

ISLE OF ANGLESEY COUNTY COUNCIL

COMMITTEE:	AUDIT COMMITTEE
DATE:	22 JULY 2014
TITLE OF REPORT:	STATEMENT OF ACCOUNTS 2013/14 MAJOR JUDGEMENTS AND ESTIMATES
PURPOSE OF REPORT:	UPDATE AUDIT COMMITTEE MEMBERS ON KEY JUDGEMENTS IN THE 2013/14 STATEMENT OF ACCOUNTS
PORTFOLIO HOLDER(S):	COUNCILLOR H E JONES
REPORT BY:	RICHARD MICKLEWRIGHT
CONTACT OFFICER:	RICHARD G JONES
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 2013/14 was signed by the Interim Section 151 Officer on 30 June 2014, within the end of June statutory deadline.

The accounts cover the period from 01/04/2013 - 31/03/2014. 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.

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 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.

Appendix 1 (pages 96-97) Related Parties – stakeholder Representation.

Glossary (pages 98-101)

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 3-13)

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:-

Introduction

Explanation of performance and format of the statement, including the statutory framework and changes in accounting treatment.

- **Revenue Expenditure** - 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; Housing Revenue Account (HRA) - contains commentary on the HRA usable reserve;
- **Capital Expenditure** – contains commentary on capital expenditure comparison between budget and actuals Major Capital Projects and Capital Expenditure and Financing;
- **Borrowing and Investments** – contains commentary on borrowing and investments over the year;
- **Balance Sheet** position as at 31 March 2014 - contains commentary on the movement within the balance sheet Usable and Unusable 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 15)

This statement is vertical in presentation in that it should be read down rather than across. It contains two years' worth of movements starting from reserve balances at 1 April 2012 and end at the bottom with reserve balances at 31 March 2014. 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 £38.174m at 31 March 2014. 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 16)

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, e.g. depreciation (over £10.645m in 2013/14), 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 44.

These technical charges can have quite a dramatic impact on the bottom line balance on the CIES. For example, there is an actual re-measurement charge of the net defined liability of £17.624m in 2013/14 (note 41 page 75-81), which makes up the bulk of the overall deficit shown of £24.116m on page 16. The net taxation position is shown in the Movement in Reserves Statement. This shows a net surplus on the Council Fund of £28k.

Balance Sheet (page 17)

The Balance Sheet for the Council shows the assets and liabilities of the Council as at 31/03/2014. 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 18)

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 19- 37)

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.

Supplementary Financial Statement Housing Revenue Account (pages 92 - 95)

Judgemental Decisions and Estimation Uncertainties (note 4 pages 40 - 41)

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 2 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 are 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.

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. An additional provision has been provided for known future re-engineering work to be carried out to the main culvert / watercourse within the site.

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 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

**RICHARD MICKLEWRIGHT
INTERIM HEAD OF FUNCTION (RESOURCES) & SECTION 151 OFFICER**

15 JULY 2014

EXPLANATORY FOREWORD

1. INTRODUCTION

The following pages include the Statement of Accounts for the Isle of Anglesey County Council for the year ended 31 March 2014.

Each year the Council must prepare and publish a Statement of Accounts, the purpose of which is to give electors, local taxpayers, Members of the Council, employees and other interested parties clear information about the Council's finances.

The aim is to provide information on:-

- The cost of the services provided in 2013/14;
- Where the money came from;
- What we own and what we owed at the end of the financial year.

The purpose of this foreword is to provide an explanation of the Council's financial position, including the main influences affecting the accounts, and to assist in the interpretation of the accounting statements.

Within the foreword we will set out:-

- What the various elements of the accounts are and what each section tells you;
- Summary of the Council's financial performance during 2013/14;
- An explanation of the main external factors that have influenced the information contained in the accounts in 2013/14;
- A summary of the key information from the accounts alongside an explanation of the reasons for any significant year on year changes.

The Statement of Accounts for 2013/14 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 2013/14 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** – comprises the systems and processes that enable the Authority to monitor the achievement of its strategic objectives. This includes the system of internal control used to manage risk. It sets out the main features of this system and its effectiveness (not available at draft stage).
- **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. The surplus (or deficit) on the provision of services line shows the true economic cost of providing the Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before transfers to Earmarked Reserves shows the position before any discretionary transfers to/from Earmarked Reserves are undertaken.

- 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. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- c) The Balance Sheet** – which sets out the financial position of the Council at 31 March 2014 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** – This summarises the cash inflows and outflows during the year, arising from transactions with third parties for revenue and capital purposes.
- d) The Housing Revenue Account** is a record of revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. The Housing Revenue account is ring-fenced from the Council's General fund.
- dd) 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 2013/14 and the Service Reporting Code of Practice 2013/14 issued by CIPFA, supported by International Financial Reporting Standards (IFRS).

3. CHANGES IN ACCOUNTING TREATMENT

There are no changes to accounting treatment required for 2013/14 and consequently there are no changes to the accounting policies in use at the Council.

4. SUMMARY OF THE YEAR

The Council spends money in two ways; revenue and capital. Revenue spending is on items that are used up within a year and is paid for from Council Tax, government grants, rents and other income. Capital spending generally relates to items of expenditure that will give benefits to the Council for a period of more than one year. The financing of capital expenditure is mainly from capital receipts, capital grants and contributions, or borrowing.

- 5.** The Council produces quarterly reports on the revenue expenditure for the Management Team and Portfolio Holders. On a quarterly basis reports on the financial and performance position are considered by the Executive Committee.

6. REVENUE EXPENDITURE AND INCOME 2013/14

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 goods 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 and what we actually spent

The Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement show our financial performance and the net expenditure to be charged against Council Tax. The Council agreed the expenditure budget for 2013/14 in February 2013. This budget has been updated in year to reflect additional funding becoming available and budgets being re-profiled into 2013-14 to result in a final budget of £129m.

This was funded by the Council's Revenue Support Grant from the Welsh Assembly of £78.203m, receipts from the National Non-Domestic Rates Pool of £22.025m and Council Tax receipts of £30.212m.

a) Council Fund Services

The Council's Executive Committee received a provisional out-turn report at its meeting of 10 June 2014, which showed a net underspend of £846k against the Council's approved budget. The revised outturn position shows a net underspend of £1.217m

Generally the underspend has been achieved by

- General restraints on spending by services in response to the forecast financial position of the Council;

However there were a series of significant budget variances across all service areas, details of which are provided in the following paragraphs;

Lifelong Learning

- Central Education
There is a net underspend of £118k. Within the Service there are a number of areas that are overspent whilst others are below budget. The significant sums are summarised as follows:
- Pupil Transport
Cost of transport for pupils to schools and colleges was overspent by £177k and Included all sectors i.e. Primary, Secondary, Special as well as Further Education establishments.
- Combined School Meals
Overspend of £172k and this was partly attributable to a greater take up of free school meals and primary schools meal income has underachieved against the budget target.
- Central Education Administration
This budget was overspent by £126k. This overspend is spread over a number of areas including supplies and services, but has also been partly offset by underspending on energy costs and over achievement of income/contributions.

- Cynnal
Overspent by £135k – this was mainly as a result of unbudgeted costs for service level agreement with Cynnal – the service included IT support, Curriculum support and admin management.
- Other Central
Performance management budget was underspent by £92k and was partly due to underspending on contract costs. The home tuition and sickness budget was also underspent by £96k, mainly due to underspend on staffing. There was also a smaller underspend on Appetite for Life of £24k.

Community Services

Social Care

The Social Care overall outturn position shows a net overspend of £180k. The main variances for Social Care (excluding the provider unit) are as follows:-

- Services for the Elderly
This area is showing an underspend of £230k. This is partly due to vacant posts within the Service of £84k. However, the Service is also seeing a reduction in spend as a result of a strategy to move away from residential care to home care.
- Learning Disability
This area is showing an overspend of £142k. This is mainly as a result of unforeseen demand for adult placement in residential care.
- Physical Disability
These show a service underspend of £90k. This is mainly as a result of the tightened eligibility criteria for adaptations for the home.
- Mental Health
This shows an overspend of £275k and is as a result of combination of issues relating to a combination of budget pressures relating to residential care.
- Children and Young People Service
The Service is showing a net underspend of £216k and includes underspend in Family Support of £99k. Likewise, Children with Disability budget is underspent by £73k. However, there are also overspends in other parts of the budget; this includes overspending in legal costs of £32k and out of county placements of £106k.

Non HRA Housing

This Service is showing a net underspend of £248k. Within the Service there has been an additional bad debt provision posted of £53k relating to Private Sector Leasing. The Service also shows a gain of £256k relating to grant reserves monies that have been released from grant reserves. (The figure net of the bad debt and grant reserves adjustments is an under-spend of £45k).

Leisure and Culture

The Culture Services had an overall underspend of £138k, the main variances to this underspend were as follows:-

- Additional running costs at the new archives building has led to an over spend of £25k. Heritage sites were underspent by £15k due to an improved performance at South Stack. Admission fee income was ahead of budget by £21k, but additional running costs of £6k partly offset the increased income performance.

- Museums and galleries were underspent by £5k. Oriol Ynys Môn overspent by £35k due to an under achievement of income, but Beaumaris Gaol and Court generated an underspend of £10k. There was a further underspend of £32k on the museums administration budget.
- The Library Service underspent by £90k mainly due to staff vacancy savings that amount to £60k. There are further underspends on transport and supplies and services that amount to £30k.

The Leisure Services showed an overall underspend of £142k, the main variances were as follows:-

- Park and Outdoor Facilities Services were overspent by £23k. This follows the decision of the Council to make a 'complete withdrawal' from the service provision from April 2012 onwards.
- Indoor sports and recreation facilities are underspent by £158k. Income generation is significantly ahead of budget, amounting to £120k. There are also underspends on premises related budgets of £33k. The historic trend of over spending on the golf course has continued, amounting to £44k.

Sustainable Development

Highways and Transportation

The Service is showing a net overspend of £191k. The main variances are as follows:-

- Works budget (Traffic, Lighting and Maintenance)
Combined overspend of £198k. This is mainly accounted for by the need to respond to additional emergency works during the winter period.
- Development Control Management
Underspent by £82k. This was mainly as a result of not achieving budgeted income.
- Other
School crossing patrol was underspent by £24k. This was mainly due to a significant number of school crossing posts remaining vacant during the year. Car park income was under budget by £36k. This was due to a combination of reduced expenditure on contract payments and additional income over and above budget.

Waste Management.

The total underspend was £265k. The major items were improvements in the Gas Management at Penhesgyn (£159k), and reduced waste going into landfill producing savings of £60k.

Planning

The total overspend was £211k. The major items were:-

- Legal and consultancy costs were £165k over budget due to disputed Planning Committee decisions. The collaboration with Gwynedd Council for the Policy Unit was £23k over budget. Energy Island development was £46k over budget due to additional computer expenditure.

Deputy Chief Executive

- ICT
This service is underspent by £167k. The majority of this related to the staffing budget being underspent as a result of vacancies.

- Legal and Administration

This Service is underspent by £174k and is as a result of a combination of various service elements within the budget. Committee Services are underspent by £42k. Legal Services are underspent on staffing due to vacant Solicitor post. The underspend in staffing, net of agency cost and SLA, is £44k.

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 2013/14 the account successfully funded all operational expenditure and made capital contributions of £2m towards the long-term maintenance and upgrading of the stock whilst the HRA budget for the year was a surplus of £499k with an outturn surplus of £1.42m. The principal reasons were:-

- i) The call on revenue contributions by the capital programme was £1.2m less than anticipated;
- ii) Rental receipts were buoyant and performed £500k better than anticipated;
- iii) However, £300k cost were higher than anticipated and cuts were incurred on a new computer system implementation;
- iv) Upgrades to lifts, fire alarms and sewage facilities costs were £200k higher than budget; and
- v) Revenue repairs and maintenance was higher than anticipated.

However, after taking account of an adjustment required by statute to be credited to the HRA, this resulted in an increase of £1.190m to the HRA balance leaving a balance of £1.672m. Further information on the HRA can be found in the Supplementary Statements to the Accounts on page 93.

Use of revenue reserves and balances

Council Fund

At out-turn, the balance on the Council Fund at 31 March 2014 increased by £0.27k from £5.910m to £5.938m. In year movements on the Council Fund can be found in Movement in Reserves Statement on page 15.

Earmarked Reserves

At 1 April 2013, the Council held earmarked reserves of £16.627m. The in year movement of £221k resulted in reduction to balances which now stand at £16.406m (see Note 8 – page 46).

Schools Balances

School reserves are limited to the uses approved by the individual schools and the position varies from school to school. Seven schools had a deficit at the end of the financial year (ten 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 has reduced, resulting in an increased reserve balances (in total) of £0.334m, so that the total value of schools reserves at 31 March 2014 stood at £1.518m (£1.184m at 31 March 2013). Details of the breakdown of the value of the reserves by school type can be found in note 9 to the Accounts on page 47.

CAPITAL EXPENDITURE 2013/14

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 £28.8m for 2013/14. Whilst there were no major project or schemes commenced during the year, there were two major projects that were completed. Firstly, the completion of the improvement works to the Penhesgn site and, secondly, the construction of Canolfan Addysg y Bont.

What we actually spent

The Executive considered a capital out-turn report at its meeting of 9 June 2014, which showed that the Council actually spent £24.1m on capital projects in 2013/14.

Details of spending against individual project budgets are:-

Project	Budget for 2013/14 £000	Actual spend in 2013/14 £000	Variance in Year £000
Housing			
Council Houses	4,948	3,169	(1,779)
Private grants	2,721	1,573	(1,148)
Affordable Housing	513	120	(393)
Education			
Ysgol y Bont	6,368	6,707	339
21 st Century Schools - Holyhead	587	10	(577)
Flying Start	535	527	(8)
Learning in Digital Wales	590	614	24
Other	802	603	(199)
Regeneration			
Econ Dev. - Strategic Infrastructure	450	235	(215)
Econ Dev. - Coastal environmental project	80	89	9
Econ Dev. - Other	1,077	356	(721)
Property - Smallholding improvements	(1,369)	683	2,052
Property – Other	1,046	593	(453)
Penhesgyn	6	295	289
Planning - Regeneration (3 towns)	2,000	830	(1,170)
Highways - Borrowing Initiative	1,800	1,785	(15)
Highways - Regional Transport Consortia grant	663	621	(42)
Highways - Safe Routes in Communities Grants	422	438	16
Highways – Other Grants	963	585	(378)
Other			
Equal Pay 2013 /14	3,300	3,300	0
Other Department Schemes	1,310	972	(338)
Total	28,812	24,105	(4,707)

Total capital spending of £24.1m was £4.7m less than the approved budget for the capital programme. This is lower than the previous year's outturn of £25.4m, reconciled as follows: -

There was a reduction in year on year expenditure as a result of:-

- (i) reduced activity on some ongoing projects/schemes, including:- (a) HRA works (£5.5m less than 2012/13) mainly due to the WHQS (Welsh Housing Quality Standard) programme of works which was completed in the third quarter of 2012/13, and (b) minor works to schools (£0.6m), Penhesgyn (£0.7m), smallholdings programme of improvements (£0.4m), Anglesey Coastal Environment Project (£0.4m), other schemes (£1.1m).

- (ii) schemes completed in 2012/13 such as the Welsh Government (WG) funded Streetscape and Environmental Works 2012/13 (£0.4m), the WG funded upgrade works to leisure centres (costing £0.8m in 2012/13), other schemes (£0.3m).

This was countered, to an extent, by increased expenditure as a result of:-

- (i) new items such as equal pay claims (£3.3m) and the WG funded Learning in Digital Wales grant (£0.6m).
- (ii) increased activity on ongoing projects and schemes such as:- private sector housing grants (£0.7m), the WG funded relocation of Ysgol y Bont (£2.4m), and other projects and schemes (£1.9m).

There were number of small cost overruns during the year, most of which were funded from service revenue budgets. The two most significant schemes that exceeded the budget allocation were the relocation of Ysgol y Bont, which amounted to £0.3m, and the Penhesgyn Household Waste Recycling Centre improvement works, which were overspent by £0.3m. The overspend on the relocation of Ysgol y Bont was mainly due to the extended construction period and additional unforeseen items. The Penhesgyn overspend was partly as a result of additional costs in the design phase of the project together with additional work commissioned to improve infrastructure assets relating to access roads and car parking; the overspend was funded from service reserves.

Budgeted external resources for the year

Capital Grants

The significant proportion of capital grants were claimed in full.

Capital Receipts

The actual capital receipts on a usable basis amounted to £928k. The budgeted capital receipt was estimated to bring in funds to the value of £1.6m. The shortfall was mainly as a result of HRA anticipated land sales not being achieved, however slippage in the programme compensated for this shortfall.

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.

	Council Fund £000	Housing Revenue Account £000	Total £000
Grants and Contributions	10,567	2,600	13,167
Revenue Contributions	0	488	488
Capital Receipts	847	81	928
Supported Borrowing	992	0	992
Unsupported Borrowing	7,350	0	7,350
Earmarked Reserves	1,180	0	1,180
Total Financing	20,936	3,169	24,105
Resources available at 31 March 2014			
Capital Expenditure Reserve	565	0	565
Leisure Improvement Reserve	196	0	196
Supported Borrowing carried forward	4,050	0	4,050
Total available	4,811	0	4,811

Capital commitments outstanding at the year-end were £2.07m (2012/13: £6.8m). Capital reserves of £0.56m and an unused approved borrowing capacity of £4.1m, 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.

MAIN INFLUENCES ON THE 2013/14 ACCOUNTS

There are a number of externally driven factors that have had a significant influence on the 2013-14 accounts and the reported financial position of the Council:- impact of the economy on the Council's borrowing strategy and the impact of the Economy on the pension's deficit.

TREASURY MANAGEMENT STRATEGY

The Council is required to operate a balanced budget, meaning that total revenue due during the financial year must be sufficient to meet expenditure, and also that actual cash inflows must be adequate to cover cash outflows. A key part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed.

BORROWING

In line with the approved Treasury Management Strategy, the Council was in an under borrowed (internally borrowed) position at the year end, a position which commenced in 2011/12. This means that the capital borrowing need (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow used as a temporary measure. This approach is prudent as investment returns were low, counterparty risk high and forecast interest rates not expected to rise sharply.

The Council was in an under-borrowed position at the start of the year (£10.3m). During the year, one loan of £6.5m matured and the Council's underlying need to borrow increased by £3.8m, resulting in an under-borrowed position at the year-end of £20.6m. As a result of the continued internalisation of borrowing, the year-end borrowing was £89.6m (31 March 2013: £96.1m), with an average rate of 5.72% (31 March 2013: 5.53%).

Impact of the economy on the Council's borrowing strategy

The prevailing financial climate has continued to influence the Council's approach to its Treasury Management activities. The Council's strategy has been to use existing cash balances to fund capital expenditure rather than raising new long-term loans. This avoids the need to hold financial assets (cash and investments) that were not generating a significant return. The Council still has sufficient cash balances to operate effectively and could access additional funds at short notice with minimal cost should it be required.

INVESTMENTS

The Council operated within its approved Annual Investment Strategy during the year. The investments at the year- end totaled £9.2m (31 March 2013: £13.5m).

BALANCE SHEET POSITION AT 31 MARCH 2014

During 2013/14, the Council's reserves were £126.604m, a reduction of £23.857m from the previous financial year. This decrease was mainly as a result of unusable reserves falling from £125.982m to £101.070, of which the majority of the movement relates to the pension reserve (liability) which has increased by £22.725m. The analysis of the balances of the Unusable reserves can be found in note 11 page 48.

The Balance Sheet shows a slight increase in Long Term Assets valuations, which amounts to an increase of £1.037m. Likewise, there have been reductions in both Current Asset and Current Liabilities balances of £7.301m and £5.776m respectively.

The biggest movement relates to the Long Term Liabilities, which has increased by £23.369m (as documented below). The Balance Sheet can be found on page 17.

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 current economic climate also has a significant impact on the net Pensions Liability. One of the most significant changes on the Balance Sheet relates to the Council's pensions reserve which has increased from £80.034m to £102.759m, an increase £22.725m. It is important to note that the apparent deterioration in the pension position is based on actuarial valuations and does not represent an immediate call on the Council's reserves. The Council's actual payments to the Pension Fund are reviewed every three years as part of the triennial valuation of the Pension Fund. An investment strategy is then determined which aims to recover this deficit over the period as determined by the Pension Fund's Actuary (Hymans Robertson).

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 £7.598m at 1 April 2013. During the year, the balance increased by £2.m to £9.600m, due to the requirement to provide an additional provision to meet liabilities in respect of after-care costs of the Penhesgyn landfill site.

Details of the movements in provisions are shown in note 27 to the Accounts on page 60.

**MOVEMENT IN RESERVES STATEMENT
FOR YEAR ENDED 31 MARCH 2014**

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.

Restated 2012/13	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
Movement in reserves during the year	5,796	12,882	247	0	1,252	0	0	20,177	143,419	163,596
(Deficit) on provision of services	4,788	0	(6,776)	0	0	0	0	(1,988)	0	(1,988)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(11,147)	(11,147)
Total Comprehensive Income and Expenditure	4,788	0	(6,776)	0	0	0	0	(1,988)	(11,147)	(13,135)
Adjustments between accounting basis and funding basis under regulations (note 7)	(2,015)	0	8,027	14	0	262	0	6,288	(6,288)	0
Net (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 (note 8)	(2,661)	2,729	(1,016)	0	(68)	0	1,016	0	0	0
Increase/(Decrease) In Year Balance 31 March 2013	114	2,729	235	14	(68)	262	1,016	4,302	(17,437)	(13,135)
Movement in reserves during the year	5,910	15,611	482	14	1,184	262	1,016	24,479	125,982	150,461
Surplus/(Deficit) on provision of services	(8,642)	0	(456)	0	0	0	0	(9,098)	0	(9,098)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(15,018)	(15,018)
Total Comprehensive Income and Expenditure	(8,642)	0	(456)	0	0	0	0	(9,098)	(15,018)	(24,116)
Adjustments between accounting basis and funding basis under regulations (note 7)	8,740	0	1,689	(14)		(262)		10,153	(10,153)	0
Net Increase / (Decrease) before Transfers to Earmarked Reserves	98	0	1,233	(14)		(262)	0	1,055	(25,171)	(24,116)
Transfers to/(from) Earmarked Reserves (note 8)	(70)	(264)	(43)	0	334	0	43	0	0	0
Other transfers									259	259
Increase/(Decrease) in Year	28	(264)	1,190	(14)	334	(262)	43	1,055	(24,912)	(23,857)
Balance 31 March 2014	5,938	15,347	1,672	0	1,518	0	1,059	25,534	101,070	126,604

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 Non-Current Assets - 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 schools is included in the Balance Sheet. As the Council does not own these types of schools and does not have access to them for valuation purposes, the value of the buildings is excluded from the Balance Sheet. In addition to this, Voluntary Aided and Foundation Schools, neither the value of land nor the buildings are included on 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.
- The group boundaries have been reviewed using the criteria outlined in the relevant accounting standards and Code of Practice, the Council has not identified any companies or organisations that would require it to complete group accounts.
- 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 2014 may be considered to be most vulnerable for estimating error in the forthcoming financial year:-

Non- Current Assets - 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 53.

The accounting policy for the depreciation of Property, Plant and Equipment (page 21) identifies that:-

“Where an item of Property, Plant and Equipment (Non-Current 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 relating to discount rates, projected salary increases, changes in retirement ages, mortality rates and expected returns on pension assets. A firm of consulting actuaries is engaged by the administering Council to provide expert advice on the assumptions to be applied. Further details are contained in Note 41

Doubtful Debts Impairment/Allowance – As at the 31st of March 2014 the Council had a short-term debtor balance of £29.3m. A review of the arrears balance suggested that impairment for doubtful debts of £5.6m was appropriate. Any differences 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 59

NOTE 8 - EARMARK RESERVES

	Balance as at 01 April 2012	Transfers In 2012/13	Transfers Out 2012/13	Balance as at 31 March 2013	Transfers In 2013/14	Transfers Out 2013/14	Balance as at 31 March 2014
	£000	£000	£000	£000	£000	£000	£000
Capital Expenditure	1,000	1,209	(1,209)	1,000	904	(1,339)	565
Penhesgyn Waste Landfill Site Reserve	886	0	(886)	0	0	0	0
Service Reserves	1,507	1,540	(1,156)	1,891	0	(268)	1,623
Restricted Services	1,781	4,036	(754)	5,063	1,997	(754)	6,306
Equal Pay, Single Status and Job Evaluation	1,966	701	0	2,667	0	(311)	2,356
Recycling	1,473	302	(986)	789	108	(667)	230
Performance Management Reserve	1,054	412	(26)	1,440	0	0	1,440
Major Repairs Reserve (HRA)	0	860	0	860	0	0	860
Insurance Fund	2,529	0	(178)	2,351	184	0	2,535
Other	686	1	(121)	566	10	(85)	491
Total	12,882	9,061	(5,316)	16,627	3,203	(3,424)	16,406

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 has been wound up. The reserve was transferred in the financial year 2012/13 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.