk that any such adjustments proposed in future could be material.	• We prioritised the audit work on the key judgement areas to ensure that issues arising were considered as early as possible. See below for our consideration of key management estimates and our work on them. As a result of our testing, management proposed to adjust the landfill provision and valuation estimates (see below, and appendix 3). Our work in respect of equal pay claims is ongoing and may result in further adjustments.
Accounts preparation • Difficulties in filling positions permanently in the Finance Team had an adverse effect on the Council's accounts production process in	We worked closely with management in order to monitor the progress made in the preparation and production of the 2012/13 accounts. Staff were successful in meeting the relevant deadlines.

2009/10 and 2010/11. Experienced interim staff were successful in meeting all deadlines in 2011/12. Some key accounting roles continue to be undertaken by interim staff but the position of s151 officer has now been substantively filled. It is essential that the performance of 2011/12 is continued and that sufficient and appropriate resources are dedicated to the production of the statutory accounts in accordance with required timetables.	We identified one issue regarding the accounts production process which we consider to be a material control weakness, and have reported this below.
New housing rent and general ledger system • The Council implemented a new housing rent system in November 2012, and will be implementing a new general ledger system in April 2013. There is a risk that the transition process may give rise to potential issues, such as data transfer being inaccurate or incomplete.	The Council's internal auditors reviewed the transfer process from the old housing rent system to Orchard and have tested the accuracy of records transferred, noting one issue regarding logical access rights to the system by a number of users. This did not have an impact on the work we have performed around housing rents. We undertook substantive analytical work over the housing rental income numbers, . Our approach did not require reliance to be placed on the controls in the new housing rent system (Orchard). The Council's internal auditors have reviewed the transfer process to the new general ledger system, noting no significant issues. The Council's old general ledger system (Finance Link) was used to produce the statements of account. The work we have undertaken on the Council's new general ledger system (Civica) was limited to assessing the validity of any reports we required of it. We did not identify any exceptions as a result of this testing.

Expenditure recognition – completeness of accruals

13. Following the identification of the completeness of accruals as one of our specific risks, we undertook procedures designed to identify any unrecorded liabilities.

14. Our sampling identified 4 errors in a test population of 14 postings to the accounts payable ledger after the year end date. At the date of writing, the Council is currently reviewing invoices posted after the year end to ascertain whether any further items of expenditure should be accrued: the audit team will then perform the test again. We will update the audit committee verbally on 24 September as to the results of this work.

Significant estimates

15. During the course of our audit we undertook specific procedures in respect of areas subject to estimation risk.

Fixed asset valuations

16. The Council revalued a proportion of its fixed asset portfolio at 1 April 2012 in accordance with its accounting policy to revalue assets on a rolling five year basis. Our audit focussed on the robustness of the calculations performed by the Council's qualified internal valuer and the assumptions used in the valuation.

17. For the assets formally revalued by the Council, we identified an error of £472,000 relating to the Methane Production Facility based at Penhesgyn, the value of which had been overstated. Further, based on an error in the methodology used in their calculation, the value of Investment Properties was understated by £352,000. Each of these errors have been adjusted for in the final financial statements.

18. At our request, the Council undertook an indexation exercise to update the value of those significant categories of land and property (not formally valued in year) to 31 March 2013 as well as to update the value of those assets valued at 1 April 2012. This resulted in a reduction in the value of Council Dwellings of £2.5m based on a 3.5% fall in the average value of right-to-buy dwellings on the Isle of Anglesey since the point of last formal valuation (1 April 2010). The value of Land and Buildings increased by £6.7m following increases in the building indices (BCIS) which underlie such valuations. The Council have adjusted these changes in their statements of account.

19. We noted in the previous year that the Council uses the Beacon approach to value its council housing stock, which involves selecting a number of 'beacon' properties which are representative of differing categories or tiers of social housing, valuing them, and then applying this value to each tier respectively.

20. In order to reflect the difference between private housing and social housing (such as council dwellings) where tenants have much greater rights, under the Beacon approach an adjustment factor is applied.

21. At the time of the last formal valuation there was no data on adjustment factors available for Wales, so the Council selected a comparator region (Yorkshire and Humberside) and applied this adjustment factor of 31%.

22. A research paper, published by DVS (public sector valuation specialists) in April 2011, provided indicative information on adjustment factors for the Welsh regions, and the factor given for North and North-East Wales was 39%. This paper has not however yet been incorporated within any formal guidance.

23. A 1% change in the adjustment factor applied would have a material impact on the value of council dwellings. The Council therefore carefully considered which adjustment factor to apply, concluding that the research paper had not undergone sufficient consultation and validation in order for it to be relied upon for such a significant change to their statement of accounts. It has therefore retained its existing adjustment factor of 31% but has drawn the readers' attention to the research paper in its statement of accounts noting that it could lead to a significant change in the value of its council dwellings in future by approximately £3.4m per 1% difference. We considered this approach reasonable.

Job evaluation and equal pay liabilities

24. In 1997, local government employers and the trade unions signed the 'Single Status Agreement'. Enshrined in equal pay legislation the agreement committed authorities to undertake equal pay reviews and to introduce non-discriminatory pay structures, addressing the fact that local government employees were employed on differing terms and conditions.

25. In recent years the Council has received equal pay claims and continued to receive further claims during 2012/13. Management have assessed the Council's potential exposure to claims in order to arrive at an estimate of the liability in respect of these legal claims.

26. We have substantively tested the calculations performed by management and discussed the estimate with the s151 officer. We have been informed that the statement of accounts reflects the estimate that management consider to be appropriate based on the information available to them and their intentions in dealing with the claims. Our work in respect of the key judgements within the calculation of the provision is ongoing and we will update the audit committee as to the outcome of this work at the meeting on 24 September 2013.

27. The Council have additionally disclosed a contingent liability in respect of potential equal pay liabilities for which no claims have been received.

28. The Council is currently undertaking its Job Evaluation exercise, but has not yet been able to provide a detailed assessment of its potential liabilities resulting from the requirement to introduce a new pay and grading system with effect from 1 April 2007.

29. Job Evaluation scores associated with posts have been issued to Council Heads of Service, who have responded with a number of questions which the Council are currently addressing. Job Evaluation scores have not yet been issued to individual staff members, or associated with a new pay and grading system.

30. It is possible that the Council may have to recognise a material liability in respect of this exercise. It has a reserve of £2.7m set aside to fund its anticipated costs. As the Council has not yet proposed a new pay and grading system and has not quantified any potential back pay liabilities, no provision has been made in respect of the job evaluation exercise although a contingent liability is disclosed.

Waste provision

31. The Council has retained a £1.9m provision in the statement of accounts in respect of after-care costs at part of the capped Penhesgyn waste site. The valuation of this provision derives from a specialist environmental assessment undertaken in 2008. The assessment projects costs for after-care over a 30 year period for the whole site. However, the Council has only recognised a proportion of these costs in the form of its waste provision for one part of the Penhesgyn waste site.

32. The other part of the Penhesgyn waste site contains facilities to collect and process waste gas generated by decomposition of waste. The estimate undertaken by the specialist for the remainder of the provision has been partly superseded by the capital investment undertaken in order to extract and sell gas. However, the remaining costs, which are revenue in nature, are required to be incurred by environmental legislation and therefore should be provided for.

33. The specialist environmental assessment indicates that the provision which should be recognised by the Council in addition to its existing £1.9m provision is £756,000. This has been calculated on an undiscounted basis, also assuming no inflation.

34. Management have agreed that the provision recognised in the statement of accounts should be increased, and have increased it by £775,000, funded from an earmarked reserve previously established for this purpose.

35. We have undertaken some sensitivity analysis, discounting based on the costs stated in the specialist environmental assessment, applying a number of discount rate and inflation assumptions to give a range of potential provision values. We are satisfied that the Council's amended provision falls within a reasonable range of estimates which are based on a discounted model.

Pensions

36. Following testing on the completeness and accuracy of membership data provided to the pension scheme, we identified that the membership data used by the actuary may be materially inaccurate.

37. We are currently undertaking further testing to determine the implications of this. We will update the Audit Committee verbally on 24 September 2013.

Other significant issues arising from the audit

38. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.

- **There were no significant matters discussed and corresponded upon with management which we need to report to you other than as set out in this report.**
- **There is one other matter significant to the oversight of the financial reporting process that we need to report to you.**

  Oversight of the production of the accounts

  We identified a material misstatement through the course of our audit fieldwork of £61.6m (see Appendix 3) which occurred as a result of a member of the finance team reversing internal recharges incorrectly. Whilst it had no effect on the Net Cost of Services, Income and Gross Costs of Services were materially overstated in the draft accounts presented to the audit team.

  Additionally, several immaterial errors of a similar nature were identified where opening accruals were incorrectly reversed, or grants income and expenditure were duplicated in error (see Appendix 3).

  These issues could have been identified by a more detailed review during the production of the accounts.

  We have not identified any further material weaknesses in control, although we have identified several areas in which it would be possible to improve control. These will be reported separately to management.
- **We did not identify any material weaknesses in your internal controls**
- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

39. As part of the finalisation process, we are required to provide you with representations concerning our independence.

40. PwC provides grants certification services to the Council which give rise to annual charges of approximately £140,000.

41. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office/PwC and the Isle of Anglesey County Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

(Audited body's letterhead)

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

PwC
One Kingsway
Cardiff
CF10 3PW

26 September 2013

Representations regarding the 2012-13 financial statements

This letter is provided in connection with your audit of the financial statements of the Isle of Anglesey County Council for the year ended 31 March 2013 for the purpose of expressing an opinion on their truth and fairness.

We confirm that to the best of our knowledge and belief, having made enquiries and, where appropriate, inspected supporting documentation as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects the Isle of Anglesey County Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements; and
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:

Cost of services expenditure

DR Council fund	£126,000
CR Cost of services (expenditure)	£126,000

A trivial £256 error was identified in our testing of cost of services expenditure which related to the 2011/12 period. Were the same rate of error to be replicated across cost of services expenditure, it would give rise to an extrapolated value of £126,000.

Completeness of accruals and accounts payable

DR Cost of services (expenditure)	£402,000
CR Accruals	£402,000

Four trivial errors totalling £17,058 (out of a sample of 14 items) were identified in our testing invoices posted after the year end date for the completeness of accruals and accounts payable. Were the same rate of error to be replicated across our test population, it would give rise to an extrapolated value of £385,000.

Income recognised in error, or miscoded

DR Cost of services (income)	£178,000
CR Cost of services (expenditure)	£85,000
CR Short term debtors	£93,000

Three trivial errors totalling £39,317 (out of a sample of 42 items) were identified in our testing grant income received in year, representing an internal recharge recognised within the balance in error, an overpayment against purchase invoices posted to income in error, and income from another council which is currently being disputed by them. Were the same rate of error to be replicated across our test population, it would give rise to an extrapolated value of £138,000.

Based on progress to date, we are currently unable to make an assessment of our potential liabilities for back pay with respect to the ongoing Job Evaluation exercise.

The 'Other' provision (included in respect of Equal Pay claims) is based on our best estimate of the potential liabilities arising from the settlement of these claims, and that all claims and developments in applicable case law which we are aware of have been taken into account. We confirm that the Council intends to attempt to settle these claims out of tribunal, and that settlements are only to be offered to those claimants who the Council currently considers has a valid claim, and has accordingly made provision in the statements of account for.

We confirm that we are satisfied that the figures given in respect of Fixed Assets and Investment Properties in the Statements of Account represent our best estimate of the value of those assets and that the valuation methods used are appropriate.

The underlying assumptions and membership data used in the actuarial valuation of the pension scheme are appropriate for the Isle of Anglesey County Council.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Isle of Anglesey County Council on 26 September 2013.

Signed by:	Signed by:
[Officer who signs on behalf of management]	[Officer or Member who signs on behalf of those charged with governance]
Date:	Date:

Appendix 2

Proposed audit report of the Appointed Auditor to the Isle of Anglesey County Council

Independent auditor's report to the Members of the Isle of Anglesey County Council

I have audited the accounting statements and related notes of the Isle of Anglesey County Council for the year ended 31 March 2013 under the Public Audit (Wales) Act 2004.

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

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

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

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

Scope of the audit of the accounting statements

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

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

Opinion on the accounting statements of the Isle of Anglesey County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the Isle of Anglesey County Council as at 31 March 2013 and of its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13.

Opinion on other matters

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

Matters on which I report by exception

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

Certificate of completion of audit

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

Appointed Auditor

Address

Date

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
£61,580,000	DR Cost of Services (Income) CR Cost of Services (Expenditure)	An error in the reversal of internal recharges within the general ledger resulted in the overstatement of income and expenditure within the cost of services.
£6,710,000	DR Fixed assets CR Revaluation reserve	Based on the upwards indexation for significant categories of other land and buildings since the last formal valuation date.
£2,534,000	DR Capital adjustment account DR Other CIES CR HRA balance CR Fixed assets	Based on the downwards indexation for council dwellings since the last formal valuation date.
£352,000	DR Investment properties CR Financing & investment income and expenditure	Based on the correction of a methodological inaccuracy in the calculation of properties' value.
£775,000	DR Usable reserves CR Provisions	The provision associated with the cost of managing the landfill site at Penhesgyn has been increased to cover the Council's estimate of likely total costs. It has been funded from a usable reserve earmarked for landfill costs.
£643,000	DR Cost of Services (Income) CR Cost of Services (Expenditure)	An error in the re-analysis of costs and income related to grants within the general ledger resulted in the duplication of these costs and within the cost of services.
£472,000	DR Impairment costs CR Fixed assets DR Capital Adjustment Account	The value of the Methane Production Facility at the Penhesgyn landfill site was overstated.

	CR Council Fund	
£322,000	DR Short term debtors CR Short term creditors	An error in the reconciliation of Council Tax and NNDR debtor balances to the ledger resulted in an over-adjustment to the ledger.
£164,000	DR Short term creditors CR Cost of services (income)	Being the release to CIES of a Supporting People Grant balance incorrectly held as a creditor

WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 029 2032 0660

E-mail: info@wao.gov.uk
Website: www.wao.gov.uk

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500
Ffacs: 029 2032 0600
Ffôn Testun: 029 2032 0660

E-bost: info@wao.gov.uk
Gwefan: www.wao.gov.uk

WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Performance work programme update for Audit Committee 24 September 2013

Isle of Anglesey County Council

Improvement Assessment Letter 1 – Improvement planning

The review is complete and Letter issued. This is a review of the Council's improvement plan arrangements to secure continuous improvement. The letter follows the publication of the Council's improvement plan. However, as there was an election this year, the Council has delayed the production of its improvement plan until October 2013. This is similar to the arrangements last year with other Welsh authorities. Feedback will be provided to the Audit Committee.

Improvement Assessment Letter 2 - Testing and Audit of Council's Performance Assessment Publication

This is a review of how well the Council has reported on its performance in the last year. The letter will also provide a commentary of the Council's Improvement Plan and Data Quality Audit. The Letter will be produced by November 2013 with feedback to the Audit Committee.

Annual Improvement Report

The Annual Improvement Report (AIR) summarises all the work carried out by the Wales Audit Office as well as that carried out by relevant regulators, such as Estyn, CSSIW and Welsh Language Commissioner. The AIR is to be produced in January/February 2014.

Data quality review

A review of a selection of performance indicators and systems to ensure accuracy of performance information. The review is complete and to be reported through local feedback and in IA Letter 2 in November 2013.

Improvement study – Safeguarding

This study is being scoped and it is proposed that the focus of the work will be to assess the robustness of councils' internal management arrangements to assure themselves that safeguarding arrangements are working effectively. The study will be conducted across all 22 authorities. The main outputs from the study will be a national report on the findings from the local work and a short summary report for each council consisting of the main findings from the fieldwork. A project brief setting out the work will be distributed to councils by the start of October 2013.

Local Government National Study – Welfare reform

The study will focus on preparing to deal with the impact of the Welfare Reform Act 2012. This study is being scoped and it is proposed that the focus of the work is to look at how well local government has planned for the introduction of welfare reform by tracing the implications on social housing. Nine authorities across Wales have been identified but does not include Anglesey, although all councils may receive data requests from the study team. A project brief setting out the work will be distributed to councils in September 2013.

Local Government National Study - Delivering with less – the impact on Environmental Health Services and citizens
This service specific study is being scoped and a draft project brief has been produced. The work will assess the impact of cuts in resources on environmental health services to determine how well they are managing with less. The work is planned to take place across all 22 councils in Wales, but will not require detailed fieldwork with the delivery being managed and coordinated centrally. A project brief setting out the work will be distributed to councils in September 2013.

Effectiveness of scrutiny
This is a 2012-13 study. The self-assessments and regional workshops have been completed and final self-assessment reports issued to councils. A national report is being drafted and should be published in autumn 2013. In November, Wales Audit Office will be delivering a national conference in conjunction with WG, WLGA, and the Centre for Public Scrutiny and Cardiff Business School. The conference will be highlighting the emerging themes from the study.

Annual Governance Statement
This is a 2012-13 study. The work is complete and local summaries finalised and distributed to councils. A national report is being drafted and should be published in autumn 2013. Wales Audit Office is working with some LG reference partners to develop an on-line resource to assist councils in carrying out reviews of governance arrangements.

Local Government Study - NEETS (young person who is not in education, employment, or training)
This is a 2012-13 study. The study seeks to answer the question: **Are there lessons for local government to learn from efforts to secure better outcomes for young people who are, or are at risk of becoming NEET?** The fieldwork for the project is well advanced and due for completion by September 2013. Eight councils were included in the fieldwork, not including Anglesey. For those 11 councils where no fieldwork has been undertaken, a letter inviting them to let us know of good practice, which will be accompanied by the national research data summary, will be sent out soon. The findings from the local government element of this study will feed into a national report covering both the findings from the local government and value for money studies and is planned for publication in early 2014.

Local Government Study - Managing the financial challenge
The follow up fieldwork is complete and the report is being drafted. The report should be finalised for publication in October 2013. There will be no specific feedback to individual councils as part of this exercise.

Work specific to Anglesey

Homelessness
A review of Homelessness was conducted prior to the new Council. The findings are reported in IA Letter 1 and through local feedback.

Local review
Review of the effectiveness of relationships between councillors, and between councillors and officers following the 2013 elections. The work is planned for November/December 2013 and will be reported through local feedback and, in the AIR.

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

24 Cathedral Road / Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 20 320500
Fax / Ffacs: 029 20 320600
Email / Ebost: wales@wao.gov.uk
www.wao.gov.uk

Richard Parry Jones
Chief Executive
Isle of Anglesey County Council
Council Offices
Llangefni
LL77 7TW

Date 13 September 2013
Our reference 467A2013
Pages 1 of 14

Dear Richard

Improvement Assessment

I am required, under the Local Government (Wales) Measure 2009 (the Measure) to report my audit and assessment work in relation to whether Isle of Anglesey County Council (the Council) has discharged its duties and met the requirements of the Measure.

This letter summarises:

- my views on whether the Council has discharged its statutory duties in respect of improvement planning;
- my views on the Council's compliance with requirements to make arrangements to secure continuous improvement, based on work carried out to date by the Wales Audit Office and relevant regulators, including:
  - the Council's progress on areas for improvement and recommendations identified in my previous assessments;
  - any relevant issues that may have emerged since my last report, including comments on how the Council is addressing financial challenges; and
  - a brief summary of any reports of relevant regulators issued since my last report.
- my further proposals for improvement and/or recommendations; and
- updates to the Wales Audit Office work plan and timetable for delivering my Improvement Assessment work.

I shall update my views during the year and will provide a further letter by the end of November 2013.

I am unable to state whether the Council has discharged its improvement planning duties under the Measure as the Council has not yet published its Improvement Plan for this year

The Council has decided to delay publication of this year's Improvement Plan until October 2013. This delay is to give the newly elected members sufficient time to review the Council's current Improvement Objectives and align these with the improvement programme and Medium Term Financial Plan. Additionally, there is a well-publicised six-week public consultation, entitled *Making a difference*, which began in August and will feed into the Improvement Plan. I believe that the Council's approach is reasonable and practical and will provide the Council with the necessary time to engage with, and take ownership of, the Improvement Plan and the new 2013-17 Council Corporate Plan. I will report the results of my audit of the Improvement Plan by the end of November 2013.

Based on, and limited to, work carried out to date by the Wales Audit Office and relevant regulators, I believe that the Council is likely to comply with the requirement to make arrangements to secure continuous improvement during this financial year

I have reached this conclusion because:

- the Council is now better placed to deliver longer-term sustainable improvements and the progress it has already made has resulted in Welsh Government intervention ending in May 2013;
- the Council's ambitious improvement programme is supported by an appropriate programme management framework and reflects consultation with the citizens of Anglesey;
- despite significant and continuing challenges, the Council is managing its financial position robustly and responsibly;
- there has been improvement in a number of key services, but there are weaknesses in some areas that the Council still needs to tackle;
- the Council has improved its processes for developing its Annual Governance Statement but recognises that there is more to do;
- the Council engaged well with other councils in North Wales and with the Wales Audit Office during our recent Improvement Study on the effectiveness of scrutiny; and
- there has been steady progress in implementing most of the proposals for improvement identified in my previous assessments.

The Council is now better placed to deliver longer-term sustainable improvements and the progress it has already made has resulted in Welsh Government intervention ending in May 2013

As I reported in my Annual Improvement Report in March 2013, Welsh Government intervention was scaled back in October 2012, with decision-making powers being returned to the Leader and his Executive Committee. However, in order to safeguard the improvements the Council had achieved, the then Minister for Social Justice and Local Government directed that three of the five Commissioners should be retained until 31 May 2013. The remaining Commissioners would monitor and report progress to Ministers and offer ongoing guidance, mentoring and support to the Council and officers. Commissioners also retained the power to confirm or override any Council decision which went against the advice of statutory officers. This period was known as the 'improvement and sustainability' phase of the intervention.

With the support of the Commissioners and an external consultancy, the Council developed and adopted a Transformational Plan (the Plan) as the basis of its strategic development and improvement over the next three years. The Plan brings together the Council's priorities for improvement and incorporates the Commissioners' 10 corporate governance themes under a programme management framework, which I will refer to later in this letter.

During the 'improvement and sustainability' phase of intervention, the Council made further progress. In particular:

- the Executive resumed democratic control of the Council in a mature and considered way while continuing to work with the Commissioners and others in their desire to secure long-term improvement;
- the Council made good progress in establishing transformational change plans and in the robustness of the arrangements which are in place to deliver them;
- the Council agreed a challenging budget for 2013-14 and strengthened its constitution;
- there was careful planning prior to the May 2013 election, including agreeing a revised Committee structure to enable the new thirty-member Council to fulfil its duties;
- there has been improvement in services such as housing, education and children's social care;
- the Council completed its first self-assessment, which provided a fair and balanced evaluation andwhat the Council is doing to sustain improvement; and
- the Council completed its first 180-day cycle of the transformational change programme.

The Commissioners' seventh progress report in April 2013 highlighted the Council's progress and the Commissioners' positive view of the Council's ability to deliver longer-term, sustainable improvements without the need for continued external intervention.

Prior to the election in May, the Council worked well with the Electoral Commission, promoting and raising public awareness. Eleven new multi-member wards were contested by 106 candidates, showing the increased level of interest and willingness among the citizens of Anglesey to play a part in the Council's future. The newly-elected members changed the Council's make-up, lowering the age profile, slightly improving the gender balance and bringing in a more diverse range of skills, backgrounds and experiences. I feel that all these factors demonstrate the Council's considerable success in addressing democratic renewal following the recommendation in my Special Inspection Report, published in March 2011.

Following the election, councillors have continued to demonstrate the group discipline that the Commissioners had previously supported and developed. This group discipline resulted in the orderly formation of a ruling coalition and the subsequent appointment of a new Leader and Cabinet. The Council had anticipated that some newly elected councillors may be less experienced and therefore devised an induction programme designed to reflect individual members' development and training needs. A series of briefings were provided to assist new members with the Council's transformational change programme and their important role within it.

The Council has obtained a commitment by the Welsh Local Government Association (WLGA) to provide mentorship to the new and comparatively inexperienced Leader, as well as other forms of support, as the new Council continues to develop. The strength of the Senior Leadership Team, improved managerial capacity and a more robust constitutional framework will help the Council to prevent and, where necessary, to respond to any potential problems that may emerge.

On 10 May 2013, the Commissioners wrote to the Minister for Local Government and Government Business (the Minister), recommending that the intervention by the Welsh Government in the affairs of the Isle of Anglesey County Council be brought to an end when the current Ministerial Direction expired on 31 May 2013. On 13 May 2013, I wrote to the Minister acknowledging the Council's progress and indicated that I saw no further purpose in continuing the intervention. On 23 May 2013, the Minister formally announced that intervention would end.

The Council's ambitious improvement programme is supported by an appropriate programme management framework and reflects consultation with the citizens of Anglesey

With the support of the Commissioners and an external consultancy, the Council developed and agreed a Transformational Plan as the basis of its strategic development and improvement over the next three years. It is an ambitious programme, based on six improvement themes and work streams which link directly to the Council's corporate objectives and the Commissioners' governance themes.

With any large-scale plan, robust arrangements are required to manage and implement change. The Council has developed a programme management framework consisting of three Programme Boards to help deliver the Plan. Each Programme Board is responsible for specific themes and work streams relating to:

- Island of Enterprise;
- Service Excellence; and
- Business Transformation.

The aims of the three Programme Boards are to oversee the delivery of the Plan and to ensure that individual change programmes and projects are managed, delivered and monitored. The Boards include senior officers and councillors, therefore providing both leadership and co-ordination of the transformation journey. The Boards receive regular progress reports and have the authority to report and make recommendations to the Executive and Senior Leadership Team. Board members have the necessary status within the Council to be able to influence Executive decisions and to ensure that these decisions are subsequently implemented.

I consider that the establishment of the programme management framework and Programme Boards is soundly based and has the potential to rationalise and strengthen joint member/officer working in the monitoring and reporting of performance against the Transitional Plan and improvement objectives. It also has the potential to improve the Council's capacity and capability to deliver the Plan.

The Transformational Plan highlights the need to develop a new Corporate Plan to support long-term improvement and modernise the way the Council works. I referred earlier to the fact that the Council has delayed publication of this year's Improvement Plan to give the newly elected members sufficient time to review the Council's current Improvement Objectives and to align these with the improvement programme and Medium Term Financial Plan. To ensure the views of Anglesey citizens and stakeholders help shape priorities and the improvement programme, the Council has developed the following objective:

To devise and implement a comprehensive, flexible and genuine consultation process; ensuring that options are developed in an open, transparent and robust manner and that every community, business and stakeholder on our island has the opportunity to contribute.

To help achieve the objective, a six-week public consultation entitled *Making a Difference* was launched by the Leader in August 2013. The Council is asking for the public's views through:

- an online survey on its website and social media sites;
- community councils;
- local partner organisations;
- public engagement events; and
- postcards available at Council offices, libraries and leisure centres.

The Council has developed a communications and media plan to cover most of the island including the use of local press and radio, posters at private sector locations including supermarkets, local shops, GP and dental surgeries. We have also observed that the Council is making effective use of social media, providing useful information to citizens and those visiting the island and also promoting the current consultation through this medium.

I consider that these arrangements demonstrate a more mature and well-considered approach to consultation than has been the case in the past,focusing on those areas which are going to make the most difference to local peoples' lives and enabling citizens to shape the Council's plans.

Despite significant and continuing challenges, the Council is managing its financial position robustly and responsibly

I previously reported that the Council's draft *Statement of Accounts* had for the first time in the last three years been completed in accordance with all statutory timescales. The Council has continued to make progress in addressing issues with producing the statement of accounts and produced its 2012-13 draft accounts on 28 June 2013, in accordance with the accounts production deadlines.

The Council has well-established medium-term financial planning arrangements which involve extensive consultation and challenge. The latest medium-term revenue budget strategy 2014-2017 shows funding gaps of £3.1 million, £4.0 million and £4.25 million in 2014-15, 2015-16 and 2016-17 respectively. The Council's budget has been set alongside the corporate plan and improvement priorities and includes not only savings but also investment in priority areas such as the *Energy Island* initiative. However, the Council recognises that, for some services, the scale of the financial challenge will require them to be delivered differently.

The Executive has identified Education, Adult Social Care, Leisure and Libraries for service redesign and reconfiguration during 2013-14 in order to deliver efficiency savings. Recent investment in new systems and the better use of technology is expected to deliver savings in the future. The Council continues to manage its financial position robustly and responsibly but, as the severity of the financial situation increases, it will become more difficult to protect the existing types and levels of all the services currently provided to the public. We will continue to monitor how the Council develops its detailed proposals to manage its financial position.

There has been improvement in a number of key services, but there are weaknesses in some areas that the Council still needs to tackle

I reported in my Annual Improvement Report on the Council's progress in responding to the areas for development identified in 2012 by the CSSIW, particularly in relation to children's services. The Council has strengthened its guidance, increased staffing and brought in additional expertise to address concerns. There have also been significant efforts to improve performance and quality management. Progress continues to be satisfactory, with the Council moving from a low-performing authority to performing well against a number of performance indicators.

I also referred in my Annual Improvement Report to the inspection in May 2012 by Estyn and the Wales Audit Office of the Council's Education Services for Children and Young People. The inspection found that the services were unsatisfactory and that they had unsatisfactory capacity to improve. The Council responded constructively to the report and a Recovery Board was subsequently appointed by the Minister for Education and Skills to provide support and external challenge. Since then, the Recovery Board has reviewed detailed strategic and operational information and received regular progress reports. However, the Recovery Board has not yet reported publicly to the Minister or to the Council on its findings. Estyn will continue to review the Council's progress in implementing the recommendations during 2013-2014.

In my March 2013 Annual Improvement Report, I reported that the Council's arrangements for the management of its information assets were limiting its ability to improve. Specifically, there were weaknesses in data security and information management. Similar weaknesses had been identified previously in a range of reports dating from May 2011, including Internal Audit's reports on Modern Records Management, Data Security and Business Continuity, issued in September 2012.

Following breaches of the Data Protection Act 1998, the Council agreed to the Information Commissioner's Office carrying out a consensual audit of the Council's arrangements for the processing of personal data. The Information Commissioner's auditors undertook fieldwork in July 2013 and their report is expected to confirm and add to the recommendations made in the previous regulatory reports.

The Council has subsequently agreed to conduct a project on information governance covering the areas of:

- information management – ICT Audit and security; records management and training on the Council's information security policy;
- review of arrangements for the disposal of confidential waste;
- review of access to the Council's main offices in Llangefni; and
- schools' handling of information.

We will be assessing the project's progress throughout this year and will report our findings in my Annual Improvement Report in 2014.

I reported in my March 2013 Annual Improvement Report that housing services were generally improving, that the Council had delivered the Welsh Housing Quality Standard by the target date and that arrangements for responsive repairs to housing were improving. In December 2012, we conducted a review of the homelessness service in Anglesey. We concluded that:

- the Council had made progress in 2012-13 in the arrangements to deliver an effective homelessness service; and
- the Council had identified areas in need of improvement in its arrangements to engage with users of the homelessness service.

The Council remodelled the homelessness and housing advice service, with the creation of a Housing Options Team. Additional staff resources have been provided to prevent homelessness and facilitate more effective use of private sector accommodation for those requesting housing assistance. Although the Council has an active tenant participation scheme and homelessness forum, it is difficult to demonstrate the value of engagement. We had provided more detailed feedback to the Council separately.

The Council is to review its homelessness strategy in 2013 and will address the issues raised in our review.

The Council has improved its processes for developing its Annual Governance Statement but recognises that there is more to do

Every local authority must prepare an annual governance statement in order to report publicly on the extent to which it has complied with its own code of governance. The process should include an evaluation of how the authority has monitored and evaluated the effectiveness of its governance arrangements in the preceding financial year, and on any planned changes in the future.

Between December 2012 and March 2013, we evaluated the effectiveness of local authorities' reviews of governance in 2011-12 across Wales. In doing so, we aimed to identify how annual governance statements can be improved to give assurance that they are reliable mechanisms of self-evaluation.

Our review of the Council found governance arrangements based on firm principles and providing a reasonable level of assurance. However, there is scope to broaden arrangements to provide further assurance on the Council's vision and outcomes for the public. We shall be reporting the all-Wales results of this work later in 2013.

The Council responded constructively to our review and has been open to learning as demonstrated by the improvements it has made to the arrangements for drafting its Annual Governance Statement for 2012-13. Additionally, the Council identified further ways to improve its future arrangements, such as:

- aligning the Annual Governance Statement with the Corporate Self-Assessment, the Transformation Plan and the Risk Register;
- using the Performance Review Group to ensure that corporate planning and performance issues contribute more strongly than before to the production of the Annual Governance Statement;
- developing an action plan to provide updates on progress made and to minimise outdated risks and information remaining within its governance framework;
- considering the approach of other authorities with recognised good practice; and
- raising awareness and understanding of governance and reducing the perception that governance relates predominantly to financial matters.

The Council engaged well with other councils in North Wales and with the Wales Audit Office during our recent Improvement Study on the effectiveness of scrutiny

During the autumn of 2012 and spring of 2013, the Council took an active part in our all-Wales Improvement Study into the effectiveness of councils' scrutiny arrangements. We shall be reporting the results of this work later in 2013 and hosting a shared learning event in November 2013.

During the study, the Council's Peer Learning Exchange Team, consisting of both councillors and officers:

- took part in two regional workshops along with peer learning exchange teams from other North Wales councils;
- observed two scrutiny committee meetings at Conwy County Borough Council, providing feedback to committee members;
- discussed the way that scrutiny works in Conwy County Borough Council with a group of committee chairs and vice-chairs; and
- drawing on its discussions and observations, provided an external perspective to Conwy County Borough Council by evaluating its scrutiny function against criteria developed jointly by the Wales Audit Office, the Welsh Local Government Association, the Welsh Government and the Scrutiny Officers' Network.

A Peer Learning Exchange Team from Gwynedd Council also conducted similar work at the Isle of Anglesey County Council.

Before undertaking the activities set out above, the Council had evaluated the effectiveness of its own scrutiny function against the criteria. After the Peer Learning Exchange Team had visited Conwy County Borough Council and received Gwynedd Council's evaluation, the Council re-evaluated the quality of its own scrutiny, drawing on what it had learned. We have provided the Council with an analysis of its two self-evaluations, and how they compare with those in other councils throughout Wales. We acknowledge that, following the May elections, the Council's scrutiny arrangements have necessarily changed and no longer reflect the model that was in place when the Council completed its self-evaluations. Nevertheless, we anticipate that the Council will consider the analysis of its self-evaluations and decide whether or not it needs to make further changes to its scrutiny arrangements.

There has been steady progress in implementing most of the proposals for improvement identified in my previous assessments

I have previously reported a number of proposals for improvement. Progress on these matters is summarised in Appendix 1. Further information about our findings in some of these areas is provided in this letter and/or separately in interim updates where appropriate.

Further proposals for improvement/recommendations

No new proposals for improvement are being suggested in this letter. We will continue to monitor and report on the progress made by the Council in implementing the proposals set out in my previous reports and letters.

Publication of the letter

My letter will be published on the Wales Audit Office website after it has gone through the Council's democratic process or within two months of issue, whichever is the sooner.

Updates to the work plan and timetable

My Improvement Assessment Team will keep the Council informed of the detailed arrangements for the delivery of my assessment work.

The regularly updated work plan and timetable provide more detail on the work being delivered during this year's assessment and in particular how we will add value by focusing on jointly identified areas or services.

The work plan and timetable take account of my consultation with improvement authorities over my proposals for 2013-14 performance audit work.

I am grateful to the Council for the way in which it has helped to facilitate our work and hope to see even more effective and efficient arrangements developing over time.
I remain committed to providing appropriate levels of public assurance while supporting you in mitigating the inevitable risks to services and accountability that stem from reducing resources and consequential change.

Yours sincerely

HUW VAUGHAN THOMAS

AUDITOR GENERAL FOR WALES

cc: Lesley Griffiths, Minister for Local Government and Government Business

Huw Lloyd Jones – Manager

Andy Bruce – Performance Audit Lead

Appendix 1

Proposals for improvement	Progress
P1. The Council should make arrangements that enable the Chief Executive to focus on: • leading and developing the Senior Leadership Group; • managing individual members of the Senior Leadership Group, holding them to account for the delivery of specific aspects of the Council's agenda for improving governance; and • representing the Council externally.	This recommendation is complete. The Council has restructured the Senior Leadership Team and the new arrangements are allowing the Chief Executive to engage more in the development of regional leadership and collaboration. Examples include, the contribution the Chief Executive made to the pre-election planning process; and the Council's response to the Minister's request that Anglesey takes a leading role in tackling human trafficking and work with cross-sector agencies across North Wales.
P2. The Council should develop the role of middle managers so that: • collectively, they provide feedback to senior managers about the implementation of change; and • both individually and collectively, they are accountable for the operational delivery of change in the services which they manage.	Good progress has been made and this recommendation is partially complete. Heads of Service submit Service Delivery Plans to senior management. However, the Council's new operational model is restructuring middle management and should be complete by October 2013. The restructure brings revised roles and greater accountability for Heads of Service. The Transformational Plan makes Heads of Service responsible for change programmes and projects that address risk, opportunities and respond to external demand. The transformational plan is overseen by the three Project Management Boards. The Audit Committee receives updates on risk and progress. We will continue to review progress as the arrangements embed.

Proposals for improvement	Progress
P3. The Council should secure sufficient capacity and capability in its finance, HR and ICT services to: • deliver the necessary corporate functions associated with each of these services to required standards; and • provide support to other Council services in accordance with agreed standards.	The Council is making some progress to increase its capacity and capability in ICT, HR and Finance services. However, there is further work to complete: • A new financial ledger went live in April 2013. The system improves the financial information for management and monitoring purposes. • The staffing structure in Finance has changed to provide additional capacity to support services as well as providing the required corporate finance services. To further aid capacity, the Council has now appointed a permanent Head of Resources, Head of ICT, and recruited a Programme Manager to co-ordinate service improvement. • There is still work to do to strengthen corporate capacity, particularly around ICT, procurement, asset and information management. We will continue to review progress as the Council moves forward into the next stage of its development.
P4. The Council should: • collectively, specify its improvement objectives for 2012-13 in a manner that enables it to determine and report whether or not they have been achieved; and • draw on its analysis of 2011-12 performance to learn from what has gone well and to determine and report what steps it needs to take to improve.	Due to the election in May 2013, the Council's Improvement Priorities for 2013-14 are being developed and will be published in October 2013. The process involves a large public consultation exercise and forms part of its transformational plan. The Council has introduced Service Performance Reviews to identify performance strengths and weaknesses and better measure progress against the service and corporate targets. A Performance Review Group has been developed to support and inform the performance management process across services. The Council is making better use of its analysis of performance, and the recent self-assessment process demonstrates a clearer understanding ofsuccess factors and gaps which contributed to poorer performance. We will review progress in October 2013, on production of the Council's plans.
P5. The Council should promote greater consistency across services in the quality of self-evaluation.	The Council responded constructively to the recommendation as demonstrated by the improvements it has made to this year's Annual Governance Statement and the most recent self-assessment in April 2013. The Council's performance report is due in October 2013 and we will monitor progress then.

Proposals for improvement	Progress
P6. The Council should apply stronger editorial control to its performance report in order to improve its readability and eliminate typographical errors.	The Council has responded constructively and is applying stronger editorial control to Council documents. This includes, in some cases, allowing the Wales Audit Office the opportunity to comment constructively on drafts. We will review progress in October 2013, on production of the Council's plans.

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	24 SEPTEMBER 2013
TITLE OF REPORT:	RISK MANAGEMENT & INSURANCE
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	HEAD OF FUNCTION (RESOURCES)
ACTION:	FOR INFORMATION ONLY

1. INTRODUCTION

1.1 The Council's Risk Management Strategy and Risk Management Guidance were endorsed by the Executive on the 15th October 2012.

1.2 These documents state that the Audit Committee should:-
- Review the effectiveness of the risk management and internal control framework.
- Review and challenge the Corporate Risk Register and resultant action plans for the top corporate risks.

1.3 These documents also place similar responsibilities on the Executive and Scrutiny Committee, and specific roles and responsibilities on individual officers and groups of officers.

1.4 Both the Audit and the Scrutiny Committees have expressed their wish to receive summary and / or exception reports as opposed to the entire risk register.

2. IMPLEMENTATION OF RISK MANAGEMENT FRAMEWORK

2.1 Over the last twelve months there have been changes to the way in which the Council operates and to the management structure. These changes have a significant bearing on the reporting processes for risk management.

2.2 The Risk Management Strategy and Risk Management Guidance are currently being reviewed and amended to reflect these changes. The reviewed documents will be presented to the Executive for endorsement in due course and thereafter to the Audit Committee.

2.3 Reviewing the strategy also provides opportunity to change what is reported to Members in relation to risk. It is proposed that only the top risks and any significant changes to other corporate risks are reported to Members, together with the progress on any actions to mitigate those risks. A sample of the proposed report, showing the situation as at the end of quarter 1, is included as of Appendix A to this report.

2.4 The Risk & Insurance Manager continues to support Heads of Service to develop their Service Risk Registers, although progress on the same has been affected by the Heads of Service Review.

3. CORPORATE RISK REGISTER

3.1 As the Corporate Risk Register is formally reviewed on a quarterly basis there is no update to that reported to you on the 23rd July 2013.

3.2 The Council's top risks, therefore, remain as being:-

YM8	Failing to plan for a significant reduction in funding from 2015/2016
YM33	Failing to provide services within the budget provided
YM31	Risk of not being compliant with Data Protection legislation
YM36	Failing to plan for the impact of the effects of reforms in the health sector.

4. INSURANCE CLAIMS

4.1 The Council's claims experience for the period 1st April 2007 to 31st March 2013 was reported on in July 2013 and it was noted then that there had been a significant increase in the number of public liability claims submitted to the Council, mostly attributable to damage to vehicles due to the condition of the Council's roads.

4.2 During the period 1st April 2013 to 30th June 2013 a further 40 public liability claims have been submitted, 34 of which relate to Highways, thus continuing the trend of 2012/2013. It remains premature to comment on the financial effects of the increase in the number of claims.

5. INSURANCE RENEWAL TERMS

5.1 The Council tendered it's insurance policies during 2012 and entered into a 3 year long term agreement with Zurich Municipal (with the option of extending for an additional 2 years).

5.2 Zurich Municipal have indicated that, due to a perceived deterioration in the public liability claims experience, there may be a need to increase the premium rate for that policy. They have not indicated that they intend to increase any other premium rates. Negotiations in respect of the renewal terms are on-going but should be agreed prior to the renewal date of 1st October 2013.

6. RECCOMENDATIONS

6.1 The Committee is requested to confirm whether the proposals in respect of reporting on risk are acceptable and note the situation relating to insurance claims and renewal terms.

CLARE WILLIAMS
HEAD OF FUNCTION (RESOURCES) **13 SEPTEMBER 2013**

CORPORATE RISK REGISTER

Risk Reference	Risk Identified	Current Risk Score	Risk Score Trend	Action	Responsible Officer	Target Date	Comments
YM8	Failing to plan for a significant reduction in funding from 2015/2016	25	↔	Development of a Medium Term Financial Plan which is updated quarterly	Clare Williams	October 2013	
				Identify demographic pressures	Clare Williams	October 2013	
				Monitor grant reduction and develop grant exit strategies	Clare Williams	October 2013	
				Review the budget setting process	Clare Williams	October 2013	
				Develop and implement an Efficiency Strategy			
YM33	Failing to provide services within the budget provided	20	↔	Review the budget setting process	Clare Williams	October 2013	
				Embed the new financial systems (ledger etc)	Richard Ll Jones		
				Establish a new financial reporting process	Clare Williams	June 2013	
				Establish a new financial monitoring process	Clare Williams	Sept 2013	
				Review the services being provided			
	Risk of not being compliant with Data Protection legislation	20	↔	Implement and embed the role of the SIRO	Huw Pritchard		Monitoring Officer appointed as SIRO
				Deliver the Information Governance Project (taking account of the findings of the ICO Audit)	Huw Pritchard		Final report will be received by Council on 16 Sep. 2013. An action plan for delivery is currently being prepared. The IGPB will meet on 18 Sep 2013 to agree Mandate.
YM36	Failing to plan for the impact of the effects of reforms in the health sector	16	↔	Set up Project Board to develop and implement a transformation and modernisation plan for the service	Anwen Davies	Sept 2016	Programme Board underpinning the transformation of older people's services has been established and 5 key priorities identified – . Accommodation needs . Re-ablement . Dementia . Brokerage . Schedule of rates
				Work in partnership with Health in specified areas to ensure that impacts are limited	Anwen Davies	Sept 2016	An outline agreement has been reached with the Health Board around joint governance of our services in the locality. This will now be progressed and adopted by the Local Authority and Health Board
				Undertake a study to establish the potential long term population needs and the cost of service provision	Anwen Davies / Clare Williams	March 2014	A needs assessment in respect of older people's services on the Island to the future has been commissioned and scheduled for completion by November, 2013.
YM2	Failing to sustain the improvements made in terms of Governance	15	↔	Provide all Members with in-depth induction and briefings	Carys Edwards	July 2013	Initial training complete, with second phase to be completed by end of 2013.
				Implement the Transformation Plan and fully embed the roles of the Transformation Boards	Danielle Edwards		Boards established and meeting regularly with Senior Members and Officers sitting on each board.
				Preparation and production of Annual Governance Statement	Einir Thomas		Completed – see item 6 on Audit Committee Agenda 24/09/2013
				Embedding the Corporate Planning and Performance Management arrangements	Gethin Morgan		Calendar agreed and adopted. Corporate Scorecard for Q1 presented.
				Embedding the self-assessment framework	Gethin Morgan		First self-assessment undertaken and adopted. Mitigating actions being actioned.
				Implement the findings of the internal communications report	Gwen Sion	March 2014	Improving Internal Communications Project completed with additional tasks allocated to various support services. Internal Communications Framework being developed (target date March 2014).

CORPORATE RISK REGISTER

YM7	Risk of not managing information efficiently or effectively	15	⟺	Develop and implement an ICT Strategy	Barry Eaton		
				Identify all current systems and establish how they integrate with each other	Barry Eaton	Sept 2013	
				Review any gaps and what additional systems are required to fill these	Clare Williams	March 2014	
				Deliver the Information Governance Project (taking account of the findings of the ICO Audit)	Huw Pritchard		Final report will be received by Council on 16 Sep. 2013. An action plan for delivery is currently being prepared. The IGPB will meet on 18 Sep 2013 to agree Mandate.
YM23	Failing to implement the contents of the post Estyn inspection plan and improve performance against key indicators	15	⟺	Progress against each of the action points noted in the PIAP monitored on a regular basis and reported to the Education and Leisure Committee.	Dr Gwynne Jones	August 2014	
				Interim report on surplus places in both primary and secondary sectors produced, highlighting revised figures for surplus places and possible rooms in specific schools that could be used to house area based staff.	Dr Gwynne Jones	Completed	
				Complete consultation in specific areas	Dr Gwynne Jones	Completed	
				Outline strategic plan for school modernisation agreed by SLT	Dr Gwynne Jones	Completed	

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	24 SEPTEMBER 2013
TITLE OF REPORT:	PROGRESS REPORT ON INTERNAL AUDIT 01 APRIL 2013 – 30 AUGUST 2013
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER
ACTION:	Decisions / approval as detailed in report

1. INTRODUCTION

1.1 The Operational Plan for 2013-14 was presented to and accepted by the Audit Committee at its meeting held on 23 July 2013. The Plan was produced in consultation with the External Auditor, the Section 151 Officer and various meetings and communications with Heads of Service.

1.2 The following report summarises the work of the Internal Audit Section up to the 30 August 2013 and gives a summary for each of the final reports issued since the last Audit Committee.

1.3 Final reports which result in a 'Red Assurance' opinion will be subject to a Follow Up review which will include an audit opinion on the progress of management in implementing the recommendations categorised as High and Medium within the original final report. The results of the Follow Up review will be presented to the next Audit Committee.

1.4 There were no reviews in the period which resulted in a 'Red Assurance' opinion. Executive Summaries for 'Red Assurance' reports are provided as Appendices where applicable.

1.5 The Internal Audit Service uses a Risk Based approach wherever possible but may use System Based, Key Controls, Establishment or Advisory reviews if these approaches are more appropriate.

1.6 The individual final reports are available to members of this Committee, in confidence, on request to the Head of Service – Audit.

2. REPORTS ISSUED TO DATE AND WORK IN PROGRESS (WIP)

2.1 Table 1 below shows the status of the reviews currently in progress and / or having been completed to final report in this period along with the overall audit opinion.

Table 1

Review Title	Service Area	IA Plan Year	Status	RAG Opinion
Risk Based / System Reviews				
2012/13 IA Plan				
Maritime Income		2012/13	FINAL	GREEN
2013/14 IA Plan				
HR MyView		2013/14	FINAL	GREEN/AMBER
WG Free Breakfasts		2013/14	FINAL	GREEN
Direct Payments – Follow Up		2013/14	FINAL	GOOD PROGRESS
Penalty Charge Notices		2013/14	FINAL	ADVISORY
Orchard – Logical Access Controls		2013/14	FINAL	ADVISORY
Treatment of Creditors and Debtors		2013/14	FINAL	ADVISORY
Annual Stock Check – BMU		2013/14	FINAL	GREEN
David Hughes Leisure Centre (issued 05-09-13)		2013/14	DRAFT	
Blue Badges		2013/14	DRAFT	
Waste Management		2013/14	WIP	
Grants - Compliance		2013/14	WIP	
Homelessness		2013/14	WIP	
VAT – Management and Control		2013/14	WIP	
Housing Grants		2013/14	WIP	
Overtime & Flexi Time Arrangements		2013/14	WIP	
Main Accounting System - CIVICA		2013/14	WIP	
Creditors - CIVICA		2013/14	WIP	
Effeciency Savings		2013/14	WIP	
Schools Follow Up Review		2013/14	WIP	
Counter Fraud Arrangements		2013/14	WIP	
Bribery Act 2010 – IOACC Response		2013/14	WIP	
Schools				
2012/13 – IA Plan				
Ysgol Llanfachraeth		2012/13	DRAFT	

2013/14 – IA Plan			
Ysgol Llangefni	2013/14	FINAL	GREEN/AMBER
Referrals			
File Notes – 1 to 6	2013/14		N/A

2.2 Key Findings from Reports Issued

2.2.1 Maritime

An audit of Maritime Systems - Records and Income was undertaken as part of the approved internal audit periodic plan for 2012/13. The Authority has approximately 450 mooring spaces between Menai Bridge, Beaumaris, Red Wharf Bay, Glyn Garth and Fryers Bay. Temporary overnight berthing is also available at Menai Bridge and Beaumaris Pier. During the period covered by this audit Beaumaris Pier was closed to enable the Coastal Environment programme improvement works to be completed.

The income generated in relation to all moorings during the 2012/13 financial year was £94,602.46.

Opinion: An overall Green audit opinion resulted from the review with five Low category recommendations being made.

2.2.2 HR MYView

An audit of HR System - MyView Security and Reporting was undertaken as part of the approved internal audit periodic plan for 2013/14. MyView is a function of the project to provide an integrated Payroll and Human Resources system based on the Northgate system. The Human Resources element of the project is being implemented in three phases for the purpose of supporting HR operations and payroll.

The main finding of the review related to a lack of segregation of duties and responsibilities between Payroll and Human Resources which presents an inherent risk in a joint system.

Opinion: An overall Green/Amber audit opinion resulted from the review with one High and two Low category recommendations being made.

2.2.3 WG Free Breakfasts

An audit of the WG - Free Breakfast Scheme was undertaken as part of the approved internal audit periodic plan for 2013/14.

The Welsh Government introduced the 'Primary School Free Breakfast Initiative (PSFBI)' Grant Scheme to provide all children of primary school age with the opportunity of receiving a free healthy breakfast. Currently 47 schools on Anglesey participate in the scheme. During 2012/13 a grant of approximately £384k was claimed.

The review found that the systems in place for the claiming of this grant complied with relevant grant terms and conditions.

Opinion: An overall Green audit opinion resulted from the review with no recommendations being made.

2.2.4 Direct Payments – Follow Up

An Internal Audit report on Direct Payments was issued in December 2012 and received an overall Red/Amber opinion. A Follow Up of the progress made by management in implementing the two High; one Medium and Seven Low category recommendations made in the report was undertaken in June 2013.

Opinion: The follow up review found that 'Good Progress' had been made in implementing the original recommendations. However, one High and three Low recommendations were not fully implemented at the time of reporting in July 2013.

2.2.5 Penalty Charge Notices

The purpose of the audit was to provide assurance that the figures recorded for Penalty Charge Notices (PCNs) within Anglesey as reported to PATROL – the Joint Committee of England and Wales for the civil enforcement of the Parking and Traffic Regulations outside London are a true reflection of the number of PCNs issued.

The PATROL Adjudication Joint Committee has decided that expenses shall be shared between member authorities in proportion with the number of PCNs issued.

Opinion: An overall Green audit opinion resulted from the review which provided assurance from outside the Parking Section that the figures recorded on the Certificate of Number of Penalty Charge Notices Issued for the financial year 2012/13 are a true reflection of the number of Penalty Charge Notices issued.

2.2.6 Orchard – Logical Access Controls

A review of the logical access controls and segregation of duties within the Orchard Housing system was undertaken following the Housing Rents report issued in April 2013 which found weaknesses in these areas.

The review found that although the weaknesses identified in April 2013 were still apparent steps had been taken to implement the recommendations made in the original Housing Rents report of April 2013.

Opinion: The review found that some progress had been made in strengthening control in this area. Planned further implementation work involving liaison with an established Orchard site (Wrexham County Council) was on-going at the time of reporting.

2.2.7 Treatment of Creditors and Debtors – Year End 2012-13

This review was undertaken to provide assurance over the processes involved in relation to year end creditor and debtor invoices and related cut offs. This area was important for 2012-13 due to the payment of 2012-13 invoices in the CIVICA system from April 2013 with the need to incorporate compensating accruals in the ResourceLink and CIVICA systems.

Opinion: The review ascertained and recorded the processes involved with the treatment of Creditors and Debtors at year end 2012-13. A copy of the report was provided to the External Auditor.

2.2.8 Annual Stock Check – Building Maintenance Unit

An annual verification of stock held at the stores of the Building Maintenance Unit was undertaken on 06 April 2013. Upon completion of the appropriate checks, internal audit is able to conclude that the stock records maintained at the depot were sufficiently accurate on the day and provided a reliable record of the stock levels at the year end.

Opinion: The review provided assurance on the accuracy of the stock quantities at the time of audit.

2.2.9 Schools Key Controls Audit - Finance and Governance

A Final report from audit work at one school was completed in the period. The review resulted in a Green/Amber audit opinion. Recommendations to strengthen internal control weaknesses identified have been made with the relevant Headteacher concerned.

2.3 **Summary of Outcomes of Reports Issued to Date** – since the 01 April 2013 we have issued nine final reports from the Internal Audit Operational Plan 2012-13; twelve from the 2013-14 plan and three referral reports. To date a total of twenty-one final reports has been issued in 2013/14.

A summary of the grades given for the final reports issued is shown in the table below. The summary of grades issued is as follows:

RAG Opinion / Grade	What is meant by the RAG Opinion / Grade	Since Last Audit Committee In Period	April to Aug 2013
Green (A&B Grade)	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.	3	8
Green Amber (C Grade) Inc Good Progress	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.	3	5
Red Amber (D Grade) Inc Little Progress	Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.	0	1
Red (E Grade)	Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.	0	0
Advisory / Investigation	Advisory review designed to provide best practice advice – No formal opinion.	3	7
	Total	**9**	**21**

3 PERFORMANCE AGAINST TARGETS FOR PERIOD 01/04/13 – 30/08/13

3.1 The table below shows the Internal Audit Service's performance against agreed targets set out in the Service's Delivery Plan for 2013/14. Reporting progress against these targets is also made to the corporate Performance Unit.

Performance Measure	Target 2012/13	Actual Adjusted for Period*	Target Status	Direction of Travel since previous period
% of audit reviews completed to draft in year (56 reviews in plan – 4 to Draft in period & 12 Finals– excluding referrals)	90%	70%	☹	↑
Overall customer satisfaction levels from questionnaires	90%	100%	☺	⬅➡
% of High & Medium IA recommendations implemented – from 01-04-11	80%	51%	☹	↑
Review the Council's Risk Management framework and evaluation of the effectiveness of mitigating actions on reducing the top five risks on the Corporate Risk Register.	1	0	😐	⬅➡
Audit Committee Training Sessions in period	2	1	😐	↑

3.2 The percentage of the Audit Plan completed figure is 70% (pro rata) for the period. This is expected due to this period starting with the completion and issuing of nine Final reports relating to the previous financial year and not included in this percentage target figure here.

The reported progress against plan also reflects the amount of referral work taking place in this period. Much of the additional work relating to issues surrounding the CIVICA Ledger implementation.

3.3 The percentage of 'High' and 'Medium' categorised recommendations implemented is below target at 61% which compares with the 68% reported to the last Committee.

3.4 There is a known issue with recommendation tracking of school related recommendations which results in a poor implementation rate for Education on an on-going basis. A central officer within Education is used to track the progress made by Head Teachers in implementing recommendations but the process takes a long time. Internal Audit has assisted in the past and again this year by undertaking a review of all outstanding recommendations relating to schools and by visiting Head Teachers to assist with closure of recommendations where this is appropriate.

3.5 In order to provide a more accurate position as regards implementation rates generally therefore I have added a graph to Appendix A showing the implementation rate without those recommendations outstanding within Education. The implementation rate shown on this graph is 78%.

3.6 Internal Audit has reviewed the reporting lines for Internal Audit, including the implementation of recommendations, in a separate report scheduled for presentation to this Audit Committee. The intention is to raise the profile amongst senior managers of the work of Internal Audit and progress on recommendation implementation and thus to improve implementation rates.

4. REFERRALS

4.1 During the course of the year the Internal Audit Section is required to carry out work on matters which come to light during the programmed audit work, or matters which are brought to its attention by other Departments, or work which other Departments request the Internal Audit Section to carry out. Work may also be requested by the External Auditor to provide information or to assist in the provision of information. Some of these referrals result in the issue of formal audit reports whilst others may not (e.g. the allegation / information is found to be incorrect and therefore there is nothing to report, or the amount of work is not sufficient to warrant a full audit report or the matter is covered by an External Auditor's report).

4.2 In order to provide a 'leaner' service we have started to produce responses to referrals in the form of File Notes rather than full reports where no evidence of fraud or irregularity is found. Six File Notes have been issued in the period to date in 2013/14. None of the work resulting in a File Note has identified any evidence of fraud or irregularity.

4.3 As reported at the last Audit Committee one referral from 2012/13 has been referred to the Police and the Committee will be informed of the outcome of this case in due course.

5. RECOMMENDATION TRACKING

5.1 For reporting to this Committee only recommendations made since 01-04-2011 have been included in the recommendation tracking analysis.

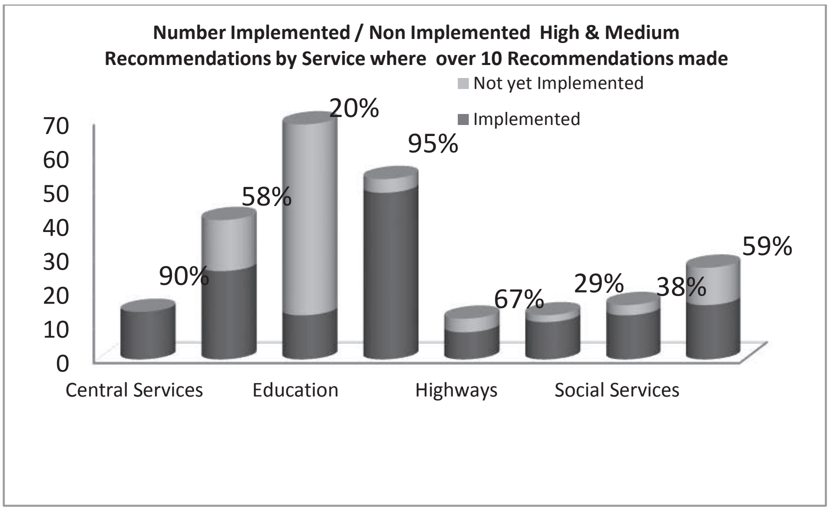
5.2 The performance in implementing all recommendations in the period is below target with 61% of 'High' and 'Medium' recommendations having been recorded as implemented. The performance in relation to recommendations other than those in Education is 78%. Reference to a review of the processes involved for recommendation tracking has been made in paragraph 3.4 of this report.

5.3 A graph showing the breakdown of recommendation implementation by Service is provided at Appendix A.

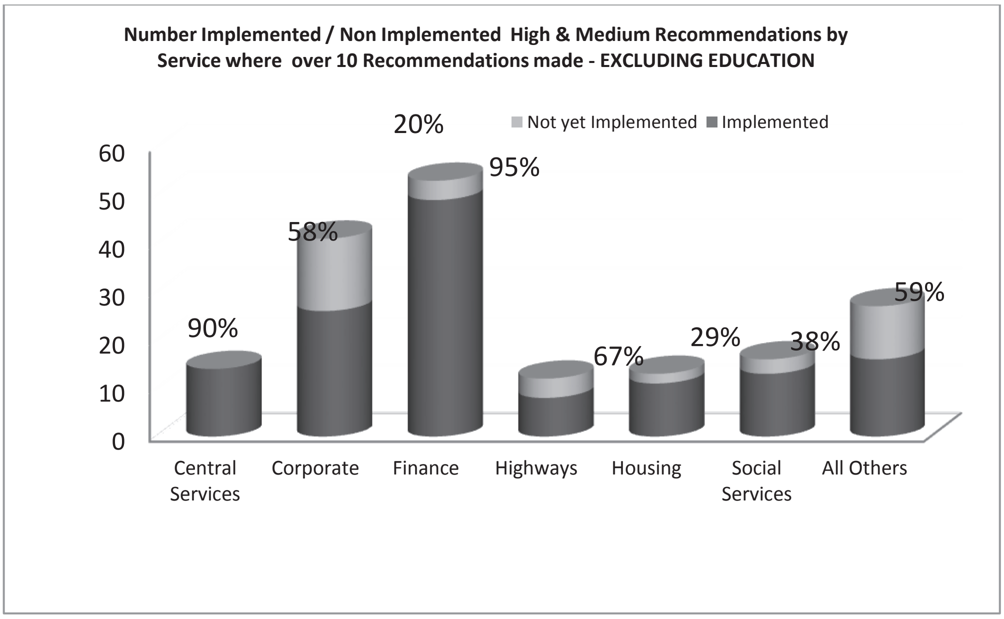
AUDIT MANAGER
17 September 2013

APPENDIX A

Recommendation Tracking Table – <u>ALL</u> High & Medium Recommendations Created Since 01-04-2011 Progress Table: % implemented / non implemented of high and medium category recommendations by service where over 10 recommendations made.



In our opinion therefore based on the self assessed data in the Progress Table above the Council has made **'adequate progress'** in the period in implementing High and Medium categorised Internal Audit recommendations. This is based on the percentage of recommendations (excluding those that have not yet reached their agreed implementation date) for which the self-assessed status is either, implemented or superseded, which total at the end of the period was **61%** of all such recommendations.



Recommendation Tracking Table –<u>Non Education</u> High & Medium Recommendations Created Since 01-04-2011 Progress Table: % implemented / non implemented of high and medium category recommendations by service where over 10 recommendations made But excluding Education; which total at the end of the period was **78%** of all such recommendations.

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	**AUDIT COMMITTEE**
DATE:	**24 SEPTEMBER 2013**
TITLE OF REPORT:	**INTERNAL AUDIT REPORTING – INCLUDING REPORTING OF PROGRESS ON IMPLEMENTATION OF RECOMMENDATIONS**
PURPOSE OF REPORT:	**FOR INFORMATION**
REPORT BY:	**HEAD OF SERVICE –AUDIT**
ACTION:	**FOR INFORMATION**

1. INTRODUCTION

1.1 **Internal Audit Work** - Internal Audit provides Progress reports to each Audit Committee detailing the work carried out by the Service in the period since the last Committee, highlighting any significant control weaknesses and other issues identified, and reporting on recommendation tracking statistics. Internal Audit does not currently formally report to Heads of Service and to the Senior Leadership Team.

1.2 **Recommendation Tracking** - For a number of years' now Internal Audit has included in its progress reports to the Audit Committee management progress in implementing recommendations from Internal Audit work. A target of 80% of 'High' and 'Medium' category recommendations being implemented within the agreed timescales has been set as the target for implementation which under RSM Tenon's follow up methodology equates to 'good progress.' However, most of the Internal Audit Progress Reports presented to the Audit Committee over the years have included percentage implementation rates below the 80% target. The percentage implementation rate of 'High' and 'Medium' category recommendations reported at the July 2013 Audit Committee was a disappointing 53%.

1.3 Internal Audit has carried out a data cleansing exercise on outstanding recommendations recorded on 4Action and 'closed' a number of 'superseded' recommendations and some identified as being implemented. This should provide a more accurate picture of implementation.

1.4 It should be noted that the implementation of recommendations is a function of management and not of Internal Audit. Internal Audit facilitates the use of the Council's recommendation tracking software and produces the necessary reports and graphs for the benefit of senior management and Members via the Audit Committee.

1.5 This report therefore aims to set out a new reporting procedure for Internal Audit, including recommendation implementation rates, designed to raise the profile of the importance of implementation amongst senior management

2. BACKGROUND – CURRENT REPORTING

2.1 **Internal Audit Work** – Reporting of the results of the work of Internal Audit is included in the Progress reports presented to the Audit Committee. Internal

Audit does not currently formally report on the issues and control weaknesses identified through its work to senior management as a group; however individual reports go to the relevant Head of Service and all reports are copied to the Section 151 Officer for information.

2.2 **Recommendation Tracking** - The Internal Audit Service uses RSM Tenon's web based 4Action system to record all Internal Audit recommendations. The system allows the tracking of all recommendations made either by Internal Audit, other regulators and departmental action plans as required. However, currently the system is mostly used to record and track Internal Audit recommendations.

2.3 Internal Audit records all recommendations made in its reports whether categorises as 'High', 'Medium' or 'Low' or those with no assigned category.' Employees with assigned responsibility for implementing recommendations are provided with access to 4Action which allows them to track the progress of each recommendation made to them and allows them to update any action taken to implement the recommendations. Once a recommendation is assigned to an employee the system sends an email to that employee confirming the recommendation and the timescale for implementation.

2.4 An implementation progress report is run by the Internal Audit Service on a quarterly basis showing the implementation status of the 'High' and 'Medium' categorised recommendations for the purpose of reporting to each Audit Committee. The Internal Audit Service also chases updates from responsible employees on a quarterly basis to ensure that the implementation status report is complete and up to date.

3. PROPOSED REPORTING FRAMEWORK

3.1 It is proposed that the reporting of a summary of Internal Audit work carried out, the significant issues identified through Internal Audit work in the period and recommendation implementation rates of 'significant' recommendations made be reported to senior management on a regular basis. Reporting will also include the forward work programme for Internal Audit for the information of senior managers.

3.2 A regular report to Heads of Service and to the Senior Leadership Team would provide Heads of Service and Directors with increased awareness of issues raised by the work of Internal Audit and of the Services' forward work programme. Such reports would also aim to provide a timely reminder of the outstanding 'High' and 'Medium' category recommendations in their area and those recommendations which have timescales coming up in the near future.

3.3 The Internal Audit reports would be based on the information already collated and reported to the Audit Committee and would be presented to Heads of Service and Directors (whenever possible) prior to the equivalent period report being presented to the Audit Committee. This would equate to quarterly reporting to Heads of Service and to the Senior Leadership Team.

3.4 We will take the opportunity to review the format of progress reports to the Audit Committee as part of this general review of reporting lines. The aim will be to align reporting to both senior management and the Audit Committee.

3.5 The Policy Unit has been tasked to create a framework for the recording, tracking and reporting of all external regulatory reports following an Internal Audit review of Third Party Assurance Report Monitoring Report issued in January 2012. Any recommendation implementation progress reporting should be taken into account in the work being carried out by the Policy Unit.

3.6 More detailed reports are to be provided to senior management and to the Audit Committee by Service where implementation rates are below the 80% target.

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	**AUDIT COMMITTEE**
DATE:	**24 SEPTEMBER 2013**
TITLE OF REPORT:	**ANNUAL PREVENTION OF FRAUD AND CORRUPTION REPORT 2012-13**
PURPOSE OF REPORT:	**REVIEW ACTIVITY IN THIS AREA**
REPORT BY:	**HEAD OF SERVICE –AUDIT & ACTING FRAUD MANAGER**
ACTION:	**FOR INFORMATION**

1. INTRODUCTION

The Council's policy on preventing Fraud and Corruption requires an annual review and report for the Audit Committee. This report covers activity in this area in 2012/13 and. The following areas are covered by the Council's Policy for the Prevention of Fraud and Corruption:

- **Fraud:** - "the intentional distortion of financial statements or other records by persons internal or external to the Authority which is carried out to conceal the misappropriation of assets or otherwise for gain".
- **Corruption:** - "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person."
- **Theft :**
- **Failure to disclose** an interest: whether or not financial benefit is involved.

The key principles of the policy in relation to fraud and corruption are:-

- Reducing opportunities;
- Prevention;
- Deterrence ;
- Detection and Investigation;
- Prosecution and Recovery.

Underpinned by:-

- Culture and Awareness.

2. REDUCING OPPORTUNITIES AND PREVENTION

The main aim of the policy is to prevent fraud, corruption or theft occurring in the first place. This is done largely by the routine operations of financial controls, including internal check and separation of duties. It is impossible to report systematically on prevention as there are no statistics on what did not happen. However, Members are provided with assurance on the effectiveness of internal control systems by both Internal and External Audit and by other third party assurance opinions. Internal Audit reports to each Audit Committee on progress including an ongoing assessment of the internal control system from reviews undertaken during the period. An opinion on the framework of internal control is given annually as part of the Annual Governance Statement.

Examples of ongoing routine operations to prevent fraud and corruption include:

(i) Proactive work in relation to production and monitoring of reports on duplicate payments and reviews including reconciliation of establishment reports to payroll are used to identify irregularities which are then followed up. Such work supplements the internal control system and acts as a substantive control over relevant activities.

(ii) Robust insurance claims handling procedures including forwarding claims promptly to our insurance company for investigation as necessary and dealing promptly in settling substantiated claims but repudiating the remainder, provide some protection to the Council from any fraudulent claims.

(iii) The routine collection and banking of cash presents an inherent risk in terms of temptation to "teem and lade" which can lead ultimately to theft. By monitoring the pattern of bankings we aim to correct the position before any losses occur: Identification of late bankings may come through the Income Team or through management review of budget income headings or as part of a third party assurance review. Follow up after identification with the staff involved helps to prevent and detect theft. Such instances were identified in the period covered by this report and were the subject of investigation and report by Internal Audit.

3. DETECTION, INVESTIGATION, PROSECUTION

Suspicions of actual theft or fraud may come from a number of sources. Suspicions may be identified by the authority's staff by routine administration, they may be the subject of internal / external 'whistleblowing' such as the Benefit Fraud hotline, they may be identified by the Council's review and compliance staff or they may be referred by other agencies or the public.

Whatever the suspicion, investigations need to be proportionate, confidential and fair. Some suspicions or allegations turn out to be malicious or simply mistaken; the presumption of innocence is important and not all investigations result in a conclusion of wrongdoing.

A major factor in the determination of a referral and successful investigation is the quality of the information provided. Where anonymous referrals including allegations are made with no supporting evidence the chances of a successful investigation are clearly greatly reduced. Such referrals in the end are counter productive in as much as they divert the Council's scarce investigative resources.

Benefit Fraud Cases- This is borne out by the fact that in 2012/13 there were 616 referrals of possible Benefit fraud relating to Housing / Council Tax benefit and 532 cases which were considered as suitable for investigation. Of the 532 cases 39 resulted in some form of formal sanction. A total of £236,555 worth of overpaid benefit was identified as 'fraud and error' by the Counter Fraud section during the year 2012/13.

In October/November 2012 the benefit section identified a significant amount of cases which had not been reviewed over a length of time, these included standard cases where Housing Benefit was paid on the basis that the claimant or partner was in employment and had declared their income when the claim was initially made. It was identified on some of these cases that there had been an increase in the employment income and that this had not been declared. This has resulted in a large amount of referrals received towards the end of the year, 183 referrals were received in January 2013 alone.

Established prosecution policies in the case of Benefit fraud include a range of sanctions which allow a proportionate response. At the lower end of the scale, a caution or administrative penalty is often sufficient to underline the severity of the fraud and deter repetition. The authority is not reluctant to prosecute fraudsters for the more serious cases. The table below shows the type and number of sanctions issued in 2012 -13, compared over the last 3 years:

	Prosecution		Ad Pen		Caution		Overpaid Benefit identified
2012 -13	7		13		19		£236,555
2011-12	10		6		26		£344 303
2010-11	8		5		23		£165 023

The Authority also considers cases to be of a positive outcome if, from the actions of the investigation team, an overpayment of benefit has been identified and passed for recovery, the amount of overpaid benefit identified in the last 12 months has remained at a significant level.

A breakdown of the source of Benefit referrals in the last three years is detailed in the following table:

	2012/13	**2011/12**	**2010/11**
Source	**Cases**	**Cases**	**Cases**
Visiting Officers	1	6	9
Housing Benefit Staff	12	6	2
Council Tax/Recovery	0	0	2
Anonymous	4	4	1
DWP	5	6	3
HBMS	16	14	14
NFI	0	3	4
Other	1	3	1

Other Fraud Cases- In addition to the investigation of Benefit related referrals there were eleven investigations relating to allegations of fraud or other wrong doing reported to Internal Audit. The investigation of these allegations, found evidence of weak internal control in some instances and found positive evidence of irregularity and / or fraud taking place in two of the investigations commenced in the period.

An internal Audit investigation found evidence that cash income had been systematically banked late. On a site visit to investigate the employee was unable to produce monies that records showed had been collected but not yet banked. The employee concerned resigned following this site visit. The monies were subsequently banked and no actual loss of monies to the Council was identified and therefore no further action was taken.

Another Internal Audit investigation which took up considerable audit time into school meals and school fund cash income found evidence of fraud and resulted in a referral to the Police. Again the employee resigned at the beginning if our investigations. The Police are working on the referral but have yet to provide an update on their progress.

The details of investigative work provided above is evidence of the Council's commitment to investigate referrals and to take appropriate action where wrong doing and or fraud and corruption are identified.

4. NATIONAL FRAUD INITIATIVE (NFI)

The authority participates in the National Fraud Initiative which takes place every two years. The Initiative involves certain data within the authority being matched with other authorities in order to identify any irregularity that may be indicative of fraud. In deciding on the release of information for data matching it is necessary to consider whether individuals had fair notice of the intention to process their information in accordance with data protection principles.

Participation in NFI is a proactive method of identifying possible fraud within the Council's systems and between Council systems. As with all referrals not all provide enough evidence of fraud to warrant investigation but where they do appropriate investigation and action is undertaken by the Council.

During the financial year the NFI 2012/13 Data Matching results were released.

Benefit Matches – The NFI has identified 788 cases of possible benefit fraud, however, it has been recommended by the NFI filtering system that only 88 of these cases are required to be investigated further and indicate a high possibility of fraud. Initial review has been undertaken on these cases and they fall under the category of Housing Benefit against Payroll and Pension payments, one case has already identified an overpayment of benefit in excess of £5,400, this was later identified as being because of an error made when the claim to benefit was calculated and the pension had been declared but missed.

Non Benefit Matches - The Internal Audit Service is responsible for sifting and risk assessing all non Benefit related NFI Data matches which for 2012-13 amounted to 3564 matches of which 1509 were recommended by NFI for investigation. Of these

- 1238 recommended matches related to deceased persons with Blue Badges or Concessionary bus passes. There is no evidence of badge or pass misuse from these matches.

  We reviewed the procedures in place for notification of deceased persons to the Council which is through the 'Tell us Once' process. We have arranged for Traffic Wardens to be provided with lists of invalid Blue Badges to help identify and eliminate any potential misuse.

- 172 recommended matches related to duplicate data within the Council's Creditors system. There was a known issue with duplicated creditors in the Council's ResourceLink Creditors system which addressed when the data was cleansed before being input to the new CIVICA Creditor module. Given the number of the matches and the known reason behind many the Internal Audit Service concentrated on the matches of greatest perceived risk which were those relating to 'duplicate records by invoice number and amount but different Creditor reference and name.'

- 52 recommended matches relate to payroll to Creditors matches. This can be due to payments to employees for non employment related reasons i.e. election duties, Council Tax refunds etc.

- 7 other recommended matches related to 'Blue Badge Parking to Blue Badge 'Parking Permit' (1); 'Insurance Claimants to Insurance Claimants';' VAT Overpaid'. These matches were investigated and explanation obtained.

Internal Audit did not find any evidence of fraud or irregularity from our investigations into the recommended data matches.

The Authority remains committed to working jointly with other organisations, in particular the Fraud Investigation Service of the Department for Work and Pensions.

5. HOUSING BENEFIT DATA MATCHING

Housing Benefit Matching Service (HBMS) – the Authority is committed to investigating referrals that are generated through HBMS, these are cases where a discrepancy has been identified through matching the Housing and Council Tax Benefit data against DWP and HMRC data, this generates a referral that needs to be investigated and may result in a fraud case. In 2012/13 there were 16 cases sanctioned in some form following a match from HBMS.

6. NATIONAL FRAUD AUTHORITY (NFA)

In April 2011 the National Fraud Authority published the Fighting Fraud Locally Strategy. It is estimated that the cost of fraud to local government is £2.2 billion a year. This is money that could be used for local services. Fighting Fraud Locally is a strategic approach developed by local government, for local government, and addresses the need for greater prevention and smarter enforcement.

Fighting Fraud Locally outlines a strategic approach that, if adopted across local government, will not only enable local authorities to become better protected from fraud but also contribute to the nation's ability to detect and punish fraudsters. The new approach will strengthen the counter fraud response across local government and will result in more fraudsters being caught, more fraud prevented and more money returned to authorities.

The Authority is looking into setting up investigations into other types of fraud that affects the Council, this has included Blue Badge Parking fraud, Concessionary Travel (Bus pass) fraud and Council Tax single person discount fraud.

7. WELSH BENEFIT INVESTIGATION GROUP (WBIG) and LOCAL AUTHORITY INVESTIGATION OFFICERS GROUP (LAIOG)

These are groups that represent Local Authority investigators both Nationally (LAIOG) and in Wales. It provides a network for the investigators to meet and discuss common issues that affect Local Authority investigators and provides a recognised platform to discuss matters in the fraud arena as well as providing a platform to be able to give investigators a voice on how to combat fraud. During the last AGM, Andrew Williams, the Council's Fraud Manager stood down as the Chair of WBIG but remained on the exec as Treasurer, he was also elected as an Executive member of LAIOG.

8. RECOVERY

Where we are able to do so, we aim to recover the value of money stolen or defrauded from the authority. The total amount of overpaid Housing and Council Tax Benefit identified through fraud investigations for 2012/13 was £236,555. The amount of Administrative Penalties issued in the year was £3,629 in penalties on 13 cases, this is set at a rate of 30% of the overpaid benefit on the case. The authority takes every step to recover the amount of overpaid benefit identified.

9. DETERRENCE

There are a number of ways of deterring those that would commit fraud and corruption. For a fraud to take place requires an opportunity for the fraudster to obtain monies or other personal benefit from our systems. The first line of defence therefore is to have an adequate internal control system in place that does not provide such opportunities. A major part of the work of Internal Audit is to review systems of control, identify weaknesses and make recommendation to ensure that opportunities to commit fraud are minimised.

Another deterrent is to make it known that the Council is vigilant in relation to fraud and corruption and will ensure that once identified appropriate action is taken. Such deterrent is reinforced when people are made aware that the details that they provide are validated and checked not just within the Council but between public bodies.

The high profile reporting of the detection of cases and the prosecution of offenders is a good way of raising the profile of this work and deterring fraud. During 2012/13 the authority issued press releases on successful prosecutions which received a high profile in the local press. Such publication of prosecuted cases is regarded as a valuable publicity tool which generates further cases worthy of investigation and deters others who may be considering putting in fraudulent claims.

An example prosecution where an elderly lady in Llanfachraeth and her daughter were dishonest in not declaring their true income to the Council, both were working as a carer for an elderly lady in Nefyn and earning in excess of £600 a week on a rota basis. Appendix 1 refers to the case.

10. CULTURE AND AWARENESS

The publicity given to anti-fraud work and successful prosecutions also helps to promote an anti-fraud culture within the authority. A positive anti-fraud culture is part of good corporate governance.

In order to enhance awareness it is intended to provide a training session in 2012-13 based on countering fraud and corruption. The training session will be aimed at all staff but especially at those charged with implementing key internal controls within Council systems. The session will also be made available to the Audit Committee.

Housing and Council Tax Benefit staff were given an refresher session on the work that is carried out by the fraud team and what was expected from them. A guidance on making a fraud referral was issued to staff in order to get a better quality referral to investigate.

An annual self assessment workshop on Counter Fraud was introduced from 2012/13 designed to increase the awareness of Members in this area (please see below).

11. EMBEDDING COUNTER FRAUD AND CORRUPTION

The Audit Committee holds an annual Workshop at which self assessment of the effectiveness of the Audit Committee and self assessment of the Council's Counter Fraud Arrangements is undertaken by Members of the Committee assisted by officers.

For the last two years the Audit Committee has used the Chartered Institute of Public Finance and Accountancy's (CIPFA) "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" checklist to self-assess the Council's Counter Fraud arrangements. However, the latest sector guidance is to use the Audit Commissions Protecting the Public Purse 2012 – Fighting Fraud against Local Government checklist for those responsible for governance alongside the National Fraud Authority's Fighting Fraud Locally - Counter Fraud Checklist.

These checklists will be used to ascertain and record the arrangements in place and to identify gaps in the Council's Counter Fraud framework. The aim of this exercise is to further embed Counter Fraud activity and culture within the Council.

12. SINGLE FRAUD INVESTIGATION SERVICE (SFIS)

Since the Government's Welfare Reform programme were announced in 2010 there is still little known about the effect it will have on the way Local Authorities will be involved in benefit fraud. The government maintains that the Single Fraud Investigation Service will still come in to force from April 2013, however this did not happen. To date the Department for Work and Pensions have set up 4 Pilot sites to include different types of Local Authorities, these were selected at London Borough of Hillingdon, Glasgow City, Corby and Wrexham. The aim of these pilot sites is to evaluate and learn from best practice so that the final design for SFIS can be made. It is clear that this is to have an impact on Local Authority investigators, however it has been confirmed by the DWP's Fraud and Error programme that Local Authority investigators will remain employed by the Local Authority until 2015. The Authority remains committed to working jointly with the DWP until the new service is in place.

This has been highlighted nationally as the National Fraud Authority has highlighted other types of fraud that can occur within Local Authorities which would not be investigated by SFIS and consideration should be taken to the fact that Local Authorities may lose highly experienced investigators who have been trained to investigate and prosecute cases of fraud.

13. REVIEW OF POLICY

The authority's Policy for Counter Fraud and Corruption was last reviewed in 2012 and was adopted by the Council at its meeting held in December 2012. In addition to the Counter Fraud Policy a Fraud Response Plan was produced and published in 2012 and was presented to the December 2012 Council meeting. The Council also has Whistleblowing and Anti Money Laundering policies.

All of these policies can be accessed by employees and Members via the Councils intranet site Monitor.

The Council does not currently have a specific Anti Bribery Policy stating how the Council meets the requirements of the Bribery Act 2010. The Bribery Act 2010 makes it a crime for organisations to fail to prevent people associated with them from committing bribery on their behalf. Protection against 'failing to prevent' is based on being able to demonstrate that the organisation has 'adequate' anti-bribery 'procedures' in place.

A draft Anti Bribery Policy is being written and will be presented to the Executive for approval.

JOHN FIDOE
HEAD OF SERVICE – AUDIT

ANDREW WILLIAMS
ACTING FRAUD MANAGER

24 SEPTEMBER 2013

APPENDIX 1

EXAMPLE PROSECUTION CASE

Case 1

Stephanie Anastassiou, 8, Minffordd, Llanfachraeth.

Facts of case, they are a mother and daughter prosecuted for Benefit Fraud:

Claimant appeared at Holyhead Magistrate court on 24/01/2013 charged with 2 offences of failing to notify a change in her circumstance to both the Isle of Anglesey ounty Council and the Department for Work and Pensions. She failed to report to the authorities that she was working as a live in carer for one week every month, earning £650 a month.

This resulted in her being overpaid

- £1 120.32 in Housing benefit, £176.64 in Council Tax Benefit; and
- £4 938.96 in Income Support over a period of 2 years.

The Court heard how she had initially claimed benefit legitimately after returning to live to the area, however, her circumstances changed soon after she claimed and she was given the opportunity to work as a live in carer for an elderly lady in the Gwynedd area, in her defence she stated that she had been given bad advice and had continued to claim these benefits, although she accepted that her actions had been dishonest. However, she had repaid the amount owed to the Council prior to the case going to court.

She was sentenced by the Magistrate to a 12 month Community Punishment Order which included 100 hours of unpaid work, she was ordered to pay £85 towards costs.

Case 2

Mrs June Robinson - 7, Minffordd, Llanfachraeth.

This case was linked to the case of her mother, Mrs June Robinson, who appeared at Holyhead Magistrate on 07/02/2013.

Pleading guilty to all four counts today at Holyhead Magistrates' Court the defendant was awarded six weeks imprisonment on each offence concurrent suspended for twelve months, and ordered to pay £270.00 investigative costs and £180 legal costs within 28 days.

A council spokesperson explained, "These were two cases that were brought to our attention following a telephone call received from the public. Had we not received this call the fraud would no doubt have continued for a much longer period and we are therefore grateful for the "tip off".

We would encourage anyone that suspects that someone is committing any type of fraud against the Council, in particular Benefit fraud, to call our fraud team who will look into the matter and take action against theses fraudsters."

Please call on (01248) 751888 or e-mail: bfraud@anglesey.gov.uk

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO	AUDIT COMMITTEE
DATE	24 SEPTEMBER 2013
SUBJECT	TREASURY MANAGEMENT – FIRST QUARTER 2013/14
LEAD OFFICER(S)	CLARE J WILLIAMS
CONTACT OFFICER	CLARE J WILLIAMS (TEL: 2601)

Nature and reason for reporting

For scrutiny - consistent with professional guidance.

1. This report is presented to ensure that the Council complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management which recommends that Members should be updated on treasury management activities at least twice a year, but preferably quarterly.

2. The Council's treasury advisers (Sector) have provided a summary of the economic background and the economic outlook (Appendices 1 & 2) and have also recently provided the following forecast.

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	2.20%	2.20%	2.20%	2.20%	2.20%	2.30%	2.40%
10yr PWLB rate	3.30%	3.30%	3.30%	3.30%	3.30%	3.40%	3.50%
25yr PWLB rate	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%
50yr PWLB rate	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%

2.1 Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report for August 2013 and the initiation of forward guidance by Mark Carney, the new Governor of the Bank of England: this is intended to make the Bank's existing stimulus programme more effective by providing greater clarity to households and businesses. He, and the MPC, have given an emphatic message that the financial markets are wrong in expecting the first increase in Bank Rate to be as early as quarter 4 of 2014 and that Bank Rate is unlikely, on current indications, to be going up before quarter 4 of 2016. Sector have, therefore, had to fundamentally revise their forecast for Bank Rate in line with this guidance and move the forecast for the first increase in Bank Rate from quarter 1 2015 to quarter 4 2016.

The forecasts provided have also had to take on board the sharp rise in US treasury and UK gilt yields (and, therefore, PWLB rates) since Ben Bernanke made his speech on 19 June, indicating that Quantitative Easing (QE) in America was likely to start tapering off later this year. This had a huge impact on financial markets both in terms of investors selling out of bonds (risk off) and switching into shares (risk on) with a consequent impact on share markets standing at or near new highs.

3. At the beginning of the year, the Council's borrowing portfolio was all from PWLB and was £10.3m below the Capital Financing Requirement (CFR) (i.e. part of the borrowing has been internalised). Our treasury strategy for 2013/14 adopted on the 5 March 2013, is based on the expectation that, in the medium term, investment rates would be short of long term borrowing rates and so value could be best obtained by postponing new external borrowing and adopting internal borrowing. Additionally, this strategy is being adopted so as to minimise counterparty risks. This strategy, if followed throughout this year, will result in a further increase in the gap between CFR and external borrowing. This is all subject to caution, with regular monitoring of the interest rate market and a pragmatic approach to changing circumstances so as to avoid long term costs outweighing any short term gains from not externalising.

4. The table shows the positions at the beginning and end of the quarter.

	30 June 2013		31 March 2013	
	£m	%	£m	%
Borrowing (all fixed rate)	96.1	5.53	96.1	5.53
Deposits – Call to 30 days	13.7	0.75	3.5	0.79
Deposits – Fixed Term (all < 1 year)	10.0	1.27	10.0	1.63
Total Deposits	23.7	0.96	13.5	1.41
Average Deposits in the Quarter	28.0	0.92	20.8	1.17

4.1 Details of the institutions holding the deposits can be found at Appendix 3.

4.2 During the period no new external borrowing was taken up.

4.3 On the investments side, a fixed term deposit with the Royal Bank of Scotland (RBS) (£5m, 1.68%, 364 day duration) matured in May and on the same day all of this money was reinvested with RBS for 6 months at 0.95%.

There are two points worthy of note;

- The list of creditworthy counterparties continued to be highly restricted, with very few counterparties standing up to the approved credit criteria; and
- Investment rates available in the market have continued at historically low levels and fell further during the quarter as a result of the Government's Funding for Lending Scheme.

Upon reviewing the options for the maturing funds, the decision was made to reinvest the funds and RBS was deemed the most viable option for investment given its part nationalised status. The only issue, however, was the indication that RBS could be denationalised in early 2014, which could well bring with it creditworthiness issues and, therefore, risks. The decision was made, with security of funds at the forefront, to invest for 6 months rather than the 364 days of the investment it was replacing, so as to minimise the risk of holding investments at the time of privatisation of RBS. This decision does not explain the dramatic reduction in the rate of return between the maturing investment and the new replacement; the rate on offer from RBS was the same for a 6 month investment as it was for 364 days, the Funding for Lending Scheme is the main reason put forward for the reduction in rates.

4.4 In terms of continuing investments, it has previously been reported that there have been credit rating issues with Santander UK plc. During the quarter the decision was made to continue investing with the bank. The main points to note are as follows:

- The approved 2013/14 Annual Investment Strategy, section 4.3, details the creditworthiness policy. In summary, the process is to apply minimum credit ratings for investments. Layered on top of this is Sector's creditworthiness service, which results in suggested investment durations. In addition to this, reference is made to market data and information;
- Santander's credit rating remained unchanged during the quarter, with all the long term ratings being 2 levels below the approved lending list criteria, and 2 of the short term ratings being 1 level below the criteria;
- The advice from the Authority's appointed treasury management advisers (Sector) was that it was appropriate to continue investing on a call basis;
- Independent analysis and monitoring of the markets backed up the conclusions reached by Sector;
- Given all the considerations stated above, the decision was made to continue to invest with Santander, on a call basis only.

4.5 Given the continued challenges faced in investing funds in secure, creditworthy institutions, offering a reasonable rate of return for the risk, options are being investigated to diversify the investment portfolio (in terms of both types, and geographic locations of investments). I shall report back at the next available opportunity on developments in this area.

5. During the quarter, the Council remained within its Prudential and Treasury limits. The 'Mid-year Review Report' will provide an update and analysis of performance against the treasury indicators and any prudential indicators as appropriate.

6. The Council's budget for the current year includes revenue provision for potential unsupported borrowing. Any such additional borrowing requirement will need to be approved by the County Council.

7. The plans for the rest of the year are:

- To continue to invest surplus balances in a way that ensures security as well as liquidity and yield;
- To continue to internalise borrowing whilst regularly monitoring market conditions;
- To monitor the market so that rescheduling can be undertaken at an appropriate time if opportunities are available;
- To respond to possible initiatives for using unsupported borrowing or one-off borrowing support.

8. RECOMMENDATION

To consider the content of the report.

CLARE J WILLIAMS **16 AUGUST 2013**
HEAD OF FUNCTION (RESOURCES) & S151 OFFICER

ATODIAD / APPENDIX 1

Cefndir Economaidd / Economic Background

- During the quarter ended 30^{th} June (the second calendar quarter):-
  - Indicators suggested that the economy accelerated;
  - Stronger household spending, both on and off the high street;
  - Inflation remained stubbornly above the MPC's 2% target;
  - The MPC remained in a state of limbo ahead of Mark Carney's arrival;
  - 10-year gilt yields rose above 2.5% and the FTSE 100 fell below 6,100;
  - The Federal Reserve discussed tapering the pace of asset purchases under Quantitative Easing 3 (QE3).
- After avoiding recession in the first quarter with a 0.3% quarterly expansion, it looks likely that the economy grew even more strongly in Q2. On the basis of past form, the CIPS/Markit business surveys for April and May point to 0.5% quarterly growth in the second quarter of 2013. Official output data echoed the message from the business surveys. The 3m/3m change in industrial production reached 0.9% in April, the strongest pace since July 2010. Similarly, the service sector expanded by 0.8% on the same basis. And while output in the volatile construction sector in April was 1% lower than a year ago, it was the smallest annual fall since the end of 2011, raising the prospect that the sector supported the recovery in Q2.
- There have been signs of renewed vigour in household spending in the second quarter. May's 2.1% monthly rise in retail sales overturned April's 1.1% fall. This tallied with information from the Bank of England agents, who reported a further pick-up in retail sales values in May. Non-high street spending looks to have been robust too, with new car registrations up by 20% in the year to May.
- The pick-up in economic growth appears to have supported the labour market, with employment rising by 24,000 in the three months to April. Admittedly, this was a lot slower than the 113,000 quarterly gain in employment seen on average over the past twelve months. But the rise in employment was still strong enough to reduce the level of unemployment further. The ILO measure fell by 5,000 in the three months to April while the timelier claimant count measure reported an 8,600 fall in May. Meanwhile, pay growth rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the additional rate of income tax. Excluding bonuses, earnings rose by just 1.3% y/y, well below the rate of inflation at 2.7% in May.
- Meanwhile, the Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with the quoted interest rate on a 2-year fixed rate mortgage at a 90% loan-to-value ratio now 4.6%, around 130 basis-points lower in May than when the FLS was introduced in August 2012.
- Alongside the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks, as measured by the BBA, rose from 33,000 to 36,100 in May. Excluding a stamp-duty holiday related spike in January 2012, this was the highest level for over three years. The rise in demand has helped to push up house prices, with both the Halifax and Nationwide measures reporting a 0.4% monthly gain in May. On an annual basis, measured prices were up by 3.7% and 1.1% respectively.
- Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 looked to be broadly in line with last year's figures, highlighting the government's difficulty in reducing borrowing while economic growth is relatively lacklustre.

- Meanwhile, the 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan. Total expenditure was still forecast to be broadly flat in real terms in 2015/16 and the £50bn planned capital expenditure announced for that fiscal year was identical to the amount already outlined in March's Budget.
- On the monetary policy front, June's MPC meeting, the last chaired by the outgoing Governor Mervyn King, showed that the Committee remained in limbo ahead of the arrival of his replacement, Mark Carney. The Committee voted 6-3 to keep the level of asset purchases unchanged at £375bn, with the majority judging that the current stimulus and Funding for Lending Scheme would be sufficient to support growth in the context of price stability.
- Having fallen from 2.8% to 2.4% in April, CPI inflation rose to 2.7% in May. May's rise mostly reflected price changes due to the earlier timing of Easter, which depressed inflation in April. Even so, inflation is still likely to have risen further in June due to base effects, with last year's fuel price falls providing an unfavourable annual comparison. That said, underlying price pressures do seem to be easing, with wages and producer prices both growing at subdued rates. Indeed, if anything, the inflation outlook brightened over the second quarter, with the price of oil falling from $108pb to $103pb while sterling appreciated by around 1.5% on a trade-weighted basis.
- Having continued to rally over April and May, financial markets sold off in June following a Federal Reserve statement that suggested the central bank may 'taper' its asset purchases earlier than anticipated. The resulting rise in US Treasury yields was replicated in the UK, with 10 year gilt yields rising to 2.5% from 1.8% at the start of the quarter. Equities were hit too, with the FTSE 100 falling from 6,411 at the start of the quarter to below 6,100 before ending the quarter a bit higher at 6,240.
- In the US, the statement from the Fed took the limelight. The Fed's comments sparked a sharp sell-off in the Treasury market, with 10-year Treasury yields hitting 2.54%. The Fed move was a response to the improving economic outlook in the US. Indeed, payroll figures showed that the US added 175,000 new jobs in May, helping to pull the unemployment rate down to 7.6%, from 8.2% a year ago. In the housing market, house prices rose by 12% in the year to April, which helped to bring more households out of negative equity.
- Meanwhile, tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a potential flare-up. For example, the Democratic Left party left the Greek governing coalition in June, causing 10 year Greek government bond yields to surge to 11.5% from around 8% a month ago. And while the economic survey data improved consistently over the first half of the year, the composite Eurozone PMI is still pointing to a further contraction in output in Q2. If this materialises, it would be the seventh quarter of Eurozone recession, the longest on record.

Allan o / From SECTOR Ltd

Rhagolygon Economaidd / Economic Outlook

Bank of England Inflation Report for August 2013

After the previous Inflation Report included a somewhat encouraging shift towards optimism in terms of a marginal upgrading of growth forecasts, this latest Inflation Report has occurred in the midst of a recent welter of economic statistics which has left economists and forecasters speechless in terms of finding suitable words to describe a major simultaneous shift up in gear of the economy in all of the three sectors of services, manufacturing / industrial AND construction! It is not therefore surprising that the Report upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%. However, Carney put this into perspective by describing this welcome increase as not yet being “escape velocity” to ensure we return to strong growth after what has been the weakest recovery on record after a recession. So very encouraging yes, but still a long way to go yet. There therefore still remains the potential for further QE, especially to depress yields of gilts under five years, which the MPC may feel are still too high with financial markets not taking on board the MPC view of when Bank Rate is likely to start to rise.

In addition to QE, the Funding for Lending Scheme (FLS), (started in August 2012), is aimed at encouraging banks to expand lending to small and medium size enterprises. The FLS certainly seems to be having a positive effect in terms of stimulating house purchases (though levels are still far below the pre crisis level), and a marginal increase in house prices. FLS is also due to be bolstered by the second phase of Help to Buy aimed to support purchasing of second hand properties, which is due to start in January 2014. However, concerns are increasing that QE, FLS and Help to Buy are also in danger of causing asset price bubbles in terms of investors seeking higher yields by switching investment of cash from gilts, (still at historically low yields despite recent rises), to corporate bonds and equities and in FLS and Help to Buy inflating house prices, resulting in prices in each of these markets being pushed to potentially unsustainable levels – which was one of the primary causes of the initial crisis in the world financial system in the last decade. Indeed, both Fitch and the IMF have recently issued warnings about a potential housing price bubble and an increase in UK Government contingent liabilities by guaranteeing mortgages where purchasers were only required to put in deposits of 5% whereas the Government provided a guarantee to lending banks on 20% of the mortgage.

As for inflation, it was forecast to be little changed from the previous Report – falling back to 2% within two years and staying there during year three.

Forward guidance caveats

Bank of England governor Mark Carney has said that the Bank will not consider raising interest rates until the jobless rate (labour force survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and could take three years. The UK unemployment rate currently stands at 2.5 million i.e. 7.8% on the LFS / ILO measure. Forward guidance was needed "so that people at home, people who are running businesses, across the UK, can make decisions - whether they are investing or spending - with greater certainty about what is going to happen with interest rates". Mr Carney emphasised that the 7% unemployment figure was not a target, but a point at which the Bank of England would re-examine interest rates.

The Bank's guidance is subject to three provisos; breaching any of them would sever the link between interest rates and unemployment levels. These so-called 'knock-outs' are:

- CPI inflation is judged more likely than not to be at or above 2.5% over an 18-month to two year horizon;
- inflation looks like it could get out of control in the medium term; and

- the Bank's Financial Policy Committee judges that this stance poses a significant threat to financial stability

This actually makes Sector forecasting more complex given the lack of available reliable forecasts by economists over a three year plus horizon.

The Sector view is that the recession was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession. The latest Inflation Report noted that productivity has sunk to 2005 levels. We are, therefore, concerned that there has been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major increase in employment. While this may not be quite at 'the jobless recovery level', it does support the Bank's view that it will take three years to get unemployment down to a level of 7%.

That then leaves an open question as to how likely it is that one of the three caveats could kick in.

As for the first - CPI inflation, the MPC is both judge and jury on whether to look through temporary spikes in actual CPI inflation. As for the second, the MPC has also looked through heightened inflation expectations, while wage increases have remained very low and well below inflation. The third caveat is a tough one as the Financial Policy Committee has to do everything in ITS power to ensure financial stability, so it is not very likely at all that the MPC would be likely to be called upon to use monetary policy to help in this area as a very long, long stop. So that leaves unemployment very much in the driving seat, provided all other things remain equal. Will they remain equal?

Particular headwinds for the UK economy are going to be: -

- We could be seeing the start of an economic recovery built on sand rather than rock, i.e. based on consumers spending supported by running down savings while savings rates are miniscule, and/or increasing borrowing while borrowing rates are also so low. This could cause much pain when Bank Rate does eventually go up, potentially sowing the seeds of a fresh financial crisis;

- UK exporters are struggling to make significant progress in diversifying away from their dependence on markets in the EU and so rebalancing of the UK economy away from the dominance of the services sector;

- There is potential for sterling to weaken, especially if the Government does not make major progress in reducing its budget deficit, which could lead to a tick up in imported inflation. On the other hand, international commodity prices are under downward pressure due to the downturn in the economies of China, India, Brazil etc;

- The next UK general election in 2015 is looming closer and it could be even more fraught next time forming a workable coalition. That could impact on the approach to the management of reducing the public sector deficit and so impact on the economy;

- The latest growth statistics for the Eurozone indicate that it could crawl out of recession soon. However, the UK is very dependent on Eurozone recovery for a strong recovery itself. The jury is still out on whether austerity measures could cause a self perpetuating spiral down in economic growth and government tax revenues making it more difficult to reduce government annual deficits and total debt due to decreases in tax revenues. The attempts at making a credible banking union in the Eurozone also has more holes in it than Swiss cheese;

- The Eurozone crisis has abated somewhat recently but the current "solutions" for Greece and Cyprus could prove to be only another chapter in a saga that has a long way yet to run. Then there is also Portugal……. and the recent formation of a grand coalition government in Italy between the two main parties could easily prove unworkable. The 27% level of unemployment in Spain also poses a threat to a democratically elected government trying to implement German inspired austerity;

- Germany. A general election is due in September 2013. Chancellor Merkel's party is, currently, expected to get the most votes but she may need to rethink the composition of the ruling coalition. There is a small risk of a surprise result that could unsettle investors but more and more Germans are getting fed up with the cost of supporting weak Eurozone countries;

- China: there are increasing concerns at how unbalanced the Chinese economy is and its dependence on investment expenditure. There are also concerns around the level of credit in the economy and the robustness of the banking system in respect of dubious lending practices to state owned organisations and into the property market; and

- The price of oil is particularly vulnerable to geopolitical events. The situation in the Middle East / Iran is especially vulnerable and intractable.

On a more positive note, there appears to be a solid recovery in progress in the US, especially in terms of a turnaround in the housing market – at long last! The US banking system has also recovered well from the financial crisis so is in much better shape than in the UK and Europe to finance economic recovery. We have also seen a surge in equity prices to beat the previous record high. However, again, this looks like this has been fuelled by desperate investors seeking any home for cash apart from pathetically low yielding cash deposit accounts and US Treasuries. There is, therefore, some caution that this could be an asset price bubble waiting for a correction e.g. the sequestration cuts of $85bn in Federal expenditure this year have yet to fully impact the economy and are expected to knock 0.5% off GDP growth.

Also on a positive note, the new Japanese Government led by Prime Minister Abe, has launched a huge stimulus programme (now being referred to as Abenomics), which appeared to have a very positive initial impact in trying to get the Japanese economy out of twenty years of stagnation and deflation. However, the positive initial impact now appears to be wearing off and the Prime Minster has yet to even start on a major reform programme to deal with the major obstacles to Japan being able to break into longer term sustainable growth. These obstacles have proved highly intractable to all previous governments.

Short term turbulence in financial markets

We can only repeat our previous warnings that we are in times when events can precipitate major volatility in markets. A growing lack of confidence in the Eurozone austerity programmes could cause bond yields to rise for Eurozone countries. This could help maintain UK gilts as a safe haven and so depress gilt yields close to current levels for some time. There is also an ongoing prospect of some further QE in the UK; this has the same effect. The updated Sector forecast is based around an expectation that we are not heading into a disorderly break-up of the Eurozone, but rather a managed, albeit painful, resolution of the current crisis. Under this assumed scenario, growth within the Eurozone will be depressed for the next couple of years and could also lower UK growth as the EU is our biggest export market.

Our PWLB forecasts are based around a balance of risks. However, we would flag up the potential for upside risks, especially for longer term PWLB rates, as follows: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium inherent to gilt yields;

- A reversal of QE; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held;

- A reversal of Sterling's safe-haven status on an improvement in financial stresses in the Eurozone;

- A further increase in investor confidence that robust world economic growth is firmly expected causing a flow of funds out of bonds and into equities; and

- A further UK credit rating downgrade We would remind clients of the view that we expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are as we are experiencing exceptional levels of volatility which are highly correlated to political developments, (or lack of them), in the sovereign debt crisis. Please find below our revised forecasts which are based on the new Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Allan o / From SECTOR Ltd

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar Mehefin 2013 *
Credit ratings of investment counterparties and deposits held with each as at 30 June 2013*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuon / Deposit £'000	Hyd (Galw tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O/I)/ Period (From / To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating	Graddfa Tymor Byr Fitch Short Term Rating	Graddfa Tymor Hir Moody's Long Term Rating	Graddfa Tymor Byr Moody's Short Term Rating	Graddfa Tymor Hir Standard & Poor's (S&P) Long Term Rating	Graddfa Tymor Byr Standard & Poor's (S&P) Short Term Rating	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	**2.974**	**Galw/ Call**	**n/a**	**0.75**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Glas - 12 mis/ Blue - 12 months**
HSBC Holdings plc	HSBC Bank plc	**1,069**	**Galw/ Call**	**n/a**	**0.25**	**AA-**	**F1+**	**Aa3**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 1 2months**
Santander Group plc	Santander UK plc	**9,703**	**Galw/ Call**	**n/a**	**0.8**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Gwyrdd – 3 mis/ Green - 3 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**5,000**	**Tymor Sefydlog/ Fixed Term (364 diwrnod/days)**	**Tachwedd/ November 2012 Tachwedd/ November 2013**	**1.58**	**A**	**F1**	**A3**	**P-2**	**A**	**A-1**	**Glas - 12 mis / Blue - 12 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**5,000**	**Tymor Sefydlog/ Fixed Term (6 mis/months)**	**Mai /May 2013 / Tachwedd/ November 2013**	**0.95**	**A**	**F1**	**A3**	**P-2**	**A**	**A-1**	**Glas – 12 mis / Blue - 12 months**

* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 5 o'r Datganiad Strategaeth Rheoli Trysorlys 2013/14/Strategaeth Buddsoddi Blynyddol/ The Approved Lending List can be found at Appendix 5 of the 2013/14 Treasury Management Strategy Statement / Annual Investment Strategy

** Sef tymor ar pwynt y buddsoddi/Being term at the point of investment.

- Santander oedd yr unig sefydliad i beidio â chwrdd â meini prawf y Rhestr Benthyca Cymeradwyedig. Fe parhawyd i fuddsoddi yn Santander. Trafodir hyn yn Rhan 4.4./The only institution not to meet the Approved Lending List credit criteria was Santander. Investment in Santander did continue though. This is discussed in Section 4.4.
- Yn Atodiad 5 ceir y graddfeydd credyd cyfatebol ar gyfer y 3 asiantaeth graddio y cyfeirir atynt uchod./The equivalent credit ratings for the 3 rating agencies referred to above can be found at Appendix 4.

Graddfeydd Credyd Cyfartebol/
Equivalent Credit Ratings (Fitch, Moodys, S&P)

Tymor Hir Fitch Long Term	Tymor Hir Moodys Long Term	Tymor Hir S&P Long Term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
Tymor Byr Fitch Short Term	**Tymor Byr Moodys Short Term**	**Tymor Byr S&P Short Term**
F1+	n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3

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