

ISLE OF ANGLESEY COUNTY COUNCIL

COMMITTEE:	AUDIT COMMITTEE
DATE:	23 JULY 2013
TITLE OF REPORT:	STATEMENT OF ACCOUNTS 2012/13 MAJOR JUDGEMENTS AND ESTIMATES
PURPOSE OF REPORT:	UPDATE AUDIT COMMITTEE MEMBERS ON KEY JUDGEMENTS IN THE 2012/13 STATEMENT OF ACCOUNTS
PORTFOLIO HOLDER(S):	COUNCILLOR H E JONES
REPORT BY:	CLARE J WILLIAMS
CONTACT OFFICER:	TONY FURBER
ACTION:	NOTE THE CONTENTS AND DECIDE WHETHER FURTHER TRAINING WOULD BE DESIRABLE ON THE STATEMENT OF ACCOUNTS

INTRODUCTION

The Council's Draft Statement of Accounts for 2012/13 was signed by the Section 151 Officer on 28th June 2013 within the end of June statutory deadline.

The accounts cover the period from 1/4/2012 – 31/3/2013. They are large, complicated statements which are not always easy for the non-specialist to interpret. They are also 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 purpose of this report is to give more clarity to members and officers on those judgements, and should be read in conjunction with the draft Statement of Accounts. Those accounts were published on the Council's website at the beginning of July.

The accounts are prepared in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

THE STATEMENT OF ACCOUNTS

A brief explanation of the Statement of accounts is set out below. As always, Finance Officers would want members of the Audit Committee to focus on certain key areas:

- The Explanatory Foreword, which links the out-turn back to the budget for the year and the in-year monitoring (Appendix A);
- The Movement in Reserves Statement (Appendix B), which summarises the reserves available to the Council, divided into usable and unusable categories, and the movements on then during the year.

The main parts of the Statement of accounts are:

Contents (Pages 1-2)

Summarises the layout of the accounts and better enables the user to find their way around them.

Glossary (pages 82-88)

The use of abbreviations is often necessary to keep this sizeable document to a minimum. Technical terms are also explained in the Glossary to assist the user of the accounts.

Explanatory Foreword (pages 3-10)

This is an important part of the accounts as it explains in financial terms how the year has gone. It summarises the information contained within the main statements and notes to the accounts. The numbers in the foreword should reflect or mirror the key figures contained within the financial statements.

The main sections of the foreword are as follows:

- Review of the year – contains commentary on the revenue performance of the Council against budget plans and in-year forecasts, with explanations of the reasons for over or under spending;
- Capital, Major Capital Projects and Capital Expenditure and Financing;
- Housing Revenue Account (HRA) – contains commentary on the HRA usable reserve;
- Borrowing and Investments – contains commentary on borrowing and investments over the year;
- Financial Position at 31st March 2012 – contains commentary on the movement in Usable Reserves and Provisions.
- Commentary on particular significant items within the accounts,

The main financial statements

The Movement in Reserves Statement for the current and comparative year (page 12)

This statement is vertical in presentation in that it should be read down over rather than across. It contains two years worth of movements starting from reserve balances at 1 April 2011 and end at the bottom with reserve balances at 31 March 2013. It shows each of our 'useable' reserves plus a summary of unusable reserves.

Unusable Reserves are really reserves created to contain technical adjustments and they are not available for spending by the Council. For example the Revaluation Reserve was £29.768m at 31st March 2013. However, this contains 'paper' gains from increases in the value of its Plant, Equipment, Property and Intangible Assets. Money would only be realised and be usable on the sale of these assets.

Usable Reserves are monies that can be expended by the Council. Certain reserves are 'ring fenced' and can only be expended on specific purposes. For example, the School reserves can only be used by schools and the Housing Revenue Account can only be expended on council houses.

Usable Reserves contain the Council Fund and HRA General Reserves, Earmarked Reserves and the Capital Receipts reserve.

It should be noted that this is only a 'snap shot' of balances at 31 March and not all of these balances are 'available' to spend. For example, services may have planned to spend some of their earmarked reserves as part of the current year (or coming year/s) budget plans.

The Statement also contains the adjustments necessary to ensure that the charge against the Council Fund is limited to the total that is allowed by law to be charged against the Council Tax. This issue is dealt with in more detail below.

Comprehensive Income and Expenditure Account (CIES - page 13)

This statement shows the accounting cost in the year of providing the Council services in accordance with accounting standards, rather than the amount to be funded from taxation. Accounting standards require certain costs, eg depreciation (over £10m in 2012/13) to be charged to services, but because this is not a 'real' cost, i.e. no money actually changes hands, statutory regulations do not allow it to be charged against the Council Fund. So, although it forms part of the reported net deficit on services, it is removed from the charge against taxation by the adjustments shown in the Movement in Reserves Statement (see above). A full list of all such adjustments appears in Note 7 on page 34.

These technical charges can have quite a dramatic impact on the bottom line balance on the CIES. For example, there is an actual loss on pensions assets/liabilities of £18.6m in 2012/13, which makes up the bulk of the overall deficit shown of £48.9m. For example, there is an actuarial loss on pensions assets / liabilities of £18.6m in 2012/13, which makes up the bulk of the overall deficit shown of £18.9m.

The net taxation position is shown in the Movement in Reserves Statement. This shows a net surplus on the Council fund of £212k rather than that of £18.9m shown on the CIES.

Balance Sheet (page 14)

The Balance Sheet for the Council shows the assets and liabilities of the Council as at 31/3/2013. The net assets (assets less liabilities) are matched by the reserves held by the Authority. These are split into usable reserves (subject to conditions) and unusable reserves that are mainly technical adjustments.

Cash Flow Statement (page 15)

The Cash Flow Statement shows the changes on cash and cash equivalents of the Authority during the year. The statement shows how the Council generated and used cash and cash equivalents by classifying cash flows into the following 3 areas:

Net cash flows from Operating Activities – are funded by way of taxation and grant income or the recipients of services provided by the Authority.

Net cash flows from Investing Activities – represent the extent to which cash flows have been made from resources which are intended to contribute to the Council's future service delivery.

Net cash flows from Financing Activities – are useful in predicting claims on future cash flows by providers of capital to the Authority, for example borrowing.

Notes to the Accounts including Note 1, Accounting Policies (pages 16 - 77)

The notes are to facilitate the user of the accounts' understanding. These notes set out in general, what the accounts are measuring and how that measure has been derived. It is also the usual starting point in reading the main statements. If there is a number one doesn't understand then hopefully one can gain more information by referring to the associated note as detailed on the main statement.

Housing Revenue Account (pages 78 - 81)

Judgemental Decisions and Estimation Uncertainties (pages 32 - 33)

Users of the accounts are often concerned about their accuracy. The test of this is usually reflected in the outcomes of the independent external audit that for this year commenced on 11 July. It is a statutory requirement for the outcomes of this external audit to be presented to the Audit Committee and for the Final Accounts to be presented for approval by 30th September.

There are certain notes to the accounts that are meant to better explain or summarise the judgemental decisions and estimation uncertainties when the accounts were prepared as shown in Notes 3 and 4, and these are reproduced as Appendices C and CH to this report.

The Committee is invited to consider these aspects of the Statement of Accounts in preparation for the formal presentation of the audited accounts in September. It has also become customary to provide a workshop for members of the committee in preparation. We would welcome members views on the arrangements for this year.

EARMARKED RESERVES

There are a number of reserves shown in the Statement of Accounts that have been set aside for a specific purpose – these are known as earmarked reserves. The amounts held in each and the transfers year on year are shown at Appendix D. A brief description of each, and its purpose is shown below:

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 has been 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 will be used to contribute towards any future liabilities arising from the management of the Penhesgyn 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.

PROVISIONS

Provisions are sums of money set aside for known and probable events i.e. the probability of them occurring is high. The amounts held in each and the transfers year on year are shown at Appendix B. A brief description of each, and its purpose is shown below:

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 and reinstatement works of the areas of the site formerly used for landfill.

Termination Benefits

Provision for known future liabilities arising from staff reductions following restructure.

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 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. The Council is now making a provision for this sum, which will be met initially from the insurance reserve, in order to meet its liabilities under the Scheme of Arrangement.

RECOMMENDATIONS

- That members consider the key items outlined above; and
- That members confirm what further preparation is required in advance of the September meeting of this committee

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.

Anglesey County 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;
 - ch) **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 the Code of Practice on Local Council Accounting 2012/13 issued by CIPFA, as representing proper practices.

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?

Revenue expenditure and income generally relates to items that are used within a financial year. 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.

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 to be 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 quarter 3 year-end projections presented to the Executive on 18 February 2013, indicated that there would be a significant overspend, principally due to pressures on the Education and Social Services budgets. At that time actions were identified to limit the overspend to £1m by the end of the financial year.

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, a turnaround of £2.1m from the position reported at quarter 3. The biggest single factor contributing to this much improved position was a significant improvement in the budgetary position of the Education service, where a forecast overspend at quarter 3 of £0.774m became an underspend of £0.09m at out-turn. Beyond this rather than a small number of large movements there has been a consistent pattern of more limited movement across all budget headings arising from;

- 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 cautious approach to forecasting the year-end position taken by both budget holders and finance staff to avoid unforeseen overspends during the year.

More details in respect of spending on individual services are provided in the following paragraphs.

Lifelong Learning

- A forecast 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, thereby releasing resources to help the Council meet any potential funding shortfall arising from the current constraints on public sector finances.

Since then the figures have been finalised and now show a further improvement, with the general balance actually increasing by £0.212m.

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 £0.250m.

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 £0.212m from £5.796m to £6.008m. 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 £17.402m, an increase of £4.520m in the year. The improvement arises mainly from a technical change in the categorisation of £2.1m of ring-fenced grant income (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 37.

HRA balance

The HRA balance stood at £0.25m at 31 March 2013, an increase of £0.003m over the balance of £0.247m held at 31st 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 towns 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)	3,334	9,557
Total	32,274	25,428	(6,846)	54,581	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 under/over spend 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 2015/16 has resulted in 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. 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			
Capital Expenditure Reserve	1,000	0	1,000
Leisure Improvement Reserve	196	0	196
Supported Borrowing carried forward	2,901	0	2,901
Total available	4,097	0	4,097

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

The net worth of the Council in the balance sheet has decreased by £18.9m over the year, mainly due to an increase of £18.4m in the Council's net pension liability (£17.1m increase in 2011/12). The statement discloses an estimated net liability of £82.1m (£63.7m 2011/12) in respect of pensions. This estimate is very dependent on the assumptions used, and the reduction over the year was mostly attributed to falling real bond yields and poor investment returns. The projected pension expense for next year has also risen for the same reasons, and reduced the expected asset rate of returns.

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 £0.212m to just over £6m, 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 £17.4m (£12.8m 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 £1.1m (£1.2m at 31 March 2012) and the HRA balance at £0.25m (unchanged from 31 March 2012).

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 £18.4m from £63.7m to £82.1m 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 £0.523m to £6.961m largely due to the requirement to provide an additional provision to meet liabilities in respect of 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 50.

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.

**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 6)	HRA Balance (Supplementary Financial Statements)	Capital Receipts Reserve (Note 10)	School Balance (Note 6)	HRA Earmarked Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Council
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance 1 April 2011	6,743	11,645	255	0	2,246	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	(8,477)	0	(8,477)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(17,080)	(17,080)
Total Comprehensive Income and Expenditure	(3,520)	0	(4,957)	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	7,765	(7,765)	0
Net (Decrease) before Transfers to Earmarked Reserves	(704)	0	(8)	0	0	0	(712)	(24,845)	(25,557)
Transfers to/(from) Earmarked Reserves	(243)	1,237	0	0	(994)	0	0	0	0
Increase/(Decrease) in Year	(947)	1,237	(8)	0	(994)	0	(712)	(24,845)	(25,557)
Balance 31 March 2012	5,796	12,882	247	0	1,252	0	20,177	143,419	163,596
Movement in reserves during the year									
Surplus/(Deficit) on provision of services	4,766	0	(4,474)	0	0	0	292	0	292
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(19,204)	(19,204)
Total Comprehensive Income and Expenditure	4,766	0	(4,474)	0	0	0	292	(19,204)	(18,912)
Adjustments between accounting basis and funding basis under regulations (note 7)	(1,118)	0	5,493	14	0	0	4,389	(4,389)	0
Net Increase / (Decrease) before Transfers to Earmarked Reserves	3,648	0	1,019	14	0	0	4,683	(23,595)	(18,912)
Transfers to/(from) Earmarked Reserves	(3,436)	3,504	(1,016)	0	(68)	1,016	0	0	0
Increase/(Decrease) in Year	212	3,504	3	14	(68)	1,016	4,683	(23,595)	(18,912)
Balance 31 March 2013	6,008	16,386	250	14	1,184	1,016	24,858	119,826	144,684

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 assets used for economic development purposes e.g. industrial estates 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 revenue grants are reviewed regularly to determine if the grants were provided with any conditions that might require repayment if those conditions were not met. There has been a consequential impact on the sums held within the Balance Sheet and credited to the Comprehensive Income and Expenditure Statement;
- 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 42.

The accounting policy for the depreciation of Property, Plant and Equipment (page 20) 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 – Various separate provisions, the basis of which have been individually assessed, are contained within these accounts as detailed in Note 27 on page 50.

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 8 – EARMARKED RESERVES

	Balance as at 01 April 2011	Transfers In 2011/12	Transfers Out 2011/12	Balance as at 31 March 2012	Transfers In 2012/13	Transfers Out 2012/13	Balance as at 31 March 2013
	£000	£000	£000	£000	£000	£000	£000
Capital Expenditure	988	478	(466)	1,000	1,209	(1,209)	1,000
Penhesgyn Waste Landfill Site Reserve	886	0	0	886	0	(111)	775
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)	566
Total	11,645	4,231	(2,994)	12,882	9,061	(4,541)	17,402