



## **Statement of Accounts 2011/12**

**These statements demonstrate the  
financial performance of Wirral Council  
for the financial year ending 31 March 2012**

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## **EXPLANATORY FOREWORD BY THE ACTING DIRECTOR OF FINANCE AND SECTION 151 OFFICER**

### **1. INTRODUCTION**

- 1.1 The Council must prepare and publish a Statement of Accounts each year. The following pages include the Accounts for the year ended 31 March 2012. The purpose of this foreword is to provide an explanation of the Council's overall financial position, including the main influences on the accounts, and to assist in the understanding of the accounting statements.

### **2. ABOUT THE STATEMENT OF ACCOUNTS**

- 2.1 The Statement of Accounts demonstrates the financial performance of the Council for the year-ended 31 March 2012 and shows the financial position at the end of that period. The Statement has been prepared and presented in accordance with prescribed guidance (the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12).

- 2.2 As far as possible plain language has been used throughout this publication. As technical language is required in some areas a definition of financial terms has been included. A Summary of Accounts, highlighting the main information contained within the Statement, is also available and is published on the Council website at [www.wirral.gov.uk](http://www.wirral.gov.uk).

- 2.3 A brief description of the main statements and areas covered:-

- Statement of Responsibilities sets out the responsibilities of the Council and of the Acting Director of Finance and Section 151 Officer.
- Annual Governance Statement shows how the Council has ensured the effectiveness of systems for ensuring it operates legally and that public money is properly used and accounted for.
- Main Financial Statements comprise four key statements:-
  - Movement in Reserves Statement shows the movement on the different reserves that the Council holds.
  - Comprehensive Income and Expenditure Statement shows all income and expenditure for the Council.
  - Balance Sheet shows the financial standing of the Council at 31 March 2012 detailing all assets and liabilities.
  - Cash Flow Statement shows the inflows and outflows of cash arising from transactions with other parties.
- Notes to the statements provide further detail and explanation of the items contained within the Main Financial Statements.
- The Collection Fund and notes cover the Council Tax and Non-Domestic Rates collected and paid to the precepting authorities and the national Non-Domestic Rate pool.
- Pension Fund covers the financial position of the Merseyside Pension Fund which is managed by Wirral Council.
- Glossary of Financial Terms explains the technical terms used.

### 3. CHANGES IN ACCOUNTING POLICIES IN 2011/12

- 3.1 The Statement of Accounts has been prepared and presented in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.2 After the significant changes to the 2010/11 Accounts with the implementation of International Financial Reporting Standards (IFRS) the Statement of Accounts 2011/12 incorporates one main change. The Council was required to amend its accounting policy for heritage assets and recognise them at valuation. Notes 14 and 50 provide further details of the accounting changes which do not impact upon the level of spend and the Council Tax.

### 4. REVIEW OF THE FINANCIAL YEAR

#### 4.1 REVENUE EXPENDITURE AND INCOME

- 4.1.1 The spending on services provided to the people of Wirral is met from Government Grants and the local taxpayer through the Council Tax. In 2011/12 there was no increase in Council Tax from 2010/11 and revenue spending was paid for from a combination of Government Grants, Council Tax and other income.

#### Summary of expenditure

- 4.1.2 In March 2011 the Council agreed a net expenditure budget of £302 million for 2011/12. The table shows how this became the revised budget and how this compares to the actual expenditure for the year.

|                            | <b>Budget</b>    | <b>Actual</b>    | <b>Variation</b> |
|----------------------------|------------------|------------------|------------------|
|                            | <b>£ million</b> | <b>£ million</b> | <b>£ million</b> |
| <b>Spend</b>               |                  |                  |                  |
| Service expenditure        | 302.0            | 302.0            | -                |
| Adult Social Services      | +4.0             | +4.0             | -                |
| Other Services             | +1.1             | +1.1             | -                |
| EVR / VS Funded in 2011/12 | -4.4             | -4.4             | -                |
| Departmental variations    | +2.0             | -3.7             | -5.7             |
| Council Tax Reimbursement  | -                | +4.0             | +4.0             |
| <b>Total spend</b>         | <b>304.7</b>     | <b>303.0</b>     | <b>-1.7</b>      |

|                               |              |              |             |
|-------------------------------|--------------|--------------|-------------|
| <b>Funded by</b>              |              |              |             |
| Government Grants/Council Tax | 295.0        | 295.0        | -           |
| Use Of Balances               | 9.7          | 8.0          | -1.7        |
| <b>Total Income</b>           | <b>304.7</b> | <b>303.0</b> | <b>-1.7</b> |

4.1.3 The financial position is regularly monitored, particularly for those areas most prone to variation and, whilst pressures were experienced during the year, actions were taken to address these issues which resulted in the net underspend, and increase in balances, of £1.7 million.

- Adult Social Services were allocated additional resources of £4 million for the re-provision of services and for the retention of Fernleigh.
- The Early Voluntary Retirement / Voluntary Severance scheme costs were funded in 2010/11 when they were originally budgeted for in 2011/12.
- Adult Social Services overspent by £5.9 million, primarily on care services.
- One-off gains from treasury management activities realised £3.7 million.
- Further improvements in the management of Housing and Council Tax benefit saved £2.7 million in the year.
- There was an unused Efficiency Investment Budget of £3.5 million.
- The requirement to include the Council Tax reimbursement for 2012/13 in the 2011/12 accounts required £4 million to be provided for in the accounts.

### **General Fund Balances**

4.1.4 At the end of the year there was £20.8 million in General Fund balances with the main contributions being from:-

- Housing Benefit reserves and provisions of £5 million as a result of improvements in processing and recovery of grant from Government.
- Working Neighbourhoods Fund reserves and provisions of £3.3 million.
- £2.7 million set aside for Early Voluntary Retirement / Voluntary Severance funding as the Government gave permission to treat as capital spend, statutory redundancy costs.

4.1.5 The Budget for 2012/13 included the use of £9.6 million of balances resulting in a balance of £8.8 million at 31 March 2013. With the Council Tax Reimbursement funded in 2011/12 the projected balance is now £14.7 million. A minimum of £6 million represents a prudent level of General Fund balances consistent with sound financial management.

### **Financial Statements**

4.1.6 The Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement show the financial performance and the net spend charged against Council Tax.

4.1.7 The table shows how the gross expenditure was distributed across services in 2011/12 in accordance with the Service Reporting Code Of Practice analysis.

| <b>Expenditure</b>                    | <b>£000</b>    | <b>%</b>   |
|---------------------------------------|----------------|------------|
| <b>Service</b>                        |                |            |
| Central services to the public        | 43,715         | 5          |
| Cultural and related services         | 44,612         | 6          |
| Planning services                     | 15,565         | 2          |
| Environmental and regulatory services | 28,756         | 4          |
| Education and children's services     | 373,355        | 47         |
| Highways and transport services       | 19,897         | 2          |
| Other housing services                | 153,571        | 19         |
| Adult social care                     | 118,488        | 15         |
| Corporate and democratic core         | 5,559          | 1          |
| Non distributed costs                 | (2,395)        | (1)        |
| <b>Cost of Services</b>               | <b>801,123</b> | <b>100</b> |
| Other operating expenditure           | 106,706        |            |
| Financing and investment              | 71,788         |            |
| <b>Provision of Services</b>          | <b>979,617</b> |            |

4.1.8 The table shows how the gross expenditure was funded in 2011/12:-

| <b>Funding</b>                  | <b>£000</b>    | <b>%</b>   |
|---------------------------------|----------------|------------|
| Specific Government Grants      | 426,395        | 47         |
| General Government Grants       | 187,511        | 21         |
| Council Tax                     | 132,528        | 15         |
| Fees and Charges                | 109,064        | 12         |
| Financing and Investment Income | 48,518         | 5          |
| <b>Provision of Services</b>    | <b>904,016</b> | <b>100</b> |

4.1.9 The Specific Grants include £206 million for the Dedicated Schools Grant which is paid directly to the Council and £166 million in respect of Housing and Council Tax Benefits. The General Grants include the main Government funding being the Revenue Support Grant. During the last year there have been further reductions in the scale of Government support with both revenue and capital grants reduced.

## 4.2 CAPITAL EXPENDITURE AND INCOME

4.2.1 During 2011/12 almost £47 million was spent on capital projects including the acquisition and improvement of assets and infrastructure. The spending incurred by Department and the funding is shown below.

| <b>Department</b>                | <b>Spend</b>  | <b>%</b>   |
|----------------------------------|---------------|------------|
|                                  | <b>£000</b>   |            |
| Adult Social Services            | 928           | 2          |
| Children & Young People          | 22,090        | 47         |
| Finance                          | 4,164         | 9          |
| Law, HR & Asset Management       | 2,930         | 6          |
| Regeneration, Housing & Planning | 7,104         | 16         |
| Technical Services               | 9,396         | 20         |
| <b>Total</b>                     | <b>46,612</b> | <b>100</b> |

- 4.2.2 The largest project was the improvement works to the Bidston Viaduct with the Council making a contribution towards this largely Government funded scheme. Within Children and Young People the £12 million Birkenhead High School for Girls Academy is progressing well. Over £5 million was spent on Pensby Primary School which completed in May 2012 with the works at Cathcart Street Primary School and Woodlands Primary School completing early in 2012/13.
- 4.2.3 Under Finance the main item is the spending on statutory redundancy payments which the Government gave permission for the Council to treat as capital spending in 2011/12.
- 4.2.4 Investment into regeneration continues with this being targeted to the former Housing Market Renewal areas in Birkenhead and Wallasey and supported by Government grant. Continuing into future years the commitments are in excess of £5 million.
- 4.2.5 The Council continues to make improvements to the highways infrastructure with works on highways, bridges and road safety comprising the investment under Technical Services.

| <b>Source</b>                     | <b>Funding</b> | <b>%</b>   |
|-----------------------------------|----------------|------------|
|                                   | <b>£000</b>    |            |
| Borrowing                         | 17,585         | 38         |
| Capital Receipts                  | 3,000          | 6          |
| Revenue, Reserves & Contributions | 1,663          | 4          |
| Grants                            | 24,364         | 52         |
| <b>Total</b>                      | <b>46,612</b>  | <b>100</b> |

- 4.2.6 The main source of funding came from grants allocated by Central Government for specific schemes or projects and primarily investment in schools. In 2011/12 over £24 million of grants have been, or are expected to be, received to fund the total spend of £47 million with the balance met from a combination of borrowing and capital receipts generated from the sale of surplus assets.

### 4.3 BALANCE SHEET

- 4.3.1 The Balance Sheet at 31 March 2012 shows a net asset position of £83 million. The net worth of the Balance Sheet excluding the Net Pensions Liability is a net asset position of £478 million.

#### 4.3.2 Assets and Investments

As part of the rolling programme of valuations a further series of assets were revalued during the year. In total the Council had an asset portfolio valued at £647 million at 31 March 2012. The majority of this related to land and buildings which accounts for £446 million with infrastructure assets, including roads, included at £104 million, whilst heritage assets are now separately identified. The asset valuation is affected by the requirement to transfer school assets to Academies when they become independent of the Council for no financial return.

Total investments at 31 March 2012 were £102 million with the majority of investments being on a short term basis with financial institutions. Throughout 2011/12, as in previous years, the over-riding approach was one of security and liquidity with the diminution in investment return being the acceptable risk / reward consequence. The investment income during the year totalled £2.3 million with an average rate of return of 0.9%.

#### **4.3.3 Liabilities and Borrowing**

The major sources of funding for Council borrowing have traditionally been private sector institutions (banks and building societies) and the Public Works Loans Board (PWLB). As part of effective treasury management, opportunities presented by the market to generate interest savings are pursued and this proactive management is undertaken in line with approved Government and statutory guidance (Code of Practice for Treasury Management in Public Services).

In managing debt the aims are to reduce the overall exposure to interest rate movements, to lower long-term interest charges paid and smooth the maturity profile without compromising longer-term stability. Debt rescheduling has become more challenging and places greater emphasis on the timing and type of new borrowing. No debt rescheduling took place in 2011/12.

At 31 March 2012 the long term debt totalled £244 million. This was with financial institutions and the Public Works Loans Board being spread over a range of maturity dates. This also includes the debt of the former Merseyside County Council which Wirral manages on behalf of the other Local Authorities and agencies.

#### **4.3.4 Retirement Benefits**

All Councils fully adopt the accounting policies contained within International Accounting Standard 19 "Employee Benefits". The principle behind IAS19 is that an organisation should account for retirement benefits when it is committed to pay them, even if the actual payment will be many years in the future.

The actuaries engaged by the Council have estimated the underlying long term commitment to pay retirement benefits to be £395 million at 31 March 2012, which is an increase of £60 million from 31 March 2011. This has arisen due to the worse than expected performance of the financial markets, both nationally and globally, and this is expanded upon in the Merseyside Pension Fund Accounts and Annual Report.

The recognition of this liability in the accounts has a substantial effect on the net worth of the Council and it is important to note that this change reflects the actuarial valuations and is not an immediate demand upon the Council's resources. The payments made by the Council to the Pension Fund are reviewed every three years as part of the triennial revaluation of the Pension Fund. An investment strategy is then determined which aims to recover the deficit over a stated period (presently 25 years).

The liability for teachers' discretionary added year payments rests with the Council and under scheme regulations is funded on a "pay as you go" basis with annual payments to retired teachers.

#### **4.3.5 Reserves**

Reserves are reported as usable or unusable. Usable reserves may be used to support services, subject to any statutory limitations on their use such as for the Capital Receipts Reserve which can only be used to support capital expenditure or repay debt. Unusable reserves are not available to fund services and include the Pensions Reserve which reflects the changes in actuarial gains and losses (see note on Retirement Benefits) and the Capital Adjustment Account which includes assets written-off on disposal or sale and includes the reduction in assets with schools transferring to Academies as referred to under Assets and Investments.

The Council seeks to maintain a level of General Fund balance sufficient to meet any unforeseen events. £6 million is the minimum level based upon an assessment of the risks involved in managing the overall budget and recent experiences in terms of spending compared to the budgets allocated. This General Fund balance will vary as a result of the financial decisions of the Council. When setting the annual budget sums in excess of the prudent level can be, and are, used to help provide for services.

The usable reserves are regularly reviewed to assess whether they are adequate for the purpose intended and whether the sums involved are still required. At 31 March 2012 the major usable reserves were in respect of School balances, Housing Benefit, Working Neighbourhoods Fund and Debt Restructuring and Financing. The former are only available for use by the schools.

#### **4.4 GOVERNANCE**

4.4.1 The Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

4.4.2 The Annual Governance Statement, although no longer required as part of the Statement of Accounts, has been included. The Leader and Acting Chief Executive have agreed a series of actions to address those matters identified as requiring action to further enhance the governance arrangements.

#### **5 FUTURE DEVELOPMENTS**

5.1 The global economic situation has affected, and will continue to affect public services in a variety of ways. The Government actions to reduce the public sector deficit have been widely publicised and will continue placing further pressure upon the public sector and the financial position of the Council.

- 5.2 In supporting local Council taxpayers the Wirral Council Tax has not been increased for two consecutive years. Initiatives such as extending the Council Tax relief scheme to over 70's households also support local people. As in preceding years income from some Council services is affected and the ability of individuals to meet their financial obligations has been recognised and a further increase was made in the sums set aside for potential bad debts.
- 5.3 The coming year(s) will be as challenging as the recent past with continued pressures on all main services, particularly care services for both adults and children. In recognition of these pressures additional resources were allocated towards initiatives in Adult Social Services and Children and Young People Services.
- 5.4 The Medium Term Financial Strategy is reviewed annually and regularly updated through reports to Cabinet on the Projected Budgets for future years.

This includes details of the evolving Government proposals regarding the future changes to the financing of local government as well as emerging actions by the Council to address any gap between the projected spend and likely resources.

- 5.5 Based upon the information presently available from the Government the Council's Projected Budget for 2013/15 shows a gap between the planned spend and likely resources of over £60 million. The Council has reduced budgets by almost £60 million between 2011/13 but the scale of the reduction will lead to further difficult decisions around the provision of services and the priorities of the Council over the coming years.
- 5.6 Whilst looking for ways to deliver improved services, further improve efficiency and reduce waste the Council, in developing future proposals, continues to look for modern and cost effective methods of providing services and to explore alternative commissioning options.

## **6 CONCLUSIONS**

- 6.1 The Statement of Accounts provides information about Council expenditure and income for the year and the overall financial position at the end of the financial year. It is a key element in reporting how Council finances have been managed whereas the Council Tax Explained booklet issued with the Council Tax demands at the beginning of each year sets out the plans for the year.
- 6.2 The Council continues to strive to promote and enhance all aspects of financial management. The future promises to be as challenging as the recent past and the Council retains a sound financial base, including the General Fund balance plus the specific provisions and reserves, from which to respond to the challenges.

**TOM SAULT**  
**ACTING DIRECTOR OF FINANCE AND SECTION 151 OFFICER**  
**WIRRAL COUNCIL**

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's Responsibilities

The Council is required to:-

make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Acting Director of Finance and Section 151 Officer;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

### The Acting Director of Finance and Section 151 Officer's Responsibilities

The Acting Director of Finance and Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2012.

In preparing this Statement of Accounts the Acting Director of Finance and Section 151 Officer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Acting Director of Finance and Section 151 Officer has also:-

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

I certify that the Statement of Accounts provides a true and fair view of the financial position of Wirral Council at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Tom Sault  
Acting Director of Finance and Section 151 Officer  
19 September 2012

### Approval of the Accounts

In accordance with the Accounts and Audit Regulations 2011 I certify that the Statement of Accounts was approved by Audit and Risk Management Committee on 19 September 2012.

Chair of Audit Committee

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL BOROUGH COUNCIL**

### **Opinion on the Authority financial statements**

I have audited the financial statements of Wirral Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Wirral Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

### **Exception report Auditor's responsibilities**

#### **Report in the public interest under section 8 of the Audit Commission Act 1998**

I have a duty under the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to my attention in the course of the audit in order for it to be considered by the Authority concerned or brought to the attention of the public.

On 8 June 2012 I issued a report in the public interest under section 8 of the Audit Commission Act 1998 on the subject of weaknesses in the Authority's corporate governance arrangements. My report included a number of recommendations to the Authority.

#### **Opinion on the pension fund financial statements**

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

#### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International

Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

#### **In my opinion the pension fund's financial statements:**

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Basis for adverse conclusion**

In considering the Authority's arrangements for securing financial resilience, I identified that:

- there were weaknesses in leadership and financial governance that have diverted action from delivering improvement. This is acknowledged in the Authority's Improvement Plan and Annual Governance Statement;
- the Corporate Plan has been subject to constant change impacting adversely on the Authority's ability to plan and prioritise over the medium to longer term;
- the Corporate Plan is not underpinned by a robust medium term financial plan that clearly sets out plans to address the projected shortfall of around £100 million for 2012 – 2015;
- there has been regular use of reserves to fund recurrent expenditure as well as weaknesses in forecasting capital expenditure; and
- the Authority did not secure robust financial control and continues to face a number of financial challenges, most notably a recurrent overspend in Adult Social Services and a projected Authority overspend of £17 million at month three of 2012/13.

Without robust systems and processes, financial risks and opportunities may not be managed effectively and a secure financial position may not be secured for the foreseeable future.

In considering the Authority's arrangements for challenging how it secures economy, efficiency and effectiveness, I identified that:

- there is a lack of clarity about the Authority's strategic priorities due to the changes in leadership and the Corporate Plan resulting in a lack of a strategic approach to challenging spend and considering how spending matches the priorities of the Authority;
- performance management arrangements were reviewed during the year but remain inadequate. The responsibility for the strategic change programme has continued to move between departments, was not linked to the wider savings programme and did not deliver as planned;
- there is inadequate information for decision-making and partnership arrangements need strengthening; and
- there was limited information to demonstrate that there was an increase in productivity and better output from more limited resources, most notably in respect of the Highways and Engineering Services contract. A third of corporate indicators and corporate projects did not meet targets or were not delivered as planned.

Without clear prioritising of resources within tighter budgets, cost reductions and improved efficiency and productivity may not be achieved.

### **Adverse conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, the matters reported in the basis for adverse conclusion paragraph above prevent me from being satisfied that in all significant respects Wirral Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

### **Report by exception**

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such matters have come to my attention relating to significant weaknesses in the Authority's arrangements for:

- promoting and demonstrating the principles and values of good governance; and
- managing risks and maintaining a sound system of internal control.

The Authority has yet to address the corporate governance weaknesses which have been repeatedly identified in respect of key issues such as whistleblowing, conflicts of interest, compliance with procedures, risk management, Internal Audit and providing value for money. In addition gifts and hospitality records were not complete and there was a high incidence of non-compliance with procedures. Without good governance, risk increases and priorities may not be achieved.

I identified weaknesses in corporate arrangements for risk management, compliance with policies, procedures and internal control. There were not adequate and effective arrangements for assurance of the systems of internal control and I identified significant internal control weaknesses in respect of the control and management of, for example, assets and accounts payable. Without sound arrangements risks cannot be managed to a reasonable level and resources may not be used effectively to deliver value for money.

### **Certificate**

I certify that I have completed the audit of the accounts of Wirral Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Thomas District Auditor  
Audit Commission  
2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Bolton BL6 6QQ

25 September 2012

*The signed version of this report is available from the Director of Finance for Wirral Borough Council, PO Box No 2, Treasury Building, Cleveland Street, Birkenhead Wirral, CH41 6BU*

## **ANNUAL GOVERNANCE STATEMENT 2011/12**

### **1. Scope of Responsibility**

- 1.1 Wirral Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. Wirral Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Wirral Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 The Merseyside Pension Fund (MPF) is part of the Local Government Pension Scheme and is administered by Wirral Council. This covers the pensionable employees of the Merseyside Local authorities and a range of other scheduled and admitted bodies. The MPF is subject to the governance framework of Wirral Council.
- 1.4 Wirral Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' June 2007. A copy of the code is on our website at [www.wirral.gov.uk](http://www.wirral.gov.uk). This statement explains how Wirral Council meets the requirements of Regulation 4 of the Accounts and Audit Regulations 2006 (amended 2011) in relation to the publication of a statement on internal control.

### **2. The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It can not eliminate all risk of not fully achieving policies, aims and objectives, and therefore provides a reasonable, rather than absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Wirral Council policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

### **3. The Governance Environment**

**3.1** The CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' June 2007 lays down principles of governance best practice. Key elements of the systems and processes which comprise the Council's governance arrangements are described in the following paragraphs. Our assessment is based upon the CIPFA/SOLACE guidance.

#### **3.2 Developing and Communicating our Purpose and Vision**

- The development of the Authority's purpose and vision is undertaken through corporate and business planning, linked to wider community planning for Wirral.
- Four key themes make up and provide the foundation for the Corporate Plan:  
"Your FAMILY"  
"Your NEIGHBOURHOOD"  
"Your ECONOMY"  
"Your COUNCIL"
- The Leader of the Council changed on a number of occasions during the financial year and it should be noted that no one party had a majority rule within Wirral during 2011/12. The elections in May 2012 resulted in the Council coming under a Labour administration. Whilst retaining the four key themes the proposed Draft Corporate Plan 2012/13 was subsequently amended by Council in April 2012 and revised again in July 2012.
- Wirral's Local Strategic Partnership (LSP) Executive Board is in place to lead and develop the vision for the Borough of Wirral set out in the Sustainable Community Strategy. The LSP Executive Board provides strategic guidance to partner organisations and relevant partnerships operating within Wirral's Strategic Partnership and works collaboratively to remove any barriers that hinder or otherwise prevent the vision for the Borough of Wirral being achieved.

#### **3.3 Ensuring that users receive a high quality of service**

- The Council's Customer Access Strategy, which was updated during 2011, provides the direction and focus for all services to work together in achieving cost-effective and excellent services for the customer through specific actions and projects. The overall objectives of the Strategy are to improve the quality of life for Wirral people, working with our partners to deliver the best services we can in the most efficient and effective way. It directly supports the Corporate Plan's aim of engaging and empowering individuals and communities in the design and delivery of council services.

- The Council has an objective performance management framework. The system is driven by the Corporate Plan, which focuses attention on corporate priorities. This is cascaded through departmental service plans, individual employee key issue exchanges and action plans. It is clearly laid out in the annual service and financial planning and performance management cycle.
- All performance indicators and projects contained within departmental plans are reported to the relevant Scrutiny Committee.

### **3.4 Measuring performance and value for money**

- The Council has in place a Medium Term Financial Strategy, updated annually to support the medium term aims of the Corporate Plan. This ensures the economical, efficient and effective use of resources, and secures continuous improvement in the way in which its functions are exercised.
- A clear budget timetable is in place with regular monitoring meetings and liaison with the external auditors regarding the publication of the Council's accounts.

### **3.5 Roles and Responsibilities**

- Policy and decision making is facilitated via a Cabinet Structure with Cabinet Member portfolios.
- Roles and responsibilities of the Executive members and all councillors, along with remuneration details, are clearly defined in the Constitution.
- Roles and responsibilities of all senior officers, along with remuneration details, are documented in contracts of employment and job specifications.

### **3.6 Member/Officer Relations**

- The responsibility of the Chief Executive for all aspects of operational management is clearly stated in the Constitution.
- A Protocol on Member and Officer Relations is clearly stated within the Codes and Protocols of the Constitution.
- The Constitution includes the delegation of functions to individual Cabinet members.
- A full Scheme of Delegation is included in the Constitution.

### **3.7 Partnership Arrangements**

- Clear terms of reference are available for specific partnerships setting out the roles and responsibilities of the partnership board along with its purpose.
- A Partnership Framework and Toolkit has been developed and approved, however it is yet to be publicised throughout the Authority.
- The local Code of Corporate Governance, detailing how the Authority complies with the principles of good governance, was reviewed and updated as part of the work programme following the AKA report.

### **3.8 Standards of Conduct**

- The Council has a Standards Committee, which deals with matters relating to the conduct of Councillors, employees, complaints and probity issues, the terms of reference for which comply with latest guidelines from the Standards Board for England.
- The Chair of the Standards Committee is an independent member of the public. The number of independent members is three which meets the statutory requirement for 25% of the Committee to be independent.
- Steps are being taken to ensure appropriate action is taken to ensure the Council is in a position to discharge its duties and responsibilities in respect of Member standards as from 1 July 2012 arising under the Localism Act.
- There is a corporate conflict of interest form for completion by Members and Officers. Members' Conflict of Interest forms are available to the public online which adds to transparency.
- Financial Regulations and Contract Procedure Rules are contained within the Council Constitution.

### **3.9 Demonstrating the Values of Good Governance**

- The transparency of the decision making process is served through the publication of agendas and minutes of all Council Committees, other than exempt items.
- Council call-in procedure allows members to 'call-in' decisions made by Committees of the Council for further consideration by the relevant review Committee.

- In order to meet statutory requirements Internal Audit reviews the operation of the internal control systems and this provides the basis of the Audit Annual Report which includes the audit assurance opinion.
- An Audit and Risk Management Committee, provides assurance about the adequacy of financial management, and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. It is independent of any other executive function.

### **3.10 Transparency of the Decision Making Process**

- The Cabinet takes the Council's key decisions, but these are then subject to scrutiny.
- The public has access to all meeting minutes with the exception of exempt items.
- An Audit and Risk Management Committee provides independent assurance on risk management and control and the effectiveness of the arrangements the Council has for these matters.
- A corporate complaints procedure is in place.
- Codes of Conduct for Members and employees are in place.

### **3.11 Quality of Reporting**

- All committee reports require the following sections to be completed:- Implications for voluntary, community and faith groups / Resource implications: Financial; IT; Staffing; and Assets / Legal implications / Equalities implications / Carbon reduction implications / Planning and community safety implications. For ease of reference details of the 'Subject History' are also required.

### **3.12 Risk Management**

- A Corporate Risk Register is in place, which is monitored and reviewed on an ongoing basis, and the Authority has in place a Risk and Insurance Team. The Executive Team also review the Register on a regular basis.
- The Council has systems for identifying and evaluating all significant corporate risks, developed and maintained with the participation of those involved in planning and delivering services.
- A Confidential Reporting (Whistleblowing) Policy is in place along with a Grievance procedure for employees.

### **3.13 Use of legal powers to benefit citizens and communities**

- Scheme of Delegation of functions to Officers, included within the Council Constitution, identifies the legal powers of officers.
- The Director of Law, HR & Asset Management is authorised to institute, defend or participate in any legal proceedings in any case where such action is necessary to give effect to decisions of the Council or in any case where he considers that such action is necessary to protect the Council's interests.

### **3.14 Development of members and officers**

- All members receive an induction and attend a specifically organised event to introduce them to the Council and its departments.
- All employees are invited to a corporate and departmental induction.
- A 'Skills for Wirral' training and development programme is available tailored to both managers and employees. There are also currently three 'e-learning' courses which are mandatory for all staff: Equality and Diversity; Stress Awareness; and Fraud Awareness. In addition to these, Attendance Management e-learning is also mandatory for all managers.

### **3.15 Developing the capacity of people with governance responsibilities**

- The Audit and Risk Management Committee undertakes an annual self assessment exercise, utilising CIPFA's checklist, in order to assess its role and effectiveness.
- The Key Issues Exchange (KIE) process for all Council employees helps to highlight the requirement to develop skills and improve performance. It should be noted that the proposed performance appraisal system is in the process of being reviewed.

### **3.16 Encouraging involvement in the membership of the authority**

- The Council engages with communities through eleven Area Forums, providing an opportunity to shape services in their neighbourhood. Consultation has recently taken place to enable residents to influence and contribute to Neighbourhood Plans.
- There are different ways in which young people can have their voices heard and make a difference to the communities where they live:

Executive Youth Board  
Youth Voice Conference and Youth Parliament  
United Kingdom Youth Parliament (UKYP)  
Youth Forums

- Wirral's Older People's Parliament provides a forum for older people to voice their opinions, inform the Council and influence its decisions. It is made up of 44 elected members, four from each of Wirral's eleven Area Forums.

### **3.17 Stakeholder Engagement and Scrutiny**

- Wirral's Local Strategic Partnership (LSP) Executive Board is in place to lead and develop the vision for the Borough of Wirral set out in the Sustainable Community Strategy.
- Wirral Council is committed to consultation with its citizens and undertakes borough-wide consultation on specific issues and in connection with budget proposals.

### **3.18 Public dialogue and accountability**

- The Authority's commitment to openness can be demonstrated by, for example, the Constitution, the approach to the Freedom of Information Act, the Customer Access Strategy, the availability of Committee minutes to the public apart from exempt areas, and the Area Forums that give local people a voice.
- As part of the Equality Duty 2010, which came into full force in April 2011, the Council has a legal requirement to give due regard to the impact of its policies and decisions on people who share protected characteristics (race, gender, disability, sexual orientation, age, religion / belief, gender re-assignment, marriage / civil partnership, pregnancy / maternity).
- The use of the electronic tendering portal has been firmly established across the authority and contracts are being advertised via this system.
- An Annual Performance and Financial report is produced following the end of the financial year.

### **3.19 Responsibility to staff**

- The Consultation and Negotiation Policy dealing with the role of unions; One Brief; the Staff Suggestion Scheme; and the One Council magazine; all aim to promote open communication processes.

### **3.20 Role of the Chief Financial Officer**

- The financial management arrangements in place comply with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The local Code of Corporate Governance has been updated to reflect these arrangements.

- The Council has designated the Director of Finance as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972. The financial management of the Authority is conducted in accordance with the Financial Procedure Rules set out in the Constitution.
- The arrangements for the provision of internal audit are contained within the Financial Regulations included within the Constitution. The Director of Finance is responsible for ensuring that there is an adequate and effective system of internal audit of the accounting and other systems of internal control as required by the Accounts and Audit Regulations 2006 (amended 2011). The internal audit provision is managed by the Chief Internal Auditor and, takes as its reference the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

#### **4. Review of Effectiveness**

##### **4.1 Introduction**

Wirral Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and by comments made by the external auditors and other review agencies and inspectorates.

##### **4.2 Corporate Review**

4.2.1 The following policies have been reviewed:

- The Equality Impact Assessment (EIA) toolkit has been updated to reflect the legal requirements under the Public Sector Equality Duty, which is part of the Equality Act 2010.
- The Council Constitution has been amended to account for procedural changes. The Council has designated the Director of Law, HR and Asset Management as the Monitoring Officer who has a duty to monitor and review the operation of the Constitution to ensure its aims and principles operate effectively and an annual report is submitted to Cabinet. A review of the Constitution is an objective in the Wirral Improvement Plan (see Appendix)

4.2.2 The review of the effectiveness of the system of internal control reflects best practice guidance identified by the CIPFA Finance Advisory Network being informed by:

- Assurance statements from each Directorate based on management information, performance information, officer assurance statements and Scrutiny Committee reports.
- The work undertaken by Internal Audit, the External Auditor and other independent inspection bodies during the year.

### **4.3 Statutory Officer Responsibilities**

4.3.1 The Council Constitution sets out the responsibilities of both members and senior managers. Roles and responsibilities have been identified and allocated for the following three statutory posts:

|                         |  |
|-------------------------|--|
| Head of Paid Service    | Chief Executive                          |
| Chief Financial Officer | Director of Finance                      |
| Monitoring Officer      | Director of Law, HR and Asset Management |

4.3.2 As a result of investigations arising from the Public Interest Report into the Highways and Engineering Service Contract (see 4.8.3), the Chief Financial Officer, Deputy Finance Officer and Monitoring Officer were suspended on 29 June 2012. The immediate appointment of interim officers effectively controlled the risk that may have arisen from this action.

### **4.4 Audit and Risk Management Committee**

4.4.1 To comply with professional best practice the Audit and Risk Management Committee carried out an annual review of its role. The self assessment from the CIPFA publication "A toolkit for Local Authority Audit Committees" (IPF, 2006) was used for the evaluation.

4.4.2 The self assessment provides evidence that the Committee is achieving a high level of compliance with CIPFA guidance. However, improvements were identified which have been incorporated into an action plan which was agreed by the Committee of 13 March 2012 and performance against this Plan will be monitored.

### **4.5 Standards Committee**

4.5.1 During the year the Standards Committee, dealt with matters relating to the conduct of Councillors, employees, complaints and probity issues, the terms of reference for which complied with the latest guidelines from the Standards Board for England.

4.5.2 Following the Localism Act 2011, which abolished the Standards Board regime, a new regime to deal with Members / Co-opted Members has been established which includes new terms of reference for the Standards Committee and a new Member's Code of Conduct.

## **4.6 Internal Control**

- 4.6.1 Weaknesses were identified in the Council's internal control environment. Whilst the procedures are generally in place there needs to be substantial improvement in applying the procedures as there have been significant issues for the Council during the year, principally through failures to follow systems and procedures correctly. A specific area for improvement identified was that senior management should take proper ownership of these issues and ensure that effective consistent governance arrangements are embedded within the culture of the organisation.
- 4.6.2 The Council's risk management process remains effectively coordinated. Issues regarding the updating of departmental registers, clear allocation of responsibilities and streamlined reporting lines need to be addressed as the Council's Strategy and framework are reviewed.
- 4.6.3 In meeting the financial challenges the Council has restructured and refocused service delivery areas which change the way in which the Council operates. These actions will continue to have significant impact on the control environment in many areas with the need to ensure that any resultant risks are effectively managed.

## **4.7 Internal Audit**

- 4.7.1 Internal Audit reviewed key corporate systems evaluating the adequacy of arrangements in areas such as performance management, compliance with legislative, HR and constitutional requirements with reports to Chief Officers identifying improvements. Audit provided input to improving the Council governance arrangements by attending the Corporate Governance Group and by a secondment to support the work of the Governance Team. The Chief and Deputy Chief Internal Auditor met the Audit Commission managers at approximately 3 monthly intervals to share issues, maintain relationships and agree coordinating of work where possible. Copies of all Internal Audit reports completed were shared with the Audit Commission.
- 4.7.2 Areas identified for improvement included:-
- ICT systems and controls – highlighted issues under Information assurance concerning roles and responsibilities, information risk strategy and staff training.
  - National Fraud Initiative – identified areas of savings and future actions.
  - Gifts and Hospitality and Conflict of Interest 2011/12 – identified variations in awareness and application of, the appropriate procedures.
  - Performance management – identified the need for more robust and transparent systems that include more detailed monitoring and reporting arrangements for managers, Chief Officers and Members.

- Compromise agreements – identified the need for improvements to documentary evidence to demonstrate the controls are operating as prescribed.
- 4.7.3 In his Annual Report for the year ending March 2012, based upon the outcomes from the Audit Plan, the Chief Internal Auditor concludes that the Council's internal control environment, taken as a whole is adequate and generally effective as there are sound systems largely in place though there must be substantial improvement in applying the procedures as there have been significant issues for the Council during the year, which have arisen principally because there have been failures to follow systems and procedures correctly.
- 4.7.4 The Chief Internal Auditor also notes that whilst recognising that there are control issues which need to be addressed, good areas of effective control have been identified and the Council continues to provide effective services in a very challenging environment.
- 4.7.5 As a result of an external report of the Council's Corporate Governance., Cabinet on 22 September 2011 requested proposals from the Director of Finance "on ways to strengthen the Council's Internal Audit team in order to ensure any warnings they issue are clearly heard and responded to". This led to the commissioning of an independent review of Internal Audit and is part of the Wirral Improvement Plan.

#### **4.8 External Review**

- 4.8.1 During the financial year 2011/12, and to date in 2012, the Council has been the subject of external reviews and inspections and a summary of the findings is noted in the following paragraphs.
- 4.8.2 AKA Report - Following an independent report, undertaken and produced by AKA (the trading name of Anna Klonowski Associates Ltd. "Renew and Refresh", September 2011), the Council reported and acknowledged that serious weaknesses within its corporate governance framework existed (see section 5.1).
- 4.8.3 Grant Claims And Returns Report 2010/11 – The Audit Commission issued an initial report in March 2012 and a Supplementary Report in June 2012. The latter highlighted issues particularly in relation to the West Kirby Marine Lake scheme relating to the award of the contract, contract management and reporting. (see section 5.2).

- 4.8.4 Highways and Engineering Services Public Interest Report June 2012 - In June 2012, a Public Interest Report was issued by the District Auditor following an external audit of the Highways and Engineering Services Contract Award. This identified weaknesses in the Council's arrangements relating to the award and management of the contract. This followed the earlier work in connection with the Highways and Engineering Services Procurement Exercise (HESPE) 2010. (see section 5.3).
- 4.8.5 OFSTED Children's Services Assessment 2011 – The conclusion of the assessment was that the Children's Services at Wirral are performing excellently
- 4.8.6 The Office of the Surveillance Commissioners June 2012 – The arrangements for the use of authorisations under the Regulation of Investigatory Powers Act 2000, (RIPA) were inspected. The Inspector concluded that "Wirral exhibits a strong commitment to maintaining high standards of RIPA compliance. Their training programme is particularly commendable".
- 4.8.7 The Care Quality Commission and AKA Reports into Adult Social Services - Both reports identified concerns within the Department. In June 2012 a Peer Review was commissioned to assess progress and in preparation a separate Peer Challenge during May 2012 looked in detail at safeguarding practice. These acknowledged that the Department of Adult Social Services has made significant progress in relation to its performance with regard to safeguarding adults and also, more generally in relation to the rest of its work highlighting a number of examples of good practice. Both reports also contained a number of areas for further consideration and these have been taken into the Departmental programme management process for development and implementation.
- 4.8.8 The Annual Governance Report issued by the Audit Commission September 2012 – This included an adverse Value for money conclusion. This was due to the identification of weaknesses in the arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2012.

## **5. Significant Governance Issues**

- 5.1 The report by AKA (the trading name of Anna Klonowski Associates Ltd.), entitled 'Wirral Borough Council's Corporate Governance Arrangements: Refresh and Renew', was presented to Cabinet on 22 September 2011, and identified examples of failures/weaknesses in Corporate Governance:-
- Inadequate systems to manage performance and spot failures.
  - Being unable to understand and implement fees and charges properly.
  - Not being able to commission, manage and, where necessary, dismiss failing contractors and suppliers.

- Shortfalls in the way the Council evaluates the impact of its policies both prior to execution and in response to evidence about the impact.
  - A reluctance to listen to, and support, Wirral Council staff when they have tried to raise and resolve issues on the Council's behalf.
  - The reluctance of some staff to speak out because of the perceived impact this might have on them and/or their career at Wirral.
- 5.2 The Grant Claims report, June 2012, highlighted that there were failures/weaknesses in Corporate Governance under the following:-
- Reporting to Members, recording and risk management.
  - Fit for purpose Contract Procedure Rules.
  - Compliance with procedures.
- 5.3 The Highways and Engineering Services Contract Public Interest Report, June 2012, found significant weaknesses in managing the contract award and, with a number of specific recommendations, concluded that:-
- “the Council needs to make improvements to demonstrate good governance by improving the Council's arrangements for managing and reporting risks, declaring interests, reviewing and complying with contract procedure rules, delivering internal audit, reporting to elected members and responding to whistleblowing; and; to demonstrate value for money, by improving the Council's arrangements for tender evaluation and contract management, including contract variation, record keeping and performance management.”
- 5.4 The Annual Report of the Chief Internal Auditor noted the lack of consistently documented and communicated controls in some areas, including corporate governance and the resulting lack of consistency in the controls operated between departments and even within individual departments and service areas.
- 5.5 The Annual Governance Report 2011/12, September 2012, identified weaknesses in respect of financial resilience and securing economy, efficiency and effectiveness under the areas of:-
- Leadership and financial governance.
  - Lack of clarity about the Council's strategic priorities.
  - Weaknesses in internal control arrangements.
- 5.6 The key issues can be classified under five themes which have been identified as the priority areas in the Wirral Improvement Plan:-

- **Leadership, Political and Managerial**

Improve trust and respect between politicians and senior management.

Provide strong strategic leadership and oversight of delivery.

Identify and address development needs for Members and management.

- **Corporate governance and decision making**

Establish effective governance procedures, particularly with regard to risk management, whistle blowing and audit.

Ensure there is a clear protocol for sharing information with Members and a clear scheme of delegation.

- **Corporate Plan**

Agree a Corporate Plan that sets out clear priorities reflecting a good understanding of citizens' and customers' views through consultation, participation and localism.

Implement rigorous performance management and through effective performance appraisal arrangements secure specific outcomes for the borough.

- **Budget and financial stability**

Ensure there is a clear longer-term financial plan in place, linked to the Corporate Plan, setting out how the Authority will respond to reducing levels of resources.

Develop and enhance the Strategic Change Programme.

Develop a clear commissioning strategy for the Authority.

- **Critical service areas: Safeguarding and Developing the economy**

Ensure the safeguarding actions from the AKA action plan are implemented.

Design and deliver the action plan to address individual needs as informed by the safeguarding peer review.

Ensure we improve the skills of local residents and stimulate the private sector to grow and create jobs.

## 6.0 Improvement Measures

- 6.1 In response to the AKA report of September 2011 a Corporate Governance Committee (with executive powers) was established, a team created and a comprehensive work programme, to address a range of priority areas of improvement in relation to corporate governance was developed. It was anticipated that this group would operate on a short term basis (it was decommissioned following its meeting on 8 February 2012) and would provide the appropriate building blocks for a wider Wirral Improvement Plan.
- 6.2 The Council is working in partnership with the Local Government Association (LGA) and has established an Improvement Board (without executive powers), chaired independently by the LGA to continue and progress its work (the Board first met on 3 February 2012 and is due to operate in the medium term and possibly up to 2 years). The initial work programme was based around a number of Key Lines of Enquiry' (KLOEs).
- 6.3 Since March 2012, the improvement programme has progressed with the assistance of the Improvement Board. The original KLOEs have been subsumed into a comprehensive Wirral Improvement Plan. The Plan is based on the five Priority Areas referred to in section 5.6. Endorsed by the Improvement Board on 29 July 2012 and agreed by Cabinet on 6 September 2012 (see Appendix) the Plan will be monitored through a defined governance framework.
- 6.4 The appointment of a Chief Executive with experience of working at that level for a number of years was confirmed by Council on 16 July 2012 and the position was formally occupied on 3 September 2012. Since August 2012 an Interim Director of Finance, with similar multi-authority experience, has been in place to provide cover for the suspended officers.

## 7. Conclusions

- 7.1 In 2011 and 2012, external reviews have identified significant weaknesses in the arrangements for corporate governance in Wirral. The issues have been recognised by Members and senior officers and there is joint commitment to making the necessary changes to strengthen governance at Wirral.
- 7.2 A programme for improvement commenced in November 2011 and has been developed with the support of the Improvement Board into a comprehensive Wirral Improvement Plan. The commitment of Members and senior officers will ensure the achievement of the Improvement Plan and will lead to significantly improved governance arrangements at Wirral.

Signed: \_\_\_\_\_ :  
Chief Executive Leader of the Council  
Date

## WIRRAL IMPROVEMENT PLAN

|  |  |  |   |  |   |   |
|--|--|--|---|--|---|---|
| <b>Priority 1: Leadership: Political and Managerial</b>  |  | Trust and respect needs to be developed between politicians and senior management. There is a requirement for strong strategic leadership and oversight of delivery. Development needs for Members and management should be identified and addressed. Addressing these key areas of focus will support the establishment of a strong corporate culture and a sense of organisational cohesiveness. |   |  |   |   |
| <b>Executive Sponsor:</b>  |  | Chief Executive  |   |  |   |   |
| <b>Target 1 Design and implement a leadership programme</b>  |  |  |   |  |   |   |
|  | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>   | <b>Linkages</b>  | <b>Dependencies</b>   | <b>Proposed Lead Role</b>               |
| 1.1  | Establish the leadership competencies and behaviours required by the Council for good governance.  | A defined set of competencies to inform a comprehensive gap analysis against desired competencies to inform target 1.2   | Within 6 months   | Senior Officer job descriptions. Development activities. | Competencies reflecting revised Code of Corporate Governance and scheme of delegation.                                      | Organisational Development Manager      |
| 1.2  | Design and deliver a learning programme for Cabinet and Senior Management Teams to address individual needs, informed by the gap analysis. | All Members and officers have a Learning & Development Plan that addresses the individual and organisational needs.  | Designed within 6 months, deliver initial programme within 12 months. | Skills for Wirral programme.                             | Revised Code of Governance in place, Scheme of delegation agreed.   | Organisational Development Manager      |
| 1.3  | Ensure learning programme meets requirements through clear target-setting, evaluation and review.  | Evaluations and review provide evidence that programme has met targets.  | Within 2 years.   |  | Learning & Development is reviewed as part of appraisal process.  | Organisational Development Manager      |
| <b>Target 2 Review best practice and put in place an effective model for elected members and senior managers to work together.</b> |  |  |   |  |   |   |
|  | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>   | <b>Linkages</b>  | <b>Dependencies</b>   |   |
| 2.1  | Define the boundaries for operation of roles and responsibilities and clarify expectations.  | Agreed protocols with clear lines of accountability, regular monitoring and reporting.   | Within 6 months   |  | Revision of schemes of delegation and Council's policy framework  | External support required               |
| 2.2  | Establish a framework to support member and officer engagement at all levels of the organisation.  | An efficient model for accurate and consistent briefing of members.  | Within 6 months   |  | Needs to be reflected in the cultural change programme.   | Interim Chief Executive                 |
| <b>Target 3 Develop a shared vision and purpose for the organisation</b>   |  |  |   |  |   |   |
|  | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>   | <b>Linkages</b>  | <b>Dependencies</b>   | <b>Proposed Lead Role</b>               |
| 3.1  | Develop Wirral's vision to reflect the changing role of local government.  | Understand and articulate what is our "core business" and how we will operate as an organisation in 2015.  | Within 6 months   |  | Appointment of Interim Chief Executive. Consultation exercise.  | Council Leader / Chief Executive        |
| 3.2  | Ensure the organisational structure is fit for purpose.  | A full-time, experienced Interim Chief Executive appointed; appropriate council restructuring undertaken. Job descriptions reflect officer responsibilities.   | Within 12 months  | Interim arrangements.                                    | Resolving Interim arrangements. Link to commissioning strategy and understanding of what the Council will directly deliver. | Leader / Chief Executive                |
| 3.3  | The model for corporate management is supported by enabling strategies.  | Officers and Members are located to optimise corporate and efficient working.  | Within 12 months  | Heads of Service projects.                               | Asset Management Strategy, Customer Access Strategy, ICT Strategy, People Strategy.   | Chief Executive                         |
| 3.4  | Review Business Systems  | We have an integrated business focused system environment which enables people to work more efficiently and flexibly.  | Within 12 months  | ICT Strategy, Customer Access Strategy                   |   | Head of Service development project.    |
| <b>Target 4 Design and implement a cultural change programme</b>   |  |  |   |  |   |   |
|  | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>   | <b>Linkages</b>  | <b>Dependencies</b>   | <b>Proposed Lead Role</b>               |
| 4.1  | Define a single set of values and behaviours that are expected to be demonstrated by all.  | Values and behaviours have all-party agreement and have been informed through staff engagement.  | Within 6 months   |  |   | Head of HR / Organisational Development |
| 4.2  | Staff responsibilities and expectations are clearly articulated.   | Single source of guidance and procedures available in a "how to guide".  | Within 12 months  | Code of Corporate Governance.                            | To be completed prior to OD programme roll out.   | Support required                        |
| 4.3  | Organisational Development programme developed to communicate and support staff understanding and expectations.                            | Values and behaviours are embedded across the organisation and are adhered to by all staff. Evidence through performance appraisal.  | Within 12 months  |  | Articulated in the revised Corporate Plan and reinforced through performance management and appraisal.                      | Organisational Development Manager      |

|   |  |  |                   |   |   |   |
|---|--|--|-------------------|---|---|---|
| <b>Priority 2: Corporate governance and decision-making</b>   |  | Establish effective governance procedures, particularly with regard to risk management, whistle blowing and audit. Ensure there is a clear protocol for sharing information with Members and a clear scheme of delegation. The expectation is that this will contribute to developing a culture of openness rather than secrecy. |                   |   |   |   |
| <b>Executive Sponsor:</b>   |  | Director of Law, HR & Asset Management / Monitoring Officer  |                   |   |   |   |
| <b>Target 1 Ensure that the Code of Corporate Governance and supporting policies are consistently understood and followed.</b>                                  |  |  |                   |   |   |   |
|   | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>   | <b>Linkages</b>   | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                     |
| 1.1   | Ensure all politicians and senior officers have a working knowledge of the revised Code of Corporate Governance and apply this in decision making, particularly focussing on the areas of risk, audit and whistle-blowing. | Mandatory training undertaken by officers and members. Evaluations and reviews provide evidence that programme has met targets. External validation that decision-making has improved.   | Within 12 months  | Initial review of Code of Corporate Governance complete.                            | Leadership Development Programme; Review of Code of Corporate Governance, specifically areas of risk; whistle-blowing; Audit. Review of Internal Audit. | Head of Regulation                            |
| 1.2   | Implement the agreed proposals and initiatives set out in Corporate Governance Key Line Of Enquiry 6 Improvement Report (Cabinet, 21/06/2012)  | Improve decision making at member and officer levels.  |                   | Corporate Governance Comprehensive Work Programme                                   |   | Director of Law, HR & AM / Monitoring Officer |
| 1.3   | The supporting policies within the Code of Corporate Governance are owned, reviewed and published.   | The policies in the Code of Corporate Governance have been reviewed and subject to a controlled version which is linked to a published copy. Document management and retention policies support this.  | Within 24 months  | DASS Review of Policies & Performance.  |   | Head of Regulation                            |
| <b>Target 2 Review and update Schemes of Delegation and support systems for decision making and provide appropriate training</b>                                |  |  |                   |   |   |   |
|   | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>   | <b>Linkages</b>   | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                     |
| 2.1   | Review and update Schemes of Delegation to Cabinet Members and Officers reflecting best practice.  | Revised scheme understood and adhered to. Fewer items on Cabinet agendas.  | Within 6 months.  |   | Needs to be reflected in Member and officer protocols and revised Code of Corporate Governance.   | Director of Law, HR & AM / Monitoring Officer |
| 2.2   | Develop a protocol which ensures greater control over procedures such as agenda management and decision recording.   | Ensure attention is focussed by officers and elected Members on key decisions. A clear mechanism for delegated decisions to be reported back through the Council decision-making structures.   | Within 6 months   | Corporate Governance Key Line Of Enquiry 6 Improvement Report (Cabinet, 21/06/2012) |   | External support required                     |
| 2.3   | Training and development programme on the Scheme of Delegation for both officers and elected members.  | Training undertaken.   | Within 12 months  | Wirral Skills Programme.  | To be included in the Leadership programme  | Interim HR Business Support Manager           |
| <b>Target 3 Strengthen contract procedure rules and management whilst ensuring that appropriate information is in place to enable informed decision making.</b> |  |  |                   |   |   |   |
|   | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>   | <b>Linkages</b>   | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                     |
| 3.1   | Improve contract management by using the evidence base of reports (HESPE etc) identify strengths and weaknesses of existing procedures and protocol.   | Contract management principles are clearly reviewed published and adhered to.  | Within 6 months   |   |   | External support (Solicitor)                  |
| 3.2   | Revise procurement procedures and through rigorous review, ensure procedure and protocol are strengthened.   | A single source of guidance for procurement within the "how to" toolkit. This will provide advice on rules, e.g. reporting variations, quality issues, informing Members. Supported by appropriate support and training.   | Within 12 months. |   |   | Corporate Procurement Manager                 |
| 3.3   | Review risk management arrangements.   | Enhanced process for managing risk with relevant systems in place.   | Within 12 months. | Roll out of Concerto software.  |   | Risk & Insurance Officer                      |
| 3.4   | Provide an effective system of Internal Audit.   | Strengthened core function in place with a clear and transparent escalation policy.  | Within 12 months. | External Review of Audit completed.   | Revised committee reports should ensure that Audit Committee update reports are clear and unambiguous.  | To be confirmed.                              |
| 3.5   | The relevant information is available to support decision making and decisions taken are accurately recorded.  | Information Strategy is in place. Scheme of Delegation is adhered to.  | Within 12 months. |   | Updated Scheme of Delegation and Member / officer protocols in place  | External support                              |

| <b>Target 4 Establish an effective and coordinated approach to shaping and implementing policy</b>      |  |   |   |   |   |  |
|---|--|---|---|---|---|--|
|   | <b>Objective</b>   | <b>Success criteria</b>   | <b>Timeline</b>                           | <b>Linkages</b>   | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                                |
| 4.1   | Establish a coherent and joined up approach to policy, planning and strategy development for the Council.                                | Elected Members are well-informed on current and future policy issues; there is effective collaboration between departments on cross-cutting policy issues; there is robust implementation and review of policy decisions; there is effective sharing of learning and best practice.  | Within 6 months.                          | Review of policy undertaken. Head of Policy post agreed (29/09/2011).   | Elected Members and senior officers are well informed in developing vision and strategic approaches; Corporate Plan reflects national as well as local drivers and reflects effective horizon scanning by the organisation.   | Existing policy leads until Head of Policy is appointed. |
| 4.2   | Ensure that there is a robust knowledge and evidence based approach to decision making in order to tackle the key challenges for Wirral. | Consistent use of evidence to develop Council plans and strategies; shared view within the Council and amongst partners about the key challenges / opportunities for Wirral.  | Within 12 months.                         | JSNA, annual consultations.   | Elected Members and senior officers are well informed in developing vision and strategic approaches which tackle the key challenges for Wirral; the Council's Corporate Plan is based on evidence as well as a good understanding of citizens and customers' views.                 | Existing policy leads until Head of Policy is appointed. |
| 4.3   | Engage with local and sub-regional partners to shape and respond to policy developments and implement decisions.                         | The Council and Local Strategic Partnership proactively anticipates and plans for policy changes; there is a shared view within the Council and amongst partners about the key challenges / opportunities for Wirral; policy is influenced at sub-regional, regional and national levels through ensuring that Wirral's interests and priorities are effectively represented. | Within 12 months.                         | Local Enterprise Partnership.   | Elected Members and senior officers develop leadership role in respect of wider partnerships; the programme for developing Council's Corporate Plan includes engagement with partners; critical service areas cannot be developed and delivered without strong partnership working. | Chief Executive  |
| <b>Priority 3: Corporate Plan</b>   |  | To put in place an agreed Corporate Plan that sets out clear priorities reflecting a good understanding of citizens' and customers' views through consultation, participation and localism. This is to be underpinned by rigorous performance management and through effective performance appraisal arrangements secure specific outcomes for the borough.                   |   |   |   |  |
| <b>Executive Sponsor:</b>   |  | Chief Executive   |   |   |   |  |
| <b>Target 1 A clear set of priorities based on understanding our customers' needs and expectations.</b> |  |   |   |   |   |  |
|   | <b>Objective</b>   | <b>Success criteria</b>   | <b>Timeline</b>                           | <b>Linkages</b>   | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                                |
| 1.1   | Ensure current Corporate Plan reflects need to deliver critical activities in 2012-13 in relation to the Council's Improvement Plan.     | The Council has clear priorities in the current financial year for delivering services and the organisational change required for future improvement.   | Within 6 months                           | Planned actions for 2012-13 in relation to critical service areas provide the baseline for review and long-term strategic planning. | Ensuring budget stability in-year whilst delivering current year service and improvement priorities.  | Existing policy leads until Head of Policy is appointed. |
| 1.2   | Undertake a comprehensive service review.  | The Council undertakes a successful consultation and corporate planning process which complies with legislation; the Council has a long-term vision for the borough.  | Within 6 months                           | Three-year Corporate Plan will set out long-term strategies for critical service areas.   | Consultation and corporate planning process will inform three-year financial strategy.  | Existing policy leads until Head of Policy is appointed. |
| 1.3   | Complete a consultation exercise to support the development of a Corporate Plan for 2013 onwards   | The Council undertakes a successful consultation and corporate planning process which complies with legislation; the Council has a long-term vision for the borough.  | Within 6 months                           |   | Undertake service reviews.  | Head of Communications & Engagement                      |
| 1.4   | Create a customer focussed organisation.   | We place customers and services users at the heart of everything we do.   | Within 12 months                          | Customer Access Strategy.   | Development of Customer Relationship Management   | Head of Service development project.                     |
| <b>Target 2 Develop a Corporate Performance Management Framework</b>                                    |  |   |   |   |   |  |
|   | <b>Objective</b>   | <b>Success criteria</b>   | <b>Timeline</b>                           | <b>Linkages</b>   | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                                |
| 2.1   | Implement robust business plans that deliver the Corporate Plan.   | A clear line of sight between the Corporate Plan and the departmental Business Plans.   | Within 6 months (new plans for 13/14)     | Roll out of Concerto for performance and business planning.   | Corporate plan in place.  | Existing policy leads until Head of Policy is appointed. |
| 2.2   | Revise Corporate Performance Management Framework  | Revised Performance Management Framework implemented: committee deadlines reflect reporting requirements. Dashboard reporting in place.   | Within 6 months (new framework for 13/14) | Roll out of Concerto for performance and business planning.   | Review of committee services.   | Head of Performance & Intelligence (Public Health)       |

|   |  |  |                              |   |   |   |
|---|--|--|------------------------------|---|---|---|
| 2.3   | Create a transparent Council   | The Council provides accessible and consistent information and policy and decision making which is open and transparent across all areas and channels of its business.   | Within 12 months             |   |   | Heads of Service development project.               |
| <b>Target 3 Objectives aligned to individual performance appraisal and development</b>  |  |  |                              |   |   |   |
|   | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>              | <b>Linkages</b>                                     | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                           |
| 3.1   | Empowerment  | Informed decisions are taken at the most appropriate level in the organisation in a timely and efficient way with clear accountability and responsibility for individuals and the organisation.  | Within 12 months.            |   |   | Head of Service development project.                |
| 3.2   | Design and implement a performance appraisal process.  | Top 3 tiers of management have completed appraisal process and have a training and development plan in place.  | Within 6 months              |   | Corporate Performance Framework.                            | Head of HR / Organisational Development             |
| 3.3   | 360° feedback mechanism in place.  | Top 3 tiers of management have received 360 feedback.  | Within 12 months.            |   | Leadership Development programme.                           | Head of HR / Organisational Development             |
| <b>Priority 4: Budget and Financial Stability</b>   |  | To ensure there is a clear longer-term financial plan in place, linked to the Corporate Plan, setting out how the Authority will respond to reducing levels of resources. This will include the development and enhancement of the Strategic Change Programme, and the development of a clear commissioning strategy for the Authority.                              |                              |   |   |   |
| <b>Executive Sponsor:</b>   |  | Director of Finance / Section 151 Officer  |                              |   |   |   |
| <b>Target 1 Ensure that the service review and consultation programme reflects the impact of reducing levels of resources</b>             |  |  |                              |   |   |   |
|   | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>              | <b>Linkages</b>                                     | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                           |
| 1.1   | A budget developed in a transparent process that reflects customers needs and expectations.                | A three-year budget strategy that is aligned to the three-year Corporate Plan.   | Within 6 months.             | Government legislative and financial announcements. | Service Review and Consultation process. Corporate Plan.    | Head of Financial Services.                         |
| 1.2   | Develop an evidenced based commissioning strategy informed by clearly identified needs.                    | Demonstrate effective use of resources to our citizens, partners and tax payers.   | Within 12 months.            | Transfer of Public Health. JSNA.                    |   | Head of Performance & Intelligence (Public Health). |
| <b>Target 2 Review governance and scope of Strategic Change Programme.</b>  |  |  |                              |   |   |   |
|   | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>              | <b>Linkages</b>                                     | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                           |
| 2.1   | Integrate governance and scope of the Strategic Change Programme with the Improvement Plan.                | A single governance structure for change and improvement activity.   | Within 6 months.             | SCP 12/13, agreed Cabinet 2 February 2012           | Revised scheme of delegation, member and officer protocols. | External Support                                    |
| 2.2   | Specify the efficiency projects within the Strategic Change Programme.                                     | A transparent programme of projects that evidence savings within the budget book.  | Within 6 months.             | SCP 12/13, agreed Cabinet 2 February 2013           | Corporate plan, service review and budget preparation.      | Programme Manager (Strategic Change)                |
| 2.3   | Specify the transformational change projects within the Strategic Change Programme.                        | A programme of projects that demonstrate transformational improvement.   | Within 6 months.             | Cultural change programme.                          | Corporate plan and service review.                          | Programme Manager (Strategic Change)                |
| 2.4   | Identify the mechanism and staffing structures for delivery.   | A clear remit for those involved in delivering change and improvement.   | Within 12 months.            |   | Council restructure.  | Programme Manager (Strategic Change)                |
| <b>Priority 5: Critical Service Areas: Safeguarding and Developing the Economy</b>  |  | To ensure that there is a clear organisational focus on critical service areas such as safeguarding (children and adults) and developing the local economy through ensuring we improve the skills of local residents and stimulate the private sector to grow and create jobs. Adopting this approach will develop skills in service and strategic review processes. |                              |   |   |   |
| <b>Executive Sponsor (Economy)</b>  |  | Director of Regeneration, Housing & Planning   |                              |   |   |   |
| <b>Executive Sponsor (Safeguarding)</b>   |  | Director of Adult Social Services  |                              |   |   |   |
| <b>Target 1 Deliver improvements in safeguarding, through implementation of the action plan arising from the safeguarding peer review</b> |  |  |                              |   |   |   |
|   | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>              | <b>Linkages</b>                                     | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                           |
| 1.1   | Design and deliver an action plan to address individual needs, informed by the safeguarding peer review.   | Identify clear targets, priorities and success criteria for reporting on improvements.   | Plan agreed within 6 months. |   |   | Head of Safeguarding                                |
| 1.2   | Ensure the actions arising from the AKA action plan are implemented with regards to safeguarding.          | Improvement Board and Cabinet updated of progress.   | Within 6 months.             |   |   | Head of Safeguarding                                |
| <b>Target 2 Develop approach to enhancing and adding value to the local economy through 'your Economy' goals and focuses</b>              |  |  |                              |   |   |   |
|   | <b>Objective</b>   | <b>Success criteria</b>  | <b>Timeline</b>              | <b>Linkages</b>                                     | <b>Dependencies</b>   | <b>Proposed Lead Role</b>                           |
| 1.1   | Ensure policy and budget review approaches reflect the council's commitment to improving Wirral's economy. | Improved skills and capacity in service and strategic review processes.  | Within 2 years.              | Wirral Investment Strategy.                         | Corporate plan.   | Head of Strategic Development and Regeneration      |

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# Main Financial Statements

## MOVEMENT IN RESERVES STATEMENT

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 or (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. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to, or from, Earmarked Reserves undertaken by the Council.

|   | General<br>Fund<br>Balance<br>£000 | Earmarked<br>General<br>Fund<br>Reserves<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Capital<br>Grants<br>Unapplied<br>£000 | Total<br>Usable<br>Reserves<br>£000 | Unusable<br>Reserves<br>£000 | Total<br>Council<br>Reserves<br>£000 |
|---|------------------------------------|--|--|--|-------------------------------------|------------------------------|--------------------------------------|
| <b>Balance at 31<br/>March 2010</b>   | 13,758                             | 93,847   | 9,047                                  | 29,257                                 | 145,909                             | (6,015)                      | 139,894                              |
| <b>Movement in<br/>reserves during<br/>2010/11</b>  |                                    |  |  |  |                                     |                              |                                      |
| Surplus or (deficit)<br>on the provision of<br>services                                       | 26,976                             | -  | -                                      | -                                      | 26,976                              | -                            | 26,976                               |
| Other<br>Comprehensive<br>Income and<br>Expenditure   | -                                  | -  | -                                      | -                                      | -                                   | 40,738                       | 40,738                               |
| <b>Total<br/>Comprehensive<br/>Income and<br/>Expenditure</b>                                 | <b>26,976</b>                      | <b>-</b>   | <b>-</b>                               | <b>-</b>                               | <b>26,976</b>                       | <b>40,738</b>                | <b>67,714</b>                        |
| Adjustments<br>between accounting<br>basis and funding<br>basis under<br>regulations (Note 8) | (29,280)                           | -  | (775)                                  | 1,587                                  | (28,468)                            | 28,468                       | -                                    |
| <b>Net<br/>Increase/Decrease<br/>before Transfers to<br/>Earmarked<br/>Reserves</b>           | <b>(2,304)</b>                     | <b>-</b>   | <b>(775)</b>                           | <b>1,587</b>                           | <b>(1,492)</b>                      | <b>69,206</b>                | <b>67,714</b>                        |
| Transfers to/from<br>Earmarked Reserves<br>(Note 9)   | 3,610                              | (3,610)  | -                                      | -                                      | -                                   | -                            | -                                    |
| <b>Increase/<br/>Decrease in<br/>2010/11</b>  | <b>1,306</b>                       | <b>(3,610)</b>                                   | <b>(775)</b>                           | <b>1,587</b>                           | <b>(1,492)</b>                      | <b>69,206</b>                | <b>67,714</b>                        |
| <b>Balance at 31<br/>March 2011</b>   | <b>15,064</b>                      | <b>90,237</b>                                    | <b>8,272</b>                           | <b>30,844</b>                          | <b>144,417</b>                      | <b>63,191</b>                | <b>207,608</b>                       |

|   | General<br>Fund<br>Balance<br>£000 | Ear-<br>marked<br>General<br>Fund<br>Reserves<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Capital<br>Grants<br>Unapplied<br>£000 | Total<br>Usable<br>Reserves<br>£000 | Unusable<br>Reserves<br>£000 | Total<br>Council<br>Reserves<br>£000 |
|---|------------------------------------|---|--|--|-------------------------------------|------------------------------|--------------------------------------|
| <b>Balance at 31 March 2011</b>   | <b>15,064</b>                      | <b>90,237</b>   | <b>8,272</b>                           | <b>30,844</b>                          | <b>144,417</b>                      | <b>63,191</b>                | <b>207,608</b>                       |
| <b>Movement in reserves during 2011/12</b>  |                                    |   |  |  |                                     |                              |                                      |
| Surplus or (deficit) on the provision of services                                 | (75,282)                           | -   | -                                      | -                                      | (75,282)                            | -                            | (75,282)                             |
| Other Comprehensive Income and Expenditure  | -                                  | -   | -                                      | -                                      | -                                   | (48,718)                     | (48,718)                             |
| <b>Total Comprehensive Income and Expenditure</b>                                 | <b>(75,282)</b>                    | <b>-</b>  | <b>-</b>                               | <b>-</b>                               | <b>(75,282)</b>                     | <b>(48,718)</b>              | <b>(124,000)</b>                     |
| Adjustments between accounting basis and funding basis under regulations (Note 8) | 77,046                             | -   | 965                                    | 541                                    | <b>78,552</b>                       | (78,552)                     | -                                    |
| <b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>               | <b>1,764</b>                       | <b>-</b>  | <b>965</b>                             | <b>541</b>                             | <b>3,270</b>                        | <b>(127,270)</b>             | <b>(124,000)</b>                     |
| Transfers to/from Earmarked Reserves (Note 9)                                     | 3,989                              | (3,989)   | -                                      | -                                      | -                                   | -                            | -                                    |
| <b>Increase/Decrease in 2011/12</b>   | <b>5,753</b>                       | <b>(3,989)</b>  | <b>965</b>                             | <b>541</b>                             | <b>3,270</b>                        | <b>(127,270)</b>             | <b>(124,000)</b>                     |
| <b>Balance at 31 March 2012</b>   | <b>20,817</b>                      | <b>86,248</b>   | <b>9,237</b>                           | <b>31,385</b>                          | <b>147,687</b>                      | <b>(64,079)</b>              | <b>83,608</b>                        |

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

| Restated 2010/11          |                      |                         |   | 2011/12                   |                      |                         |
|---------------------------|----------------------|-------------------------|---|---------------------------|----------------------|-------------------------|
| Gross Expenditure<br>£000 | Gross Income<br>£000 | Net Expenditure<br>£000 |   | Gross Expenditure<br>£000 | Gross Income<br>£000 | Net Expenditure<br>£000 |
| 40,637                    | 32,771               | 7,866                   | Central services to the public  | 43,396                    | 33,412               | 9,984                   |
| 42,663                    | 12,673               | 29,990                  | Cultural and related services   | 44,612                    | 12,566               | 32,046                  |
| 31,816                    | 13,156               | 18,660                  | Planning services   | 15,565                    | 10,516               | 5,049                   |
| 27,834                    | 5,133                | 22,701                  | Environmental and regulatory services   | 28,756                    | 5,451                | 23,305                  |
| 419,336                   | 319,243              | 100,093                 | Education and children's services   | 373,355                   | 289,323              | 84,032                  |
| 21,296                    | 7,132                | 14,164                  | Highways and transport services   | 19,897                    | 6,406                | 13,491                  |
| 157,908                   | 138,231              | 19,677                  | Other housing services  | 153,571                   | 138,998              | 14,573                  |
| 147,666                   | 46,242               | 101,424                 | Adult social care   | 118,488                   | 38,786               | 79,702                  |
| 7,307                     | 1,932                | 5,375                   | Corporate and democratic core   | 5,559                     | 1                    | 5,558                   |
| (55,267)                  | -                    | (55,267)                | Non distributed costs (Note 6)  | (2,395)                   | -                    | (2,395)                 |
| <b>841,196</b>            | <b>576,513</b>       | <b>264,683</b>          | <b>Cost of Services</b>   | <b>800,804</b>            | <b>535,459</b>       | <b>265,345</b>          |
| 55,560                    | -                    | 55,560                  | Other operating expenditure (Note 10)   | 106,706                   | -                    | 106,706                 |
| 77,543                    | 50,136               | 27,407                  | Financing and investment income and expenditure (Note 11)                           | 71,788                    | 48,518               | 23,270                  |
| -                         | 374,626              | (374,626)               | Taxation and non specific grant income (Note 12)                                    | -                         | 320,039              | (320,039)               |
| <b>974,299</b>            | <b>1,001,275</b>     | <b>(26,976)</b>         | <b>(Surplus) or Deficit on Provision of Services</b>                                | <b>979,298</b>            | <b>904,016</b>       | <b>75,282</b>           |
|                           |                      | 10,526                  | Surplus or deficit on revaluation of Property, Plant and Equipment assets (Note 49) |                           |                      | (16,142)                |
|                           |                      | (5,163)                 | Surplus on revaluation of PFI liability   |                           |                      | 24                      |
|                           |                      | -                       | Surplus or deficit on revaluation of available for sale financial assets            |                           |                      | 472                     |
|                           |                      | (46,101)                | Actuarial gains/losses on pension assets / liabilities                              |                           |                      | 64,364                  |
|                           |                      | <b>(40,738)</b>         | <b>Other Comprehensive Income and Expenditure</b>                                   |                           |                      | <b>48,718</b>           |
|                           |                      | <b>(67,714)</b>         | <b>Total Comprehensive Income and Expenditure</b>                                   |                           |                      | <b>124,000</b>          |

**BALANCE SHEET**

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

| <b>Restated<br/>1 April 2010<br/>£000</b> | <b>Restated<br/>31 March<br/>2011<br/>£000</b> |                                    | <b>Notes</b> | <b>31 March<br/>2012<br/>£000</b> |
|---|--|------------------------------------|--------------|-----------------------------------|
| 713,263                                   | 684,401  | Property, Plant & Equipment        | 13           | 619,657                           |
| 12,490                                    | 12,490   | Heritage Assets                    | 14           | 12,689                            |
| 13,402                                    | 14,105   | Investment Property                | 15           | 13,550                            |
| 1,131                                     | 813  | Intangible Assets                  | 16           | 598                               |
| 11,073                                    | 11,295   | Long Term Investments              | 17           | 30,327                            |
| 68,018                                    | 64,296   | Long Term Debtors                  | 42           | 62,974                            |
| <b>819,377</b>                            | <b>787,400</b>                                 | <b>Long Term Assets</b>            |              | <b>739,795</b>                    |
| 68,711                                    | 62,603   | Short Term Investments             | 17           | 37,969                            |
| 2,099                                     | 2,957  | Assets Held for Sale               | 20           | 1,348                             |
| 278                                       | 343  | Inventories                        |              | 371                               |
| 66,153                                    | 55,813   | Short Term Debtors                 | 18           | 53,642                            |
| 34,558                                    | 58,372   | Cash and Cash Equivalents          | 19           | 37,779                            |
| <b>171,799</b>                            | <b>180,088</b>                                 | <b>Current Assets</b>              |              | <b>131,109</b>                    |
| 19,372                                    | 17,715   | Short Term Borrowing               | 17           | 20,242                            |
| 65,953                                    | 61,190   | Short Term Creditors               | 21           | 52,494                            |
| 2,110                                     | 16,731   | Provisions                         | 22           | 8,585                             |
| <b>87,435</b>                             | <b>95,636</b>                                  | <b>Current Liabilities</b>         |              | <b>81,321</b>                     |
| 6,937                                     | 8,583  | Provisions                         | 22           | 5,038                             |
| 261,108                                   | 256,416  | Long Term Borrowing                | 17           | 244,133                           |
| 493,448                                   | 396,517  | Other Long Term Liabilities        | 40,43,45     | 453,990                           |
| 2,354                                     | 2,728  | Capital Grants Receipts in Advance | 36           | 2,814                             |
| <b>763,847</b>                            | <b>664,244</b>                                 | <b>Long Term Liabilities</b>       |              | <b>705,975</b>                    |
| <b>139,894</b>                            | <b>207,608</b>                                 | <b>Net Assets</b>                  |              | <b>83,608</b>                     |
| 145,909                                   | 144,417  | Usable Reserves                    | 23           | 147,687                           |
| (6,015)                                   | 63,191   | Unusable Reserves                  | 24           | (64,079)                          |
| <b>139,894</b>                            | <b>207,608</b>                                 | <b>Total Reserves</b>              |              | <b>83,608</b>                     |

## CASH FLOW STATEMENT

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

| <b>Restated<br/>2010/11<br/>£000</b> |  | <b>2011/12<br/>£000</b> |
|--------------------------------------|--|-------------------------|
|                                      |  |                         |
| (26,976)                             | Net (surplus) / deficit on the provision of services   | 75,282                  |
| (47,974)                             | Adjust net (surplus) / deficit on the provision of services for non cash movements (Note 25)                                     | (92,361)                |
| 42,398                               | Adjust for items in the net (surplus)/ deficit on the provision of services that are investing or financing activities (Note 25) | 22,379                  |
| (32,552)                             | <b>Net Cash Flow From Operating Activities (Note 25)</b>   | 5,300                   |
| 614                                  | Net cash flows from investing activities (Note 26)   | 2,066                   |
| 8,124                                | Net cash flows from financing activities (Note 27)   | 13,227                  |
| (23,814)                             | <b>Net increase or decrease in Cash and Cash Equivalents</b>   | 20,593                  |
|                                      |  |                         |
| (34,558)                             | Cash and Cash Equivalents at the beginning of the reporting period   | (58,372)                |
|                                      |  |                         |
| (58,372)                             | <b>Cash and cash equivalents at the end of the reporting period (Note 19)</b>  | (37,779)                |

# **Notes to the Main Financial Statements**

## NOTES TO THE MAIN FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### GENERAL

The accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code), as recommended by CIPFA, supported by guidance notes on the application of accounting standards. The accounting convention adopted is historical cost modified for the valuation of certain categories of non current assets and financial instruments. They are also prepared on a going concern basis. The Code of Practice specifies the principles and practices of accounting required to prepare a Statement of Accounts which provides a true and fair view of the financial position and transactions of the Council and is based on approved international accounting standards, except where these might conflict with specific statutory accounting requirements.

In accordance with the Code, the Council has adopted a number of principles to be followed in selecting accounting policies to be used and the corresponding disclosures needed to help users to understand those selected policies and how they have been implemented. In doing so, the Council tries to ensure that the policies selected are the most suitable to its particular circumstances for the purpose of providing a true and fair view of the financial position and transactions of the Council. Policies are reviewed regularly to ensure their appropriateness and are changed as necessary to maintain this position. In such cases a full disclosure will be provided.

The concepts that the Council has regard to in selecting and applying these policies are:-

The qualitative characteristics of financial information

- Understandability.
- Relevance.
- Materiality.
- Reliability.
- Comparability.

Pervasive accounting concepts

- Accruals.
- Going concern.
- Primacy of legislative requirements.

Accounting policies can be defined as the principles, bases, conventions, rules and practices applied that specify how the transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves.

The annual update of the Code has resulted in a number of changes in accounting policy. The main changes are detailed below:-

- Heritage Assets.
- Carbon Reduction Commitment Allowances

## **ACCRUALS OF INCOME AND EXPENDITURE**

The Council's Statement of Accounts is kept on an accruals basis, in accordance with the Code of Practice.

To account for income and expenditure in the financial year in which goods and services are received or rendered, amounts included in the accounts are based on actual invoices received or raised after the year end. Where actual amounts are not known estimates are included based on an assessment of the value of goods and services received or rendered. Any estimates are calculated using the best available information.

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

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

## **CAPITAL RECEIPTS**

Sales of assets give rise to capital receipts if the receipt exceeds £10,000. These are recorded on an accruals basis and, if required, are divided into a reserved part (based on applicable statutory requirements) and a usable part (the balance).

Usable receipts are credited to the Capital Receipts Reserve and are available to finance capital expenditure. Reserved receipts are credited to the Capital Adjustment Account and there they reduce the Council's Capital Financing Requirement. The Secretary of State has determined that, under provisions included in the Local Government Act 2003, the Council is required to pay over to the Department for Communities and Local Government (DCLG) a proportion of receipts derived from the disposal of housing land.

## **CARBON REDUCTION COMMITMENT ALLOWANCES**

The Council participates in the Carbon Reduction Commitment (CRC) and is required to buy and surrender allowances, retrospectively on the basis of carbon emissions. As energy is used carbon is emitted and a liability for this occurs. This has resulted in the Council being required to purchase allowances. For 2011/12 these have been measured as the best estimate of the expenditure required to meet requirements to purchase allowances. The estimated cost of the allowances is included in our service costs shown in the Comprehensive Income and Expenditure Statement and has been apportioned to services on the basis of energy consumption.

## **CASH AND CASH EQUIVALENTS**

Cash includes all bank credit balances and overdrafts held by the Council as part of its normal cash management, including all deposit accounts accessible without notice.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents include cash in hand and deposits held at call with financial institutions.

## **CONTINGENT ASSETS AND LIABILITIES**

These are not accrued in the accounting statements but will be disclosed by way of notes if there is a possible obligation/receipt which may require a transfer, payment or receipt of economic benefits. The note discloses the nature of the asset or liability and an estimate of its financial effect.

## **DEBT REDEMPTION (THE MINIMUM REVENUE PROVISION)**

Debt is redeemed as and when it falls due. Under regulations issued by the Department for Communities and Local Government, the Council has approved an MRP Statement. Detailed rules placed a single duty to charge an amount of MRP which the Council considers 'prudent'.

The Council approved the following MRP policy for the 2011/12 financial year:

- (a) The Council will apply the Regulatory method in respect of supported capital expenditure and the Asset Life method in respect of unsupported capital expenditure.
- (b) For prudence, when the asset life method is applied to funding of an asset with a life of greater than 25 years the Council will apply a default asset life of 25 years.
- (c) MRP in respect of PFI and leases brought on to the Balance Sheet under International Financial Reporting Standards will also be calculated using the asset life method and will match the annual principal repayment for associated deferred liability.

Ex-Merseyside County Council debt is managed in a separate Fund. Interest is charged to constituent Authorities at the average rate for the Fund. Principal repayments are made on the basis of equal instalments over 38 years commencing 1 April 1988.

## **EMPLOYEE BENEFITS**

### **Benefits payable during employment**

Benefits payable during employment cover short-term employee benefits (other than termination benefits) that are due to be settled within 12 months of the year end. They include benefits such as salaries, paid annual leave and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of outstanding leave that staff have earned but not taken before the year end. The accrual is charged to the Service lines within the Comprehensive Income and Expenditure Accounts but then reversed out through the Movements in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

## Termination benefits

Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service. Termination benefits are payable as a result of either:

- a) An employer's decision to terminate an employee's employment before the normal retirement date, or
- b) An employee's decision to accept voluntary redundancy in exchange for those benefits. Termination benefits are often lump-sum payments.

The benefits are charged on an accruals basis to Service lines in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employments or has made an offer to encourage voluntary redundancy.

## Post employment benefits

Employees of the Council are members of two separate pension schemes which provide members with defined benefits (retirement lump sums and pensions) related to pay and service. The schemes are as follows: -

- The Teachers' Pension Scheme, administered by Capita Hartshead on behalf of the Department for Education (DfE) for teachers. The arrangements for this scheme mean that liabilities for these benefits cannot be identified with the Council. The scheme is, therefore, accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the Balance Sheet and revenue accounts are charged with the employer's contributions payable to the Teachers' Pensions Agency in the year. The pension cost charged to the accounts is the contribution rate set on the basis of a notional fund.
- The Local Government Pension Scheme, administered by the Merseyside Pension Fund for all other employees. From 1 October 1987 the Council has administered this Fund on behalf of all scheduled and admitted bodies. The Council operates a defined benefit scheme and costs are charged to the Council's accounts on the basis of a three-yearly actuarial valuation. In 2011/12 the payment to the Fund was comprised of a contribution towards the past deficit and 12% of pensionable pay. The latest valuation was at 31 March 2010 and determined the contributions for the years 2011/14.

Further information on the specific accounting policies may be found in the section dealing with the Merseyside Pension Fund.

Post employment benefits are accounted for in accordance with IAS19. The principle behind this is that an organisation should account for retirement benefits when it is committed to give them, even if the actual payment will be many years in the future. This reflects the Council's commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the Pension Fund.

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

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

- quoted securities - bid market value.
- unquoted securities - professional estimate.
- unitised securities - average of the bid and offer rates.
- property - market value.

The change in the net pension's liability is analysed into seven components:-

- (i) current service cost - the increase in liabilities as a result of years of service earned this year, allocated to the revenue accounts of services for which the employees worked.
- (ii) past service gains - the increase in liabilities arising from current year decisions where the effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Cost of Services in the Comprehensive Income and Expenditure Statement.
- (iii) interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- (iv) expected return on assets - the annual investment return on the Fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- (v) gains/losses on curtailments - the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited or credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- (vi) actuarial gains/losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are effected in the Pension Reserve.
- (vii) contributions paid to Merseyside Pension Fund - cash paid as employer's contributions to the Pension Fund.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the Pension Fund in the year. In the Movement in Reserves Statement on the General Fund Balance this means that there is an appropriation to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the Fund but unpaid at the year-end.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirement. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are either accrued in the year of the decision to make the award or reimbursed to the Pension Fund over a five-year period.

## **EVENTS AFTER THE BALANCE SHEET DATE**

Where a material event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, the amounts recognised in the Statement of Accounts are adjusted to reflect this.

Where a material event occurs after the Balance Sheet date, that is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted to reflect this

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts are authorised for issue, which is the date they are validated by the Acting Director of Finance and Section 151 Officer.

## **EXCEPTIONAL ITEMS AND PRIOR YEAR ADJUSTMENTS**

Exceptional items are, where appropriate, included in the cost of services to which they relate in order to give a fair representation of the accounts.

Material adjustments applicable to prior years arising from changes in accounting policy or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and supporting notes. If there is a material effect on the outturn for the preceding period this is disclosed where practicable.

## **FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to a financial asset of an entity and a financial liability or equity instrument in another. The term "financial instrument" covers both financial assets and liabilities and includes, amongst others, trade receivables and payables, borrowings, financial guarantees, bank deposits and loans receivable.

### **Initial Recognition**

Financial instruments will be recognised on the Balance Sheet when, and only when, the holders become a party to the contractual provisions of the instrument, i.e. when the purchasers become committed to the purchase or, in the case of the loan, the cash changes hands. Sales and disposals of financial assets will be recognised in the same way.

Trade receivables and payables will, in contrast, only be recognised when the goods and services have actually been delivered or received.

## **Initial Measurement**

Financial assets and liabilities are measured initially at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

## **Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised costs. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument.

## **Financial Assets**

Financial Assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available for sale – assets that have a quoted market price and/or do not have fixed or determinable payments.

## **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at amortised costs. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most loans the Council has made this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year. Where assets are identified as impaired because of a likelihood arising from a past event that payment due under the contract will not be made, the asset is written down and a charge is made to the Comprehensive Income and Expenditure Statement.

## **Available for Sale Assets**

Available for sale assets are initially measured and carried at fair value. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable to the Council.

Financial assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:-

- Instruments with quoted market prices – the market price.
- Other instruments with fixed or determinable payments – discounted cash flow analysis.
- Equity Share with no quoted market price – appraisal of the valuation.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available for sale financial assets. The exception is where an impairment loss has been incurred. These are debited to the Comprehensive Income and Expenditure Statement along with any net gains/losses for the asset accumulated in the Reserve. Where fair value cannot be measured reliably the instrument is carried at cost (less any impairment).

**Instruments entered into before 1 April 2006**

The Council has entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts if a provision or contingent liability note is required.

**Disclosure of the nature and risk arising from Financial Instruments**

The Council activities expose it to a variety of financial risks such as:

- Credit risk – the risk that other parties might fail to pay amounts due.
- Liquidity risk – insufficient funds available to meet commitments.
- Market risk – financial loss as a result of changes in interest rates.

In order to minimise these risks the Council complies with the CIPFA Prudential Code, the CIPFA Treasury Management in Public Services Code of Practice and Investment Guidance issued through the Local Government Act 2003.

**FOREIGN CURRENCY**

The Council maintains its accounts in sterling. Income and expenditure arising from transactions undertaken in foreign currency are converted into sterling at the exchange rate in operation at the date the transaction occurred.

**GOVERNMENT GRANTS AND OTHER CONTRIBUTIONS**

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. This also applies to grants in respect of revenue expenditure funded from capital under statute.

Specific revenue grants and contributions are credited to the relevant service to match the expenditure to which they relate. General revenue grants, such as Revenue Support Grant and the contribution from National Non-Domestic Rates, are made to finance the general activities of the Council and are credited to the Comprehensive Income and Expenditure Statement in the year receivable.

Grants related to the funding of capital expenditure are credited to financing and investment income and expenditure at the foot of the Comprehensive Income and Expenditure Statement when the conditions regarding their use are met. This income is reversed out in the Movement in Reserves Statement to either the Capital Adjustment Account, if the grant has been used to finance capital expenditure in the year or to the Capital Grants Unapplied Account until it is applied. Grants with conditions attached are held as receipts in advance in the Capital Grants Receipts in Advance in the Movement in Reserves Statement. The grant is credited to the Comprehensive Income and Expenditure Statement when the conditions no longer apply.

## **GROUP ACCOUNTS**

Group Accounts are covered by IFRS 3 Business Combinations.

An assessment of the criteria for the completion of group accounts has been undertaken and the conclusion reached that there was no requirement to produce such accounts. Only the Council's share of Joint Arrangements that are not entities have been included in the Statement of Accounts.

## **HERITAGE ASSETS**

Heritage assets are assets which have historic, artistic, scientific, geophysical or environmental qualities. This group of assets are held and maintained principally because of their contribution to knowledge and culture.

This group of assets, including collections, above de minimis are recognised in the Balance Sheet wherever possible at valuation or cost. In some instances this has not been possible. The distinctive and rare nature of this group of assets can make valuations complicated, and in some cases values are not obtainable, either due to the nature of the assets or the high cost of obtaining valuations. In these cases, the assets are not included as a value on the Balance Sheet but detailed in notes to the Statement of Accounts.

The carrying amount of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment would be recognised and measured in accordance with the policies on impairment. Because the various categories of heritage assets have indeterminate lives and/or high residual values it is not considered appropriate to charge depreciation.

## **INTANGIBLE ASSETS**

Expenditure on assets that do not have physical substance but are identified and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

A purchased intangible asset is capitalised at cost. Internally developed intangible assets are only capitalised if there is a readily ascertainable market. They are reviewed for impairment at the end of the first full financial year following operation.

## **INVESTMENT PROPERTIES**

The Council classifies investment properties as property which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate. In this respect, the asset is not used directly to deliver the Council's services. Any property that is used to facilitate the delivery of services as well as earn rentals or, for capital appreciation, does not meet the definition of an investment property, is accounted for as property, plant and equipment.

An investment property is measured initially at cost. After initial recognition, investment property is measured at fair value. A gain or loss arising from a change in the fair value of investment property is recognised in the Comprehensive Income and Expenditure Statement for the period in which it arises. The fair value of investment property reflects the market conditions at the Balance Sheet date. An investment property held at fair value is not depreciated.

## **JOINT ARRANGEMENTS THAT ARE NOT ENTITIES (JANE)**

A JANE is a contractual arrangement under which the participants engage in joint activities that do not create an entity because it would not be delivering a service or carrying on a trade or business of its own.

Under a JANE the Council engages in a joint activity with another organisation, but this arrangement is not carrying out a trade or business of its own. The Council accounts for its own transactions within the arrangement, for example, income and expenditure arising within the JANE.

## **LEASING**

Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of any legal agreement.

### **The Council as Lessee**

#### **Finance Lease**

The Council, as lessee, recognises finance leases as assets and liabilities at amounts equal to the fair value of minimum lease payments. Minimum lease payments are apportioned between the finance charged and the reduction of the outstanding liability. The finance charge is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciation policy for assets held under finance leases is consistent with the depreciation policy for owned assets.

#### **Operating Leases**

Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

## **The Council as Lessor**

### **Finance Lease**

The Council, as lessor, recognises assets held under finance lease as receivable at an amount equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and finance income. The finance income is calculated so as to produce a constant periodic rate of return on the net investment.

### **Operating Lease**

Items of property, plant and equipment subject to operating leases are presented according to the nature of the asset.

Income from operating leases is recognised on a straight line basis over the lease term. Depreciation policy for depreciable leased assets is consistent with the depreciation policy for other similar assets.

### **Arrangements containing a lease**

An arrangement comprising a transaction that does not take the legal form of a lease but conveys a right to use an asset (e.g. an item of property, plant and equipment) in return for a payment or a series of payments, may be accounted for as though the arrangement is, or contains, a lease.

Determining whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether:

- a) Fulfilment of the arrangement is dependent on the use of a specific asset or assets.
- b) The arrangement conveys a right to use the asset.

## **LOCAL TAXES**

### **Council Tax**

Council Tax debtors are shown exclusive of the proportions attributable to the major preceptors. Council Tax income for the financial year credited to the Comprehensive Income and Expenditure Statement is the accrued income for the year together with the share of the surplus/deficit on the Collection Fund at the end of the previous financial year. The difference between this amount and the Council Tax income credited to the General Fund is a reconciling amount in the Movement in Reserves Statement.

### **National Non-Domestic Rates**

A National Non-Domestic Rates creditor represents the amount collected on behalf of the Government but not yet paid over at the Balance Sheet date. A National Non-Domestic Rates debtor represents the amount collected on behalf of the Government but overpaid at the Balance Sheet date.

## **NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

### **Non-Current Assets held for sale**

The Council classifies assets as non-current assets held for sale if the carrying amount is to be recovered through a sale rather than through continued use. The criteria for such a classification also includes the asset being available for immediate sale in its present condition, the sale must be highly probable, there must be a management plan to sell the asset and it is being actively marketed. The sale also has to be expected to be completed within one year from the date of classification, although there are exceptions.

Assets classified as held for sale are valued at the lower of carrying value immediately prior to classification and fair value less costs to sell where known. If assets no longer meet the criteria to be classified as held for sale, they are reclassified back to non-current assets and valued at the lower of its carrying amount before it was classified as held for sale: adjusted for depreciation, amortisation or revaluations that would have been recognised had it not been classified as held for sale, and its recoverable amount at the date of the decision not to sell.

### **Discontinued operations**

The consequences of discontinued operations will be presented separately in the Comprehensive Income and Expenditure Statement.

To qualify as discontinued operations, activities must cease completely. Prior periods presented in the financial statements are restated for discontinued operations so that current and prior periods relate to all operations that have been discontinued by the end of the reporting period being presented.

## **NON-DISTRIBUTED COSTS**

The definition of non-distributed costs is limited to past service costs of surplus assets, settlements, curtailments, unused IT facilities, other unrealisable assets, impairment losses and depreciation relating to specific assets and revenue costs.

## **OVERHEADS**

In line with the Service Reporting Code of Practice 2011/12, charges or apportionments for the costs of support services are made to all users. Support service costs are allocated using the most appropriate basis available, for example, allocated on the basis of actual time spent by staff on the various services. Other bases are used to allocate computing costs which are allocated on the amount of central processing use and Service Level Agreements. Administrative Buildings are allocated on the basis of area occupied. The costs of the Corporate and Democratic core and of Non-Distributed costs are each allocated to a separate objective expenditure head and are not apportioned to other expenditure heads.

## **PRIVATE FINANCE INITIATIVE (PFI)**

Where the Council has entered into a PFI or similar contract then the Council will recognise the asset and liability on the Balance Sheet and account for it as if it was a finance lease if:-

- this involves an operator constructing, acquiring or enhancing and then operating and managing an asset in order to provide or enable the Council to provide services to the public; and,
- the Council controls or regulates the services provided through use of the asset and has a significant residual interest in the asset.

The Council will then recognise the asset and liability on the Balance Sheet and account for it as if it was a finance lease. The remaining service element of the contract payment will be charged to revenue as incurred.

## **PROPERTY, PLANT AND EQUIPMENT**

### **Recognition**

All expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis in the accounts. Expenditure on the acquisition of or expenditure that adds to, and not merely maintains, the value of an existing asset, is capitalised, and classified as property, plant and equipment, provided that it yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of property, plant and equipment that is charged directly to service revenue accounts. It does, however, include expenditure such as the acquisition of land and buildings, and the construction and enhancement of roads, buildings and other structures.

A de minimis level of £10,000 applies. The cost of any project with expenditure below £10,000 is charged to revenue rather than being capitalised.

The Council maintains a detailed asset register of all assets that it owns and recognises under finance leases and PFI contracts. The basis of valuation and depreciation for each category of asset is included in a note to the Statement of Accounts.

### **Measurement**

Property, plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Property, plant and equipment are classified according to the Code.

The following are included in the Balance Sheet using the measurement basis:-

- Infrastructure assets and community assets are included in the Balance Sheet at historic cost net of depreciation, where appropriate.
- Other land and buildings, vehicles, plant and equipment are included at fair value.
- Property, plant and equipment under construction are held at cost.
- Surplus assets are included at fair value.

In accordance with CIPFA guidance, all assets, with the exception of infrastructure, were revalued by the end of March 2003. Qualified valuers employed within the Department of Law, HR and Asset Management, using the valuation techniques referred to above, undertook the valuation exercise. A further valuation of all assets was undertaken on the basis of a rolling programme by March 2012.

Increases in valuations are credited to the Revaluation Reserve except where they arise from the reversal of an impairment or revaluation loss previously charged to the surplus or deficit on the provision of services.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost. This amount is transferred each year from the Revaluation Reserve to the Capital Adjustment Account. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date when it came into existence. Gains arising before that date have been consolidated in the Capital Adjustment Account.

Assets are recognised into components for depreciation purposes when the component has a significant cost compared to the total cost of the item and a different useful life to the remainder of the asset. Enhancement expenditure requires the de-recognition of the component replaced or restored, and the new component reflected in the carrying amount even where parts of an asset were not previously recognised as a separate component.

The Council does not capitalise borrowing costs where it is incurred during the period the asset is under construction.

### **Impairment**

The value of each category of assets is reviewed at the end of each reporting period to assess whether there is any evidence of impairment loss. This would arise, for example, from a significant decline in the asset's market value, evidence of obsolescence or physical damage, a change in the regulatory environment within which the Council operates or a commitment to undertake a significant re-organisation. All impairment is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess being charged directly to the service.

The reversal of both impairments and revaluation losses made to services cannot exceed the carrying amount that would have been determined / net off amortisation or depreciation / had no impairment or revaluation loss been recognised for the asset in prior years. The reversal of an impairment loss is recognised in the circumstance that the increase in value is mirrored by the reversal of the event that caused the original impairment to be recognised. Impairment is also charged where there has been expenditure that has not resulted in any upward revaluations.

### **Depreciation**

Depreciation is charged on all Property, Plant and Equipment assets with a finite useful life apart from non-depreciable land, community assets and assets that are not yet available for use (i.e. under construction). It is calculated on the amount at which the asset is included in the Balance Sheet less an estimate for its residual value.

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

## **Disposals**

When an asset is disposed of the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

No assets are revalued immediately prior to disposal unless legislation requires/allows the Council to do so.

Amounts in excess of £10,000 are classified as capital receipts. Such receipts from disposals are accounted for on an accruals basis and credited to the Capital Receipts Reserve. A proportion of receipts relating to housing disposals are paid over to Central Government as a 'housing pooled capital receipt'. This is charged to the Net Operating Cost section of the Comprehensive Income and Expenditure Statement and the same amount is appropriated from the Usable Capital Receipts Reserve and credited to Movement in Reserves Statement.

## **Charges to Revenue for Property, Plant and Equipment**

All general fund service revenue accounts, including support services and trading accounts, are charged with the following amounts to record the real cost of all assets used in the provision of services:-

- Depreciation attributable to the assets used by the relevant service.
- Impairment/revaluation losses attributable to the clear consumption of economic benefits on non-current assets used by the service.
- Amortisation of intangible assets attributable to the service.

The financing of capital expenditure from revenue is disclosed separately as an appropriation in the Movement in Reserves Statement.

## **PROVISIONS**

The Council sets aside provisions for specific future expenses that are likely or certain to be incurred but the amount and timing of which cannot yet be determined accurately. They are only made where there is a present obligation based on a past event, it is probable that a transfer of economic benefit will occur and a reliable estimate can be made of the obligation.

Provisions are charged to an appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation. When payments for expenditure are incurred to which the provision relates they are charged directly to the provision. They are reviewed at the Balance Sheet date and adjusted as necessary to reflect the current best estimate.

The principal provisions relate to bad debts and insurance. The former have been deducted from debtors in the Balance Sheet, rather than being shown in provisions. As part of compliance with IFRS 7, "Financial Instruments: Disclosure", amounts shown as due from debtors are individually or collectively (for debts that are not significant) reviewed for impairment. Any known uncollectable debts will be written off to the appropriate service account. The insurance provision relates to outstanding liability claims. The figure is the sum indicated by actuaries, updated by an internal assessment, as being required to fund claims for years up to and including 2011/12.

## **REPURCHASE OF BORROWING**

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Comprehensive Income and Expenditure Statement in the period during which the repurchase or early settlement is made.

Where repurchase has taken place as part of a restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, the premiums or discounts can respectively be deducted from or added to the amortised cost of the new or modified loan. The write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. If the repurchase has been determined as substantially different, the premiums or discounts are immediately fully written-off to revenue.

For premiums and discounts that have been charged to the Comprehensive Income and Expenditure Statement, Government regulations allow for the impact on the General Fund balances to be spread over future years with an offset through a transfer to the Financial Instrument Adjustment Account shown within the Movement in Reserves Statement.

Balances held in the Financial Instrument Adjustment Account will be written-off to revenue in accordance with the Government regulations.

## **RESERVES**

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves. Reserves are an accumulation of previous years' surpluses, deficits and transfers and are categorised as either "Usable" or "Unusable". Reserves include earmarked reserves set aside for specific policy purposes and balances that represent resources set aside for purposes such as general contingencies and cash flow management. Reserves are created by appropriating amounts through the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the cost of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

The Usable reserves held at 31 March 2012 include:-

- General Fund.
- Earmarked Reserves.
- Capital Receipts Reserve.
- Capital Grants Unapplied.

The Unusable reserves include:-

- Revaluation Reserve.
- Available for Sale Financial Instrument Reserve.
- Pension Reserve.
- Capital Adjustment Reserve.
- Financial Instrument Adjustment Account.
- Collection Fund Adjustment Account.
- Short Term Accumulating Compensated Absences Account.

Usable reserves are those the Council may use to fund either revenue or capital expenditure. Unusable reserves are kept to manage the accounting process and they do not represent usable resources for the Council.

An estimation technique applies to the Insurance Fund Liability Reserve which is similar to that referred to in the section on provisions.

## **REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)**

Revenue expenditure funded from capital under statute represents expenditure that may be capitalised but does not result in the creation of an asset. It is amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by the Council. Consequently, these items are normally written off as expenditure to the relevant service revenue account in the year of payment. If financed from existing capital resources or borrowing, a transfer to the Capital Adjustment Account from the Movement in Reserves Statement reverses out the amounts charged to the Comprehensive Income and Expenditure Statement so that there is no impact on the level of Council Tax.

## **VALUE ADDED TAX (VAT)**

Income and expenditure excludes any amounts related to VAT, as VAT collected is payable to HM Revenue and Customs and VAT paid is recoverable from them. VAT is included in the Comprehensive Income and Expenditure Statement only if it is irrecoverable.

The Glossary of Financial Terms provides an explanation of technical terms and abbreviations.

## **2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED**

For 2011/12 the only change not adopted relates to IFRS 7 Financial Instruments: Disclosures (transfer of financial assets). The impact of this amendment will be reported in the 2012/13 accounts and will not have a material or significant effect on the Council's financial statements.

### 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The following are critical judgements that have been made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the Statement of 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 assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The treatment of schools in the Wirral area that are Government funded but not under the direction of the Local Education Authority is currently under review by CIPFA. The Council has determined that there is not yet sufficient guidance on the treatment of the assets in the Balance Sheet. These assets, which are in excess of £50 million, are not included in the Statement of Accounts.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 materially different from the assumptions and estimates.

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

| Item                      | Uncertainties   | Effect if Actual Results Differ from Assumptions   |
|---------------------------|---|--|
| <b>Pensions Liability</b> | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | <p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £17.599 million. However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that the net pensions liability had increased by £60.154 million. This increase includes:</p> <ul style="list-style-type: none"> <li>• a decreased actuarial valuation of scheme assets of £63.205 million;</li> <li>• increased pension costs recognised for the scheme of £28.081 million</li> <li>• employer contributions actually paid of £31.132 million.</li> </ul> |

| Item                                 | Uncertainties  | Effect if Actual Results Differ from Assumptions   |
|--------------------------------------|--|--|
| <b>Property, Plant and Equipment</b> | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.5 million for every year that useful lives had to be reduced. Over a period of 5 years (before the next valuation takes place) this could result in an error of £2.1 million - this is not material. |
| <b>Leases</b>                        | Within the Council departments and schools a number of leases have been identified. In determining their fair value a number of assumptions have been made about their values with some being determined from the cost of similar assets or rental income.   | As the total depreciated value of leases is £3 million the effect of the estimation is not material.   |

This list does not include assets and liabilities that have recently observed market price.

## 5. MATERIAL ITEMS OF INCOME AND EXPENSE

For 2011/12 three Council schools have become Academies. This is treated as a loss on disposal of a non-current asset in the Comprehensive Income and Expenditure Account and amount to in excess of £30 million.

For 2010/11 items in the Comprehensive Income and Expenditure Statement that are not disclosed on the face of the Statement but are material include pension costs and curtailments within Non Distributed costs line. These two items amount to a credit of £58.8 million. This was a one off gain that has not been repeated in 2011/12.

## 6. EXCEPTIONAL ITEMS

Exceptional Items are disclosed in this note as, due to their nature and for the infrequency of the events giving rise to them, this allows the readers to have a better understanding of the financial performance for the year in comparison to previous years.

For 2010/11 the accounts contained two exceptional items:

A total of £21.3 million in additional Termination Benefits (referred to in note 41) have been incurred during 2010/11.

A past service pension gain of £60.8 million is included within the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement. This follows the Chancellor of the Exchequer's June 2010 Budget announcement to changes in public

sector pension arrangements. Future pension increases will be based on the anticipated lower Consumer Price Index rather than on the Retail Price Index. Past service costs and curtailments form the total Non- Distributed Costs total.

| <b>Non-Distributed Costs Line</b> | <b>£000</b>   |
|-----------------------------------|---------------|
| Past Service Gain                 | (60,849)      |
| Curtailments                      | 5,582         |
| <b>Total</b>                      | <b>55,267</b> |

## 7. EVENTS AFTER THE BALANCE SHEET DATE

The Council's cabinet on 6 September 2012 decided to utilise £7.2 million of the Working Neighbourhood Earmarked Reserve detailed in note 9, page 70, to fund services in the 2012/13 financial year.

The Code requires the disclosure of the date that the financial statements were authorised for issue and therefore the date after which events will not have been recognised in the Statement of Accounts. This date is set at 19 September 2012, in respect of the preparation of the audited Statement of Accounts for 2011/12.

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

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

| 2010/11   | Usable Reserves              |                                  |                                  | Movement in Usable Reserves<br>£000 | Movement in Unusable Reserves<br>£000 |
|---|------------------------------|----------------------------------|----------------------------------|-------------------------------------|---------------------------------------|
|   | General Fund Balance<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 |                                     |                                       |
| <b>Adjustments primarily involving the Capital Adjustment Account:</b>  |                              |                                  |                                  |                                     |                                       |
| <b>Reversal of items debited or credited to the CIES:</b>   |                              |                                  |                                  |                                     |                                       |
| Depreciation of non current assets  | 19,446                       | -                                | -                                | 19,446                              | (19,446)                              |
| Impairment and revaluation losses of non current assets   | 34,701                       | -                                | -                                | 34,701                              | (34,701)                              |
| Movement in market value of investment property   | (2,382)                      | -                                | -                                | (2,382)                             | 2,382                                 |
| Amortisation of intangible assets   | 329                          | -                                | -                                | 329                                 | (329)                                 |
| Capital grant and contributions applied   | (40,173)                     | -                                | -                                | (40,173)                            | 40,173                                |
| Revenue Expenditure Funded from Capital under Statute   | 4,169                        | -                                | -                                | 4,169                               | (4,169)                               |
| Amount on non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 10,979                       | -                                | -                                | 10,979                              | (10,979)                              |
| <b>Insertion of items not debited or credited to the CIES:</b>  |                              |                                  |                                  |                                     |                                       |
| Statutory Provision for the repayment of debt - (Minimum revenue provision)   | (9,619)                      | -                                | -                                | (9,619)                             | 9,619                                 |
| Statutory Repayment of Debt (Finance Lease Liabilities)   | (1,242)                      | -                                | -                                | (1,242)                             | 1,242                                 |
| Statutory Repayment of Debt (PFI)   | (1,969)                      | -                                | -                                | (1,969)                             | 1,969                                 |
| Capital expenditure charged against the General Fund  | (192)                        | -                                | -                                | (192)                               | 192                                   |
| <b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>  |                              |                                  |                                  |                                     |                                       |
| Net increase after capital financing  | -                            | -                                | 1,587                            | 1,587                               | (1,587)                               |
| <b>Adjustments primarily involving the Capital Receipts Reserve:</b>  |                              |                                  |                                  |                                     |                                       |
| Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and expenditure Statement                     | -                            | 2,242                            | -                                | 2,242                               | (2,242)                               |
| Use of the Capital Receipts Reserve to finance capital expenditure  | -                            | (3,000)                          | -                                | (3,000)                             | 3,000                                 |

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| 2010/11  | Usable Reserves              |                                  |                                  | Movement in Usable Reserves<br>£000 | Movement in Unusable Reserves<br>£000 |
|--|------------------------------|----------------------------------|----------------------------------|-------------------------------------|---------------------------------------|
|  | General Fund Balance<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 |                                     |                                       |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipt pool  | 17                           | (17)                             | -                                | -                                   | -                                     |
| <b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>   |                              |                                  |                                  |                                     |                                       |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year with statutory requirements  | (328)                        | -                                | -                                | (328)                               | 328                                   |
| <b>Adjustments primarily involving the Pensions Reserve:</b>   |                              |                                  |                                  |                                     |                                       |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement  | (11,765)                     | -                                | -                                | (11,765)                            | 11,765                                |
| Employers pension contributions and direct payments to pensioners in the year  | (31,185)                     | -                                | -                                | (31,185)                            | 31,185                                |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>   |                              |                                  |                                  |                                     |                                       |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements                     | (815)                        | -                                | -                                | (815)                               | 815                                   |
| <b>Adjustments primarily involving the Accumulated Absences Account:</b>   |                              |                                  |                                  |                                     |                                       |
| Amount by which officers remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements | 749                          | -                                | -                                | 749                                 | (749)                                 |
| <b>Total adjustments</b>   | <b>(29,280)</b>              | <b>(775)</b>                     | <b>1,587</b>                     | <b>(28,468)</b>                     | <b>28,468</b>                         |

| 2011/12   | Usable Reserves              |                                  |                                  | Movement in Usable Reserves<br>£000 | Movement in Unusable Reserves<br>£000 |
|---|------------------------------|----------------------------------|----------------------------------|-------------------------------------|---------------------------------------|
|   | General Fund Balance<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 |                                     |                                       |
| <b>Adjustments primarily involving the Capital Adjustment Account</b>   |                              |                                  |                                  |                                     |                                       |
| <b>Reversal of items debited or credited to the CIES</b>  |                              |                                  |                                  |                                     |                                       |
| Depreciation of non current assets  | 19,876                       | -                                | -                                | 19,876                              | (19,876)                              |
| Impairment and revaluation losses of non current assets   | 22,125                       | -                                | -                                | 22,125                              | (22,125)                              |
| Movement in market value of investment property   | 1,056                        | -                                | -                                | 1,056                               | (1,056)                               |
| Amortisation of intangible assets   | 322                          | -                                | -                                | 322                                 | (322)                                 |
| Capital grant and contributions applied   | (7,855)                      | -                                | -                                | (7,855)                             | 7,855                                 |
| Revenue Expenditure Funded from Capital under Statute (REFCUS)  | 17,557                       | -                                | -                                | 17,557                              | (17,557)                              |
| Application of grants to fund REFCUS  | (5,213)                      | -                                | -                                | (5,213)                             | 5,213                                 |
| Reserves applied to fund REFCUS   | (1,237)                      | -                                | -                                | (1,237)                             | 1,237                                 |
| Income in relation to donated assets credited to the Comprehensive Income and Expenditure Statement (CIES)  | (35)                         | -                                | -                                | (35)                                | 35                                    |
| Amount on non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 61,709                       | -                                | -                                | 61,709                              | (61,709)                              |
| <b>Insertion of items not debited or credited to the CIES</b>   |                              |                                  |                                  |                                     |                                       |
| Statutory Provision for the repayment of debt - (Minimum revenue provision)   | (9,932)                      | -                                | -                                | (9,932)                             | 9,932                                 |
| Statutory Repayment of Debt (Finance Lease Liabilities)   | (1,062)                      | -                                | -                                | (1,062)                             | 1,062                                 |
| Statutory Repayment of Debt (PFI)   | (2,233)                      | -                                | -                                | (2,233)                             | 2,233                                 |
| Capital expenditure charged against the General Fund  | (423)                        | -                                | -                                | (423)                               | 423                                   |
| <b>Adjustments primarily involving the Capital Grants Unapplied Account</b>   |                              |                                  |                                  |                                     |                                       |
| Capital grants unapplied credited to CIES   | (11,837)                     | -                                | 11,837                           | -                                   | -                                     |
| Application of grants through the Capital Adjustment Account.   | -                            | -                                | (5,033)                          | (5,033)                             | 5,033                                 |

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| 2011/12  | Usable Reserves              |                                  |                                  | Movement in Usable Reserves<br>£000 | Movement in Unusable Reserves<br>£000 |
|--|------------------------------|----------------------------------|----------------------------------|-------------------------------------|---------------------------------------|
|  | General Fund Balance<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 |                                     |                                       |
| Application of previous year's grants to fund REFCUS   | -                            | -                                | (6,263)                          | (6,263)                             | 6,263                                 |
| <b>Adjustments primarily involving the Capital Receipts Reserve</b>  |                              |                                  |                                  | -                                   | -                                     |
| Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and expenditure Statement  | -                            | 3,976                            | -                                | 3,976                               | (3,976)                               |
| Use of the Capital Receipts Reserve to finance capital expenditure   | -                            | (3,000)                          | -                                | (3,000)                             | 3,000                                 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipt pool  | 11                           | (11)                             | -                                | -                                   | -                                     |
| <b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>  |                              |                                  |                                  | -                                   | -                                     |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year with statutory requirements  | (35)                         | -                                | -                                | (35)                                | 35                                    |
| <b>Adjustments primarily involving the Pensions Reserve</b>  |                              |                                  |                                  | -                                   | -                                     |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement  | 30,049                       | -                                | -                                | 30,049                              | (30,049)                              |
| Employers pension contributions and direct payments to pensioners in the year  | (34,155)                     | -                                | -                                | (34,155)                            | 34,155                                |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account</b>  |                              |                                  |                                  | -                                   | -                                     |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements                     | (1,095)                      | -                                | -                                | (1,095)                             | 1,095                                 |
| <b>Adjustments primarily involving the Accumulated Absences Account</b>  |                              |                                  |                                  | -                                   | -                                     |
| Amount by which officers remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is Different from the remuneration chargeable in the year in accordance with statutory requirements | (547)                        | -                                | -                                | (547)                               | 547                                   |
| <b>Total adjustments</b>   | <b>77,046</b>                | <b>965</b>                       | <b>541</b>                       | <b>78,552</b>                       | <b>(78,552)</b>                       |

## 9. TRANSFERS TO/FROM EARMARKED RESERVES

The Council keeps a number of reserves in the Balance Sheet that have been set up to earmark funding for future spending plans. These are held for costs which are likely to be incurred but their timing is not certain and they cannot be met from annual budgets. A review of reserves was carried out as part of the 2012/13 budget setting process. The following describes each earmarked reserve where the balance is in excess of £0.25 million on either 31 March 2011 or 31 March 2012.

| Earmarked Reserves                               | Balance at 1 April 2009<br>£000 | Movement 2009/10<br>£000 | Balance at 31 March 2010<br>£000 | Movement 2010/11<br>£000 | Balance at 31 March 2011<br>£000 | Movement 2011/12<br>£000 | Balance at 31 March 2012<br>£000 |
|--|---------------------------------|--------------------------|----------------------------------|--------------------------|----------------------------------|--------------------------|----------------------------------|
| Schools Balances                                 | 9,214                           | (787)                    | 8,427                            | 3,306                    | 11,733                           | 34                       | 11,767                           |
| Housing Benefit                                  | 13,995                          | 1,300                    | 15,295                           | (3,140)                  | 12,155                           | (1,000)                  | 11,155                           |
| Insurance Fund                                   | 14,074                          | (294)                    | 13,780                           | (4,243)                  | 9,537                            | 98                       | 9,635                            |
| Working Neighbourhood Fund                       | 5,524                           | 6,255                    | 11,779                           | (1,477)                  | 10,302                           | (2,343)                  | 7,959                            |
| Debt Restructuring                               | 7,022                           | 919                      | 7,941                            | -                        | 7,941                            | -                        | 7,941                            |
| Minimum Revenue Provision                        | 4,400                           | -                        | 4,400                            | -                        | 4,400                            | -                        | 4,400                            |
| Community Fund Asset Transfer                    | -                               | -                        | -                                | 3,721                    | 3,721                            | (420)                    | 3,301                            |
| Intranet Development                             | 1,683                           | (50)                     | 1,633                            | 750                      | 2,383                            | 778                      | 3,161                            |
| Local Pay Review                                 | 5,490                           | 885                      | 6,375                            | (3,617)                  | 2,758                            | (117)                    | 2,641                            |
| One Stop Shop/Libraries IT Networks              | 373                             | (24)                     | 349                              | 1,436                    | 1,785                            | 334                      | 2,119                            |
| Supporting People Programme                      | 2,140                           | (508)                    | 1,632                            | (81)                     | 1,551                            | (46)                     | 1,505                            |
| Cosyhomes Insulation                             | -                               | -                        | -                                | 531                      | 531                              | 713                      | 1,244                            |
| School Harmonisation                             | 300                             | 300                      | 600                              | 5,282                    | 5,882                            | (4,641)                  | 1,241                            |
| Stay, Work, Learn Wise                           | -                               | -                        | -                                | -                        | -                                | 908                      | 908                              |
| Schools Capital Schemes                          | 2,387                           | (1,012)                  | 1,375                            | (320)                    | 1,055                            | (278)                    | 777                              |
| Matching Fund                                    | 374                             | 21                       | 395                              | 81                       | 476                              | 82                       | 558                              |
| 20 MPH Zones                                     | -                               | -                        | -                                | -                        | -                                | 550                      | 550                              |
| Home Adaptations                                 | 233                             | -                        | 233                              | 333                      | 566                              | (29)                     | 537                              |
| West Wirral Schemes                              | -                               | 175                      | 175                              | 157                      | 332                              | 198                      | 530                              |
| Merseyside Information Service Termination Costs | -                               | -                        | -                                | 500                      | 500                              | -                        | 500                              |
| ERDF Match Funding                               | -                               | -                        | -                                | -                        | -                                | 500                      | 500                              |
| Strategic Asset Review                           | -                               | 866                      | 866                              | (59)                     | 807                              | (312)                    | 495                              |
| Planned Preventative Maintenance                 | -                               | -                        | -                                | -                        | -                                | 483                      | 483                              |
| Heritage Fund                                    | 326                             | 94                       | 420                              | -                        | 420                              | -                        | 420                              |
| Schools Automatic Meter Readers                  | -                               | 415                      | 415                              | -                        | 415                              | -                        | 415                              |
| Childrens Workforce Development Council          | -                               | -                        | -                                | -                        | -                                | 399                      | 399                              |
| Schools Contingency                              | 369                             | 1                        | 370                              | -                        | 370                              | -                        | 370                              |
| Business Improvement Grant                       | -                               | -                        | -                                | -                        | -                                | 342                      | 342                              |
| Local Area Agreement Reward                      | -                               | 380                      | 380                              | (50)                     | 330                              | (8)                      | 322                              |
| Primary Care Trust Physical Activities           | 300                             | -                        | 300                              | -                        | 300                              | -                        | 300                              |
| Schools Service IT                               | 204                             | 90                       | 294                              | -                        | 294                              | -                        | 294                              |
| Schools Summer Term                              | 280                             | -                        | 280                              | -                        | 280                              | -                        | 280                              |
| Homeless Prevention                              | -                               | 120                      | 120                              | 156                      | 276                              | (5)                      | 271                              |
| Connexions Partnership Pension                   | 1,380                           | 3,310                    | 4,690                            | (4,690)                  | -                                | -                        | -                                |
| Other Reserves                                   | 10,420                          | 903                      | 11,323                           | (2,186)                  | 9,137                            | (209)                    | 8,928                            |
|  | 80,488                          | 13,359                   | 93,847                           | (3,610)                  | 90,237                           | (3,989)                  | 86,248                           |

## Schools Balances

These are earmarked for use purely by the schools. The balance consists of: -

|                       | <b>£000</b> |
|-----------------------|-------------|
| Schools underspending | 11,992      |
| Schools overspending  | (225)       |
| Net Schools balances  | 11,767      |

## Housing Benefit

There is an ongoing issue relating to the previous Housing Benefit Supporting People arrangements, the potential claw-back of subsidy against recent years and sums set-aside for the further development of integrating supporting IT systems.

## Insurance Fund

This is primarily required to cover possible liability insurance claims. The overall estimate of the amount required to cover these is based on an actuarial investigation which seeks to estimate the ultimate claims arising in respect of each risk period, adjusted to allow for any subsequent deterioration in the Council's claims experience. The basis for calculation of the provision is claims not yet reported but anticipated.

## Working Neighbourhood Fund

Working Wirral resources are used to commission activity to deliver the Investment Strategy priorities of tackling worklessness, improving skills levels and increasing enterprise, business growth and investment. The reserve represents the sums identified for the delivery of the programme which covers a number of years.

## Debt Restructuring and Financing

To cover the premiums associated with the early repayment of debt, future interest rate increases and costs associated with the termination of leases.

## Minimum Revenue Provision (MRP)

The Capital Finance and Accounting Regulations 2008 introduced new methods for calculating the MRP. The reserve has been established to offset any resultant increase in costs.

## Community Fund Community Asset Transfer

The Community Fund grant has been allocated by Wirral Partnership Homes and this is the balance of the grant to implement the Community Fund Asset Transfer. After progress made in 2011/12, the funding is to be used by 31 March 2013.

## Intranet Development

For the expansion and development of ICT services in the implementation of the programme agreed as part of the IT Strategy.

## Local Pay Review

The amount identified, and set-aside, to fund the costs of implementing proposals to harmonise and simplify working arrangements as well as meeting the requirements arising from the implementation of equal pay legislation.

**One Stop Shop / Libraries IT Network**

To develop the Information Technology systems within the One Stop Shops and libraries as part of the provision of a more integrated service.

**Supporting People Programme**

Permission has been granted from the Department for Communities and Local Government (DCLG) to retain any administration and specific programme grant for use in future years. This reserve is to be spent on a number of initiatives to support people in need to live in their own homes.

**Cosyhomes Insulation**

To facilitate a programme of insulation in homes throughout Wirral.

**Schools Harmonisation**

To fund the potential costs associated with implementing Phase 2 of the Local Pay Review which relates to those employees within schools.

**Stay, Work, Learn Wise**

The Stay, Work, Learn Wirral Wise grant may be required to be repaid.

**Schools Capital Schemes**

This is for the delivery and completion of capital schemes within schools.

**Matching Fund**

The aim is to provide funds for any special initiatives that may arise involving grants, which will need to be matched by the Council.

**20MPH Zones**

This has been set up to part fund a four year programme to provide 20mph speed limits in residential areas within Wirral.

**Home Adaptations**

To facilitate a programme of minor adaptations to improve standards of living.

**West Wirral Schemes**

To support regeneration schemes in West Kirby and Hoylake. The reserve is to be used as match funding for any capital schemes developed in the future.

**Merseyside Information Service Termination Costs**

This has been created to cover any further potential costs from the winding up of this organisation. It will be used when the accounts for the services have been finalised.

**ERDF Match Funding**

The Council has applied for European Regional Development funding over a 2 year period to support its Business Support Programme, aiming to promote and support new and existing businesses with a view to consolidating and expanding economic activity. Support from the European Regional Development Fund will be dependent upon match funding of 50% from the Council.

**Strategic Asset Review**

Reserve established to support the implementation of the review and includes funding for Guinea Gap and capacity building activities.

**Planned Preventative Maintenance**

Fund held to complete a programme of planned preventative maintenance within the Law, HR and Asset Management department and at a number of libraries.

**Heritage Fund**

Funding for individuals, associations and communities to enhance the recording, preservation and protection of the urban, maritime and rural heritage of Wirral.

**Schools Automatic Meter Readers**

Reserve established to cover the running costs of installation and maintenance of automatic meter readers in Wirral schools. This initiative is to introduce meters over a three year period to assist schools in the implementation of the Carbon Reduction Commitment.

**Children's Workforce Development Council**

Income received in 2011/12 to fund training and supervision for newly qualified social workers. This will be used to fund the cost of training and supervising newly qualified social workers and to pay for agency cover if social workers are absent to go on training courses (Early Professional Development Scheme and Newly Qualified Social Workers Income) and will also be used to fund 2 posts (Social Work Improvement Fund).

**Schools Contingency**

Created to cover formula errors that would have been unknown at the time schools budgets were set. Such adjustments may result in an additional budget being allocated from this reserve.

**Business Improvement Grant**

Grants are awarded by a Business Support panel and are funded from a revenue budget. As at the 31 March 2012 grant awards totalling £342,010 were outstanding pending valid claims from the grantee. Such claims will be submitted and financially settled in the 2012/13 financial year.

**Local Area Agreement (LAA) Reward**

To fund agreed allocations of performance grant held by Wirral Council acting as the LAA accountable body. These will be paid to LAA partners in accordance with grant conditions.

**Primary Care Trust – Physical Activities**

Funding from the primary care trust for health related schemes. These will take place in Council sports centres and be organised by Sport Development.

**Schools Service IT**

The service is fully funded from schools contributions and this reserve supports the service in the event of changing demands for IT services from schools.

**Schools Summer Term**

To cover the cost of advisory teachers in the summer term in the event of schools not deciding to purchase services.

**Homeless Prevention**

The fund is used to offer loans to prevent repossessions and evictions.

**10. OTHER OPERATING EXPENDITURE**

| <b>2010/11<br/>£000</b> |  | <b>2011/12<br/>£000</b> |
|-------------------------|--|-------------------------|
| 44,564                  | Levies   | 44,975                  |
| 17                      | Payments to the Government Housing Capital Receipts Pool | 12                      |
| 10,979                  | Gains / losses on the disposal of non-current assets     | 61,719                  |
| <b>55,560</b>           | <b>Total</b>   | <b>106,706</b>          |

The disposal of non current assets mainly relates to the transfer out of the Council's control of a number of schools e.g. the establishment of Academies. The Council no longer receives funding for these schools.

**11. FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

| <b>2010/11<br/>£000</b> |   | <b>2011/12<br/>£000</b> |
|-------------------------|---|-------------------------|
| 14,489                  | Interest payable and similar charges  | 14,359                  |
| 17,765                  | Pensions interest cost and expected return on pensions assets                               | 10,917                  |
| (1,703)                 | Interest receivable and similar income  | (2,247)                 |
| (3,072)                 | Income and expenditure in relation to investment properties and changes in their fair value | 477                     |
| (72)                    | Gains and losses on trading accounts  | (236)                   |
| <b>27,407</b>           | <b>Total</b>  | <b>23,270</b>           |

**12. TAXATION AND NON SPECIFIC GRANT INCOME**

| <b>2010/11<br/>£000</b> |                                  | <b>2011/12<br/>£000</b> |
|-------------------------|----------------------------------|-------------------------|
| 132,013                 | Council tax income               | 132,528                 |
| 137,844                 | Non domestic rates               | 121,312                 |
| 63,149                  | Non-ringfenced government grants | 47,750                  |
| 41,620                  | Capital grants and contributions | 18,449                  |
| <b>374,626</b>          | <b>Total</b>                     | <b>320,039</b>          |

### 13. PROPERTY, PLANT AND EQUIPMENT

#### Movements on Balances

#### Movements in 2011/12:

|   | Other Land<br>and<br>Buildings<br>£000 | Vehicles,<br>Plant,<br>Furniture &<br>Equip-<br>ment<br>£000 | Infra-<br>structure<br>Assets<br>£000 | Comm-<br>unity Assets<br>£000 | Surplus<br>Assets<br>£000 | Assets<br>Under Con-<br>struction<br>£000 | Total<br>Property,<br>Plant and<br>Equipment<br>£000 |
|---|--|--|---------------------------------------|-------------------------------|---------------------------|---|--|
| Cost or Valuation   |  |  |                                       |                               |                           |   |  |
| At 1 April 2011   | 580,178                                | 17,667   | 122,595                               | 26,140                        | 2,486                     | 26,283                                    | 775,349  |
| additions   | 10,631                                 | 1,010  | 8,870                                 | 510                           | 160                       | 7,432                                     | 28,613   |
| revaluation<br>increases/<br>(decreases)<br>recognised in the<br>Revaluation<br>Reserve                             | 3,524                                  | 2,161  | -                                     | -                             | 244                       | -   | 5,929  |
| revaluation<br>increases/<br>(decreases)<br>recognised in the<br>Surplus/Deficit on<br>the Provision of<br>Services | (32,211)                               | -  | -                                     | (5)                           | (333)                     | (89)                                      | (32,638)   |
| derecognition -<br>disposals  | (68,767)                               | (636)  | -                                     | -                             | (40)                      | (2,704)                                   | (72,147)   |
| assets reclassified<br>(to)/from Held for<br>Sale   | (535)                                  | -  | -                                     | -                             | 446                       | 421                                       | 332  |
| other movements in<br>cost or valuation   | 2,179                                  | 1  | (93)                                  | 269                           | (230)                     | 661                                       | 2,787  |
| <b>At 31 March 2012</b>   | <b>494,999</b>                         | <b>20,203</b>  | <b>131,372</b>                        | <b>26,914</b>                 | <b>2,733</b>              | <b>32,004</b>                             | <b>708,225</b>                                       |
| <b>Accumulated<br/>Depreciation and<br/>Impairment</b>  |  |  |                                       |                               |                           |   |  |
| At 1 April 2011   | 56,991                                 | 9,903  | 24,052                                | -                             | 2                         | -   | 90,948   |
| depreciation charge   | 14,565                                 | 2,251  | 3,050                                 | -                             | 10                        | -   | 19,876   |
| depreciation written<br>out to the<br>Revaluation<br>Reserve  | (6,307)                                | 1,161  | -                                     | -                             | (2)                       | -   | (5,148)  |
| impairment losses<br>(reversals)<br>recognised in the<br>Revaluation<br>Reserve                                     | -                                      | -  | -                                     | -                             | -                         | -   | -  |

(Table continues on following page)

*(Table continued from previous page)*

|  | Other Land<br>and<br>Buildings<br>£000 | Vehicles,<br>Plant,<br>Furniture &<br>Equip-<br>ment<br>£000 | Infra-<br>structure<br>Assets<br>£000 | Comm-<br>unity Assets<br>£000 | Surplus<br>Assets<br>£000 | Assets<br>Under Con-<br>struction<br>£000 | Total<br>Property,<br>Plant and<br>Equipment<br>£000 |
|--|--|--|---------------------------------------|-------------------------------|---------------------------|---|--|
| impairment losses<br>/(reversals)<br>recognised in the<br>Surplus/Deficit on<br>the Provision of<br>Services | (10,431)                               | -  | -                                     | -                             | (2)                       | -   | (10,433)   |
| derecognition -<br>disposals   | (6,143)                                | (535)  | -                                     | -                             | -                         | -   | (6,678)  |
| other movements in<br>depreciation and<br>impairment   | -                                      | 1  | -                                     | -                             | 2                         | -   | 3  |
| <b>At 31 March 2012</b>  | <b>48,675</b>                          | <b>12,781</b>  | <b>27,102</b>                         | <b>-</b>                      | <b>10</b>                 | <b>-</b>                                  | <b>88,568</b>  |
| <b>Net Book Value</b>  |  |  |                                       |                               |                           |   |  |
| <b>at 31 March 2011</b>  | <b>523,187</b>                         | <b>7,764</b>   | <b>98,543</b>                         | <b>26,140</b>                 | <b>2,484</b>              | <b>26,283</b>                             | <b>684,401</b>                                       |
| <b>at 31 March 2012</b>  | <b>446,324</b>                         | <b>7,422</b>   | <b>104,270</b>                        | <b>26,914</b>                 | <b>2,723</b>              | <b>32,004</b>                             | <b>619,657</b>                                       |

The valuations at 1 April 2011 for Other Land and Buildings, and Vehicles, Plant, Furniture and Equipment have been reduced by £497,000 and £151,000 respectively to reflect the requirement to report separately on Heritage Assets.

**Comparative Movements in 2010/11:**

|   | Other<br>Land and<br>Buildings<br>£000 | Vehicles,<br>Plant,<br>Furniture<br>& Equip-<br>ment<br>£000 | Infra-<br>structure<br>Assets<br>£000 | Comm-<br>unity<br>Assets<br>£000 | Surplus<br>Assets<br>£000 | Assets<br>Under Con-<br>struction<br>£000 | Total<br>Property,<br>Plant and<br>Equipment<br>£000 |
|---|--|--|---------------------------------------|----------------------------------|---------------------------|---|--|
| Cost or Valuation   |  |  |                                       |                                  |                           |   |  |
| At 1 April 2010   | 601,478                                | 17,342   | 113,087                               | 25,356                           | 1,696                     | 42,157                                    | 801,116  |
| additions   | 24,814                                 | 1,108  | 9,508                                 | 634                              | 480                       | 7,214                                     | 43,758   |
| revaluation<br>increases/<br>(decreases)<br>recognised in the<br>Revaluation<br>Reserve                             | (21,691)                               | -  | -                                     | -                                | 378                       | -   | (21,313)   |
| revaluation<br>increases/<br>(decreases)<br>recognised in the<br>Surplus/Deficit on<br>the Provision of<br>Services | (30,168)                               | -  | -                                     | -                                | (945)                     | (3,526)                                   | (34,639)   |
| derecognition -<br>disposals  | (13,284)                               | (783)  | -                                     | -                                | (245)                     | -   | (14,312)   |
| assets reclassified<br>(to)/from Held for<br>Sale   | (976)                                  | -  | -                                     | -                                | -                         | 40  | (936)  |
| other movements in<br>cost or valuation   | 20,005                                 | -  | -                                     | 150                              | 1,122                     | (19,602)                                  | 1,675  |
| <b>At 31 March 2011</b>   | <b>580,178</b>                         | <b>17,667</b>  | <b>122,595</b>                        | <b>26,140</b>                    | <b>2,486</b>              | <b>26,283</b>                             | <b>775,349</b>                                       |
| <b>Accumulated<br/>Depreciation and<br/>Impairment</b>  |  |  |                                       |                                  |                           |   |  |
| At 1 April 2010   | 58,002                                 | 8,370  | 21,481                                | -                                | -                         | -   | 87,853   |
| depreciation charge   | 14,645                                 | 2,167  | 2,571                                 | -                                | 63                        | -   | 19,446   |
| depreciation written<br>out to the<br>Revaluation<br>Reserve  | (14,460)                               | -  | -                                     | -                                | -                         | -   | (14,460)   |
| impairment losses<br>(reversals)<br>recognised in the<br>Revaluation<br>Reserve                                     | -                                      | -  | -                                     | -                                | (6)                       | -   | (6)  |

*(Table continues on following page)*

*(Table continued from previous page)*

|  | Other<br>Land and<br>Buildings<br>£000 | Vehicles,<br>Plant,<br>Furniture<br>& Equip-<br>ment<br>£000 | Infra-<br>structure<br>Assets<br>£000 | Comm-<br>unity<br>Assets<br>£000 | Surplus<br>Assets<br>£000 | Assets<br>Under Con-<br>struction<br>£000 | Total<br>Property,<br>Plant and<br>Equipment<br>£000 |
|--|--|--|---------------------------------------|----------------------------------|---------------------------|---|--|
| impairment losses<br>/(reversals)<br>recognised in the<br>Surplus/Deficit on<br>the Provision of<br>Services | -                                      | -  | -                                     | -                                | -                         | -   | -  |
| derecognition -<br>disposals   | (1,196)                                | (634)  | -                                     | -                                | (55)                      | -   | (1,885)  |
| derecognition -<br>other   | -                                      | -  | -                                     | -                                | -                         | -   | -  |
| other movements in<br>depreciation and<br>impairment   | -                                      | -  | -                                     | -                                | -                         | -   | -  |
| <b>At 31 March 2011</b>  | <b>56,991</b>                          | <b>9,903</b>   | <b>24,052</b>                         | <b>-</b>                         | <b>2</b>                  | <b>-</b>                                  | <b>90,948</b>  |
| Net Book Value   |  |  |                                       |                                  |                           |   |  |
| at 31 March 2010   | 543,476                                | 8,972  | 91,606                                | 25,356                           | 1,696                     | 42,157                                    | 713,263  |
| at 31 March 2011   | 523,187                                | 7,764  | 98,543                                | 26,140                           | 2,484                     | 26,283                                    | 684,401  |

## Depreciation

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

Other Land and Buildings - 1-60 years

Vehicles, Plant, Furniture & Equipment – 3-40 years

Infrastructure – 10-120 years

Surplus Assets – 5 years

Land and Buildings asset lives range from 1 to 60 years which reflect the service lives of the assets as assessed by the Council's valuers.

## Capital commitments

The major contractual commitments at 31 March 2012 are:

|                           | £000  |
|---------------------------|-------|
| Pensby Primary School     | 6,009 |
| Birkenhead Girls Academy  | 3,000 |
| The Priory                | 621   |
| Overchurch Infants School | 587   |
| Leasowe Road Bridge       | 518   |
| Williamson Art Gallery    | 367   |
| Woodlands Primary School  | 278   |
| Bidston Moss Viaduct      | 247   |
| Woodchurch High 3G Pitch  | 238   |

Similar commitments at 31 March 2011 were £4.7 million

## Revaluations

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

|                                | <b>Other Land<br/>and<br/>Buildings<br/>£000</b> | <b>Surplus<br/>Assets<br/>£000</b> | <b>Total<br/>£000</b> |
|--------------------------------|--|------------------------------------|-----------------------|
| Carried at historical cost     |  |                                    |                       |
| valued at fair value as at:    |  |                                    |                       |
| 31 March 2012                  | 74,362   | 1,189                              | 75,551                |
| 31 March 2011                  | 35,076   | 80                                 | 35,156                |
| 31 March 2010                  | 35,057   | -                                  | 35,057                |
| 31 March 2009                  | 101,516  | 794                                | 102,310               |
| 31 March 2008                  | 237,419  | -                                  | 237,419               |
| <b>Total Cost or Valuation</b> | <b>483,430</b>                                   | <b>2,063</b>                       | <b>485,493</b>        |

**14. HERITAGE ASSETS**

## Reconciliation of the Carrying Value of Heritage Assets Held by the Council

|   | <b>Decorative<br/>Art and<br/>Other<br/>Collections<br/>£000</b> | <b>Buildings<br/>£000</b> | <b>Civic<br/>Regalia<br/>£000</b> | <b>Transport<br/>£000</b> | <b>Fine Art<br/>£000</b> | <b>Total Assets<br/>£000</b> |
|---|--|---------------------------|-----------------------------------|---------------------------|--------------------------|------------------------------|
| <b>Cost or Valuation</b>  |  |                           |                                   |                           |                          |                              |
| 1 April 2010  | 3,130  | 937                       | 256                               | 427                       | 7,740                    | 12,490                       |
| Additions   | -  | -                         | -                                 | -                         | -                        | -                            |
| Enhancements  | -  | -                         | -                                 | -                         | -                        | -                            |
| Disposals   | -  | -                         | -                                 | -                         | -                        | -                            |
| Revaluations  | -  | -                         | -                                 | -                         | -                        | -                            |
| Impairment Losses /<br>(reversals)<br>recognised in the<br>Revaluation Reserve                          | -  | -                         | -                                 | -                         | -                        | -                            |
| Impairment<br>Losses/(reversals)<br>recognised in the<br>Revaluation Reserve                            | -  | -                         | -                                 | -                         | -                        | -                            |
| Surplus or Deficit on<br>the Provision of<br>Services   | -  | -                         | -                                 | -                         | -                        | -                            |
| Depreciation  | -  | -                         | -                                 | -                         | -                        | -                            |
| <b>31 March 2011</b>  | <b>3,130</b>   | <b>937</b>                | <b>256</b>                        | <b>427</b>                | <b>7,740</b>             | <b>12,490</b>                |
| <b>Cost or Valuation</b>  |  |                           |                                   |                           |                          |                              |
| 1 April 2011  | 3,130  | 937                       | 256                               | 427                       | 7,740                    | 12,490                       |
| Additions   | -  | -                         | -                                 | -                         | 35                       | 35                           |
| Disposals   | -  | -                         | -                                 | -                         | -                        | -                            |
| Revaluations  | -  | -                         | 268                               | 62                        | -                        | 330                          |
| Impairment<br>Losses/(reversals)<br>recognised in the<br>Revaluation Reserve                            | -  | -                         | (116)                             | (10)                      | -                        | (126)                        |
| Impairment<br>Losses/(reversals)<br>recognised in Surplus<br>or Deficit on the<br>Provision of Services | -  | -                         | -                                 | (40)                      | -                        | (40)                         |
| Depreciation  | -  | -                         | -                                 | -                         | -                        | -                            |
| <b>31 March 2012</b>  | <b>3,130</b>   | <b>937</b>                | <b>408</b>                        | <b>439</b>                | <b>7,775</b>             | <b>12,689</b>                |

**Heritage Assets: Five-Year Summary of Transactions**

|  | 2010/11<br>£000 | 2011/12<br>£000 |
|--|-----------------|-----------------|
| <b>Cost of Acquisitions</b>                | -               | -               |
| <b>Value Acquired by Donation</b>          |                 |                 |
| Fine Art                                   | -               | 35              |
| <b>Disposals</b>                           | -               | -               |
| <b>Impairment recognised in the period</b> |                 |                 |
| Civic Regalia                              | -               | 116             |
| Transport                                  | -               | 10              |

Although the above note should provide the analysis for a five year period, it is not practicable that this can be undertaken and therefore in accordance with the Code the information is presented for the periods 1 April 2010 onward.

**Fine Art, Decorative Art and Other Collections**

These collections are housed at the Williamson Art Gallery and the more important collections consist of:

**Fine Art**

British Watercolours – by a series of bequests and purchases, notably between 1920 and 1935 the Gallery has a significant collection of 18th and 19th century watercolour paintings and drawings by British artists.

The Liverpool School – Merseyside produced a large number of significant artists in the period 1810 to 1910 and the Liverpool School is well represented in the Williamson collections.

Philip Wilson Steer – born in Birkenhead in 1860 he became especially important in the artistic heritage of the Wirral. The Williamson now holds a collection of his work that is of national importance.

Local paintings – the Museum is virtually the only institution on Merseyside actively researching local historic and contemporary painters. Works by leading local artists are housed at the Museum.

There are over 5,000 items in the Fine Art collection, the most important of which are by Albert Joseph Moore (£200,000) and one attributed to Jan Breughel (£200,000).

**Decorative Art and Other collections**

The most important items are:

Several factories were producing porcelain of various types and quality in Liverpool between 1750 and 1800. The Knowles Boney collection of some 300 pieces is very comprehensive and was presented to the Museum some 55 years ago.

The collection of Della Robbia pottery forms an unrivalled addition to the history of Merseyside ceramics. Produced in Birkenhead between 1894 and 1906, items purchased in the 1920's from the founder Harold Rathbone forms the basis of this comprehensive collection.

Apart from these two important collections there is also a good collection of 18th and 19th century British ceramics.

When Lee Tapestry Works of Birkenhead closed in 1970 the Museum acquired a collection of drawings, photographs and fabric samples illustrating the work of Arthur H. Lee and Sons.

There are also collections of glass, metalwork, jewellery, furniture, maritime models, ethnography, artefacts, geology and others. In total there are over 4,700 items in these various collections.

### **Acquisition Policy**

The Museum recognises its responsibility in acquiring additions to its collections, to ensure that care of collections, documentation arrangements and the use of collections will meet the requirements of the Accreditation Standard. It will take into account limitations on collections imposed by such factors as staffing, storage and care of collection arrangements.

The Council has determined criteria governing future acquisitions including the subject of themes, periods of time and/or geographical areas and any collections which are not subject to further acquisition. The expansion of collections is achieved by donation, bequest and purchase using the Museum's own small purchase fund and grant aid from the Friends of the Williamson Art Gallery and Wirral Museums, The Art Fund and the MLA Purchase Funds administered by the Victoria and Albert Museum and Science Museum.

Examples of how this policy translates would include the plan to develop the collection of British watercolours in perceived areas of weakness e.g. Pre-Raphaelite artists and to seek additions to the Liverpool School. In the case of the various collections of porcelain, the Liverpool collection would be expanded only for exceptional items whereas there are no plans to add to the Oriental collection.

### **Disposal procedure**

The Museum does not undertake disposal motivated principally by financial reasons. The decision to dispose of material from the collections will be taken after full consideration of the reasons for disposal. This includes curatorial and financial reasons as well as the public benefit, the implication for the Museum's collections and collections held by museums and other organisations collecting the same material. External expert advice will be obtained and the views of stakeholders such as donors, researchers, local and source communities served by the Museum will also be sought.

A decision to dispose of a specimen or object, whether by gift, exchange, sale or destruction will only be taken acting on the advice of professional curatorial staff, if any, and not of the curator of the collection acting alone.

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

## **Conservation and storage**

The Council maintains its access to professional conservation advice through its liaison with the National Museums Liverpool and freelance conservators. There is a programme in place encompassing environmental monitoring and control in display as well as storage areas. Improvements to the heating and humidifier equipment will be undertaken as necessary based on curatorial staff and conservation advice.

Staff maintain a programme of lighting monitoring and control consistent with the preservation and maintenance of collections. The programme will continue to replace perishable and dangerous materials used in the preservation and storage of the collections. Alternative materials will be consistent with good conservation practice. A record of all conservation work undertaken will be maintained.

## **Exhibition and public services**

The temporary and permanent exhibition policy includes specific periodic displays of all items in the collection where conditions and time to research permit. Exhibitions in non-gallery venues are also encouraged provided suitable conditions are available. Adequate interpretative facilities are ensured for permanent and temporary displays.

Subject to adequate notice and staff supervision any member of the public will be given controlled access to any stored item and related information.

Loan applications are sympathetically considered and the advice of conservation and curatorial staff will determine the feasibility of such applications.

The latest comprehensive valuation was undertaken during the 2008/09 financial year. The present Collection Management Plan suggests valuations to be reconsidered every ten years. This period is retained for the general overview, but consideration may be given to individual items in the interim, especially with regard to adjustments of attribution or identification. Valuations are based on the knowledge of the Principal Museums Officer.

Acquisitions are initially recognised at cost (where that cost is greater than £5,000) and donations are recognised at valuation.

## **Transport**

The Council has a long term commitment towards the development of a heritage trail embracing a transport museum with particular emphasis on Wirral's heritage. The collection of some 30 assets (excluding those on loan) is housed within the Wirral Transport Museum and primarily consists of a number of buses, the oldest being a Guy Arab double decker built in 1943 and a collection of motor cycles, the oldest a 1938 Norton H.

Valuations are based on the technical expertise of the transport museum's technical custodian and reflect an insurance write-off value based on the original funding less any labour costs to restore the vehicle, coupled with the expectation of market value in an open trade related auction. The latest valuation took place in January 2012. There is no specific time frame within which revaluations must take place, however they will be undertaken at regular intervals.

At present there are no active plans to increase the size of the collection. More information about the Wirral Transport Museum, which houses the vehicle collection, is available on the Wirral Council Website. (Please see <http://www.wirral.gov.uk/my-services/leisure-and-culture/arts-and-museums/local-museums-and-galleries/wirral-transport-museum> )

### **Civic Regalia**

The collection of civic regalia includes 28 items connected with civic functions undertaken as part of the mayoral role and civic events. It consists of mayoral badges, chains, borough maces etc. with the oldest item dated 1877. It also includes 18 items of memorabilia commemorating events and associations that are of local interest. These items are reported in the Balance Sheet at insurance valuation. The most recent valuation was undertaken in April 2012 by Mr. J. Phillips of St. George Valuations and is based on the likely cost of replacing the item valued with as near a comparable item as is available for purchase second hand. The valuation only reflects the inherent characteristics of the items and does not reflect the surrounding circumstances of the items e.g. their provenance. Revaluations are to be undertaken at a minimum of every ten years.

### **Buildings**

There are two buildings included in the valuation of heritage assets. These are Leasowe Lighthouse, which is the oldest brick built lighthouse in the country and Bidston Hill Windmill, which was operational until 1875. Leasowe Lighthouse is supported by the Friends of Leasowe Lighthouse, which has an active series of events. (See the website [www.leasowelighthouse.co.uk/cms/](http://www.leasowelighthouse.co.uk/cms/)) Similarly there is public access to Bidston Hill Windmill, supported by the Friends of Bidston Hill. For information, please see the "What's On" section of the Wirral Council website ([www.wirral.gov.uk/whats-on](http://www.wirral.gov.uk/whats-on) ).

### **Heritage Assets not reported in the Balance Sheet**

#### **Sites of Special Scientific Interest (SSIs) or Biological Importance (SBIs)**

There are 12 SSIs which can be seen as the basic building block of site based nature/geological nature conservation legislation whereas SBIs (27 owned by the Council) are local non statutory sites. A number of these sites are already included in historic cost information within the Council's classification of Community Assets. However, because of their specific nature they only form part of an overall community asset and as such it is considered that any attempt to separately identify specific costs associated with the SSI or SBI would produce unreliable information. The decision has been taken therefore not to separately identify such assets within the Balance Sheet under the category of heritage assets.

## War memorials and other monuments

There are 146 such assets that the Council owns ranging from those commemorating historic events to historic personages. No reliable cost or valuation information is available regarding these assets. Because of their diverse and very individual nature and the lack of comparable market values, the Council considers that the cost of obtaining external valuations outweighs the benefit to the reader of the accounts in obtaining such information. Consequently, these assets are not included in the Balance Sheet.

## Archaeological sites

In the case of the 2 sites that are considered to be of an archaeological interest the Council does not consider that reliable cost or valuation information can be obtained because of the diverse nature of the assets and the lack of comparable market values. Consequently, any such assets are not included in the Balance Sheet.

## 15. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

|  | 2010/11<br>£000 | 2011/12<br>£000 |
|--|-----------------|-----------------|
| Rental income from investment property                     | 715             | 658             |
| Direct operating expenses arising from investment property | (25)            | (79)            |
| Net gain   | 690             | 579             |

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

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

|  | 2010/11<br>£000 | 2011/12<br>£000 |
|--|-----------------|-----------------|
| Balance at start of the year                   | 13,402          | 14,105          |
| Additions:                                     |                 | 15              |
| Disposals                                      |                 | (16)            |
| Net gains / losses from fair value adjustments | 2,382           | (1,056)         |
| Transfers:                                     |                 |                 |
| To / from Property, Plant and Equipment        | (1,679)         | (698)           |
| From Assets Held for Sale                      | -               | 1,200           |
| Balance at end of the year                     | 14,105          | 13,550          |

## 16. INTANGIBLE ASSETS

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The major item of software relates to the Oracle financial systems and has been assigned a 10 year life.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £322,000 charged to revenue in 2011/12 was charged to IT cost centres and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

| <b>Intangible Assets</b>   | <b>2010/11<br/>£000</b> | <b>2011/12<br/>£000</b> |
|----------------------------|-------------------------|-------------------------|
| Balance at 1 April         | 1,131                   | 813                     |
| Purchases                  | 11                      | 107                     |
| Amortisation for the year  | (329)                   | (322)                   |
| <b>Balance at 31 March</b> | <b>813</b>              | <b>598</b>              |

## 17. FINANCIAL INSTRUMENTS

### FINANCIAL INSTRUMENTS BALANCES

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

| Long Term<br>31 Mar 2011<br>£000 | Short Term<br>31 Mar 2011<br>£000 |                                    | Long Term<br>31 Mar 2012<br>£000 | Short Term<br>31 Mar 2012<br>£000 |
|----------------------------------|-----------------------------------|------------------------------------|----------------------------------|-----------------------------------|
|                                  |                                   | <b>Financial Liabilities</b>       |                                  |                                   |
| 256,416                          | 17,715                            | Borrowings                         | 244,133                          | 20,242                            |
| 59,571                           | 2,081                             | PFI Liability                      | 57,616                           | 1,827                             |
| 2,045                            | 2,804                             | Finance Lease Liability            | 1,088                            | 1,072                             |
| <b>318,032</b>                   | <b>22,600</b>                     | <b>Total Financial Liabilities</b> | <b>302,837</b>                   | <b>23,141</b>                     |
|                                  |                                   | <b>Financial Assets</b>            |                                  |                                   |
| 3,795                            | 60,627                            | Loans and Receivables              | 22,827                           | 36,964                            |
| 7,500                            | 1,976                             | Available for Sale                 | 7,500                            | 1,005                             |
| <b>11,295</b>                    | <b>62,603</b>                     | <b>Total Financial Assets</b>      | <b>30,327</b>                    | <b>37,969</b>                     |

The table below reflects the composition of borrowing recorded on the Balance Sheet:

| Long Term<br>31 Mar 2011<br>£000 | Short Term<br>31 Mar 2011<br>£000 |                             | Long Term<br>31 Mar 2012<br>£000 | Short Term<br>31 Mar 2012<br>£000 |
|----------------------------------|-----------------------------------|-----------------------------|----------------------------------|-----------------------------------|
|                                  |                                   | <b>Borrowings</b>           |                                  |                                   |
| 259,559                          | 14,533                            | Nominal Amount              | 247,180                          | 17,129                            |
| -                                | 3,182                             | Accrued Interest            | -                                | 3,113                             |
| (3,143)                          | -                                 | EIR Adjustments             | (3,047)                          | -                                 |
| <b>256,416</b>                   | <b>17,715</b>                     | <b>Total Amortised cost</b> | <b>244,133</b>                   | <b>20,242</b>                     |

The table below reflects the composition of investments recorded on the Balance Sheet:

| Long Term<br>31 Mar 2011<br>£000 | Short Term<br>31 Mar 2011<br>£000 |                              | Long Term<br>31 Mar 2012<br>£000 | Short Term<br>31 Mar 2012<br>£000 |
|----------------------------------|-----------------------------------|------------------------------|----------------------------------|-----------------------------------|
|                                  |                                   | <b>Loans and Receivables</b> |                                  |                                   |
| 4,011                            | 60,133                            | Nominal Amount               | 22,768                           | 36,601                            |
| 316                              | 494                               | Accrued Interest             | (412)                            | 363                               |
| (532)                            | -                                 | Impairment/ Revaluation      | 471                              | -                                 |
| <b>3,795</b>                     | <b>60,627</b>                     | <b>Total Amortised Cost</b>  | <b>22,827</b>                    | <b>36,964</b>                     |
|                                  |                                   | <b>Available for Sale</b>    |                                  |                                   |
| 7,500                            | 1,499                             | Nominal Amount               | 7,500                            | 1,000                             |
| -                                | 477                               | Impairment/ Revaluation      | -                                | 5                                 |
| <b>7,500</b>                     | <b>1,976</b>                      | <b>Total Fair Value</b>      | <b>7,500</b>                     | <b>1,005</b>                      |
| <b>11,295</b>                    | <b>62,603</b>                     | <b>TOTAL INVESTMENTS</b>     | <b>30,327</b>                    | <b>37,969</b>                     |

**GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

| <b>2011/12</b>  | <b>Financial Liabilities</b>                  | <b>Financial Assets</b>      |                                  |                 |
|---|---|------------------------------|----------------------------------|-----------------|
|   | <b>Liabilities Measured at amortised cost</b> | <b>Loans and Receivables</b> | <b>Available for sale assets</b> | <b>Total</b>    |
|   | <b>£000</b>                                   | <b>£000</b>                  | <b>£000</b>                      | <b>£000</b>     |
| Interest expense  | (14,420)                                      |                              |                                  |                 |
| Impairment losses   |   | 61                           |                                  |                 |
| <b>Interest payable and similar charges</b>               | <b>(14,420)</b>                               | <b>61</b>                    | <b>-</b>                         | <b>(14,359)</b> |
| Interest Income   |   | 1,407                        | 370                              |                 |
| Gains on derecognition                                    |   | -                            | 470                              |                 |
| <b>Total Interest and Investment Income</b>               | <b>-</b>                                      | <b>1,407</b>                 | <b>840</b>                       | <b>2,247</b>    |
| Gains on revaluation                                      |   |                              | 5                                |                 |
| <b>Surplus arising on revaluation of financial assets</b> |   |                              | <b>5</b>                         |                 |
| <b>Net gain/ (loss) for the year</b>                      | <b>(14,420)</b>                               | <b>1,468</b>                 | <b>845</b>                       |                 |

This compares with the gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments in 2010/11:

| <b>2010/11</b>  | <b>Financial Liabilities</b>                  | <b>Financial Assets</b>      |                                  |                 |
|---|---|------------------------------|----------------------------------|-----------------|
|   | <b>Liabilities Measured at amortised cost</b> | <b>Loans and Receivables</b> | <b>Available for sale assets</b> | <b>Total</b>    |
|   | <b>£000</b>                                   | <b>£000</b>                  | <b>£000</b>                      | <b>£000</b>     |
| Interest expense  | (14,495)                                      | -                            | -                                |                 |
| Impairment losses   | -   | 6                            | -                                |                 |
| <b>Interest payable and similar charges</b>               | <b>(14,495)</b>                               | <b>6</b>                     | <b>-</b>                         | <b>(14,489)</b> |
| Interest Income   | -   | 1,363                        | 340                              |                 |
| Gains on derecognition                                    | -   | -                            | -                                | -               |
| <b>Total Interest and Investment Income</b>               | <b>-</b>                                      | <b>1,363</b>                 | <b>340</b>                       | <b>1,703</b>    |
| Gains on revaluation                                      |   |                              | 1                                |                 |
| <b>Surplus arising on revaluation of financial assets</b> |   |                              | <b>1</b>                         |                 |
| <b>Net gain/ (loss) for the year</b>                      | <b>(14,495)</b>                               | <b>1,369</b>                 | <b>341</b>                       |                 |

## FAIR VALUE OF ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

For each class of financial assets and financial liability, an authority is required to disclose the fair value of that class of assets and liabilities in such a way that a comparison with the carrying amount is possible.

The Council's borrowings are carried in the Balance Sheet at amortised cost. Investments consist of loan and receivables and available for sale financial assets. Loans and receivables are carried on the Balance Sheet at amortised cost. Available for sale assets are carried at fair value. Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The Fair Value of a financial instrument on initial recognition is generally the transaction price.

The Council's debt outstanding at 31 March 2012 consisted of loans from the Public Works Loan Board (PWLB), market loans from banks and loans from other public bodies. The PWLB has provided the Council with Fair Value amounts in relation to its debt portfolio. The PWLB has assessed the Fair Values by calculating the amounts the Council would have had to pay to extinguish the loans on 31 March 2012. For the Council's market and other public bodies loans the lenders were requested to provide details of the Fair Values on each loan. Two banks responded to this request and provided details based on the estimated breakage costs of the loans. In the absence of Fair Values being provided by the remaining lenders, the Council has assessed Fair Value using the equivalent PWLB interest rates ruling on 31 March 2012.

The Council's investment portfolio at the Balance Sheet date consisted almost entirely of term deposits with Banks, call account deposits, Money Market Fund investments and a European Investment Bank (EIB) bond. The Money Market Fund investments and EIB bond are Available for Sale assets and are already shown in the Balance Sheet at fair value based on their quoted market price.

In the case of short term instruments and deferred liabilities (PFI, finance lease, etc) the Council deems the carrying amount to be a reasonable approximation of the fair value.

| Carrying Amount as at 31 Mar 2011 | Fair value as at 31 Mar 2011 |                                    | Carrying Amount as at 31 Mar 2012 | Fair value as at 31 Mar 2012 |
|-----------------------------------|------------------------------|------------------------------------|-----------------------------------|------------------------------|
| £000                              | £000                         |                                    | £000                              | £000                         |
|                                   |                              | <b>Financial Liabilities:</b>      |                                   |                              |
| 274,131                           | 345,740                      | Borrowings                         | 264,375                           | 349,466                      |
| 19,056                            | 19,056                       | Trade Payables                     | 22,990                            | 22,990                       |
| <b>293,187</b>                    | <b>364,796</b>               | <b>Total Financial Liabilities</b> | <b>287,365</b>                    | <b>372,456</b>               |
|                                   |                              | <b>Financial Assets:</b>           |                                   |                              |
| 64,422                            | 64,422                       | Loans and Receivables              | 59,791                            | 59,878                       |
| 8,864                             | 8,864                        | Trade Receivables                  | 14,186                            | 14,186                       |
| <b>73,286</b>                     | <b>73,286</b>                | <b>Total Financial Assets</b>      | <b>73,977</b>                     | <b>74,064</b>                |

The fair value of financial liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

The fair value for financial assets at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

## 18. DEBTORS

|                                       | <b>31 March<br/>2010<br/>£000</b> | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
|---------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Central government bodies             | 26,682                            | 12,978                            | 8,756                             |
| Other local authorities               | 5,793                             | 4,396                             | 778                               |
| NHS bodies                            | 70                                | 500                               | -                                 |
| Collection Fund                       | 5,255                             | 4,988                             | 4,044                             |
| Public corporations and trading funds | -                                 | 11                                | -                                 |
| Other entities and individuals        | 28,353                            | 32,940                            | 40,064                            |
| <b>Total</b>                          | <b>66,153</b>                     | <b>55,813</b>                     | <b>53,642</b>                     |

## 19. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Balances classified as 'Cash Equivalents' fit the definitions of being short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

|  | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
|--|-----------------------------------|-----------------------------------|
| Cash held by Authority                 | (3,694)                           | 3,049                             |
| Call accounts (same day access funds)  | 11,716                            | 15,000                            |
| Money Market Funds                     | 50,350                            | 19,730                            |
| <b>Total Cash and Cash Equivalents</b> | <b>58,372</b>                     | <b>37,779</b>                     |

## 20. ASSETS HELD FOR SALE

|   | <b>Current</b>          |                         |
|---|-------------------------|-------------------------|
|   | <b>2010/11<br/>£000</b> | <b>2011/12<br/>£000</b> |
| <b>Balance outstanding at start of year</b> | 2,099                   | 2,957                   |
| Assets newly classified as held for sale    | 1,077                   | 589                     |
| Revaluation gains                           | 45                      | 130                     |
| Impairment losses                           | (24)                    | (9)                     |
| Assets declassified as held for sale:       | (70)                    | (2,121)                 |
| Disposals                                   | (170)                   | (198)                   |
| <b>Balance outstanding at year-end</b>      | <b>2,957</b>            | <b>1,348</b>            |

**21. CREDITORS**

|                                       | <b>31 March<br/>2010<br/>£000</b> | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
|---------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Central government bodies             | 14,176                            | 11,846                            | 8,096                             |
| Other local authorities               | 463                               | 7,059                             | 3,428                             |
| NHS bodies                            | 33                                | 300                               | 278                               |
| Public corporations and trading funds | 63                                | 90                                | 1                                 |
| Other entities and individuals        | 51,218                            | 41,895                            | 40,691                            |
| <b>Total</b>                          | <b>65,953</b>                     | <b>61,190</b>                     | <b>52,494</b>                     |

**22. PROVISIONS**

The following are the main provisions made by the Council:-

**Bad Debts**

This provision has been deducted from the debtors figure in the Balance Sheet and therefore does not appear in the provisions total.

|                 | <b>Balance at<br/>1 April 2011<br/>£000</b> | <b>Movement<br/>in 2011/12<br/>£000</b> | <b>Balance at<br/>31 March<br/>2012<br/>£000</b> |
|-----------------|---|---|--|
| Council Tax     | 6,384                                       | 919                                     | 7,303  |
| Housing Benefit | 6,109                                       | 433                                     | 6,542  |
| Sundry Debtors  | 6,489                                       | 1,133                                   | 7,622  |
| Summons Costs   | 592   | 43                                      | 635  |
|                 | <b>19,574</b>                               | <b>2,528</b>                            | <b>22,102</b>                                    |

**Others**

The provisions figure shown in the Balance Sheet comprises:-

|                             | Balance at<br>1 April 2011<br>£000 | Movement<br>in 2011/12<br>£000 | Balance at<br>31 March<br>2012<br>£000 |
|-----------------------------|------------------------------------|--------------------------------|--|
| <b>Short Term</b>           |                                    |                                |  |
| Council Tax Reimbursement   | -                                  | 3,990                          | 3,990                                  |
| Other                       | 2,052                              | (414)                          | 1,638                                  |
| Insurance Fund              | 1,200                              | -                              | 1,200                                  |
| Working Neighbourhood Fund  | 4,096                              | (3,383)                        | 713                                    |
| Carbon Reduction Commitment | -                                  | 488                            | 488                                    |
| You Decide                  | 66                                 | 240                            | 306                                    |
| Land Charges                | 569                                | (319)                          | 250                                    |
| EVR/Severance               | 8,748                              | (8,748)                        | -                                      |
|                             | <b>16,731</b>                      | <b>(8,146)</b>                 | <b>8,585</b>                           |
| <b>Long Term</b>            |                                    |                                |  |
| Insurance Fund              | 4,530                              | 370                            | 4,900                                  |
| Other                       | 4,053                              | (3,915)                        | 138                                    |
|                             | <b>8,583</b>                       | <b>(3,545)</b>                 | <b>5,038</b>                           |

### Insurance Fund

This is primarily required to cover possible liability insurance claims. The overall estimate of the amount required to cover these is based on an actuarial investigation, which seeks to estimate the ultimate claims arising in respect of each risk period. The basis for calculating the provision is claims actually reported as outstanding. The timing of future payments depends almost entirely upon when claims are settled, but are likely to run over a number of years.

### Council Tax Reimbursement

Council Taxpayers were notified through the Council Tax demands for 2012/13 that were sent in March 2012 of the reimbursement. This provision is to fund the reimbursement.

### Working Neighbourhood Fund

There are a number of contractual commitments to schemes that the Fund supports. The provision contains the sums identified for the delivery of schemes to reduce worklessness, increase apprenticeships and award grants.

### Carbon Reduction Commitment

To fund the purchase of allowances from the Government in 2012/13 which relate to 2011/12 and therefore have to be included within the 2011/12 financial year.

### You Decide

You Decide funding for Area Forums. Commitments to using this allocation have been made and this provision covers the funding of the actual activities and items that the Council has committed to implement.

### Land Charges

For claims for searches carried out in previous years and is to cover any Council liability for claims for income incorrectly charged in respect of searches.

## Other Provisions

All other provisions are individually insignificant in being below £0.25 million.

## 23. USABLE RESERVES

| Usable Reserve                  | Balance at 1 April 2011<br>£000 | Movement<br>£000 | Balance 31 March 2012<br>£000 | Purpose of Reserve   |
|---------------------------------|---------------------------------|------------------|-------------------------------|--|
| General Fund                    | 15,064                          | 5,753            | 20,817                        | Resources available to meet future running costs for services.                                   |
| Earmarked General Fund Reserves | 90,237                          | (3,989)          | 86,248                        | See note 9 for further details.  |
| Capital Receipts Reserve        | 8,272                           | 965              | 9,237                         | Contains the proceeds of fixed asset sales that are available to meet future capital investment. |
| Capital Grants Unapplied        | 30,844                          | 541              | 31,385                        | Government Grants and contributions received in year for projects.                               |
| <b>Total</b>                    | <b>144,417</b>                  | <b>3,270</b>     | <b>147,687</b>                |  |

The balance on the General Fund and Earmarked General Fund Reserves is available for funding both capital and revenue expenditure. The amounts relating to balances held by schools are accounted for as reserves and are not included in the General Fund Balance. The Capital Receipts and Capital Grants are held for capital purposes.

**24. UNUSABLE RESERVES**

| 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 149,953         | Revaluation Reserve                              | 150,913         |
| 476             | Available for Sale Financial Instruments Reserve | 4               |
| 255,678         | Capital Adjustment Account                       | 183,823         |
| -               | Deferred Capital Receipts                        | 2,678           |
| (3,794)         | Financial Instruments Adjustment Account         | (3,759)         |
| (334,820)       | Pensions Reserve                                 | (395,078)       |
| 876             | Collection Fund Adjustment Account               | 1,971           |
| (5,178)         | Accumulated Absences Account                     | (4,631)         |
| <b>63,191</b>   | <b>Total Unusable Reserves</b>                   | <b>(64,079)</b> |

**Revaluation Reserve**

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

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

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

| 2010/11<br>£000 |  | 2011/12 |                 |
|-----------------|--|---------|-----------------|
|                 |  | £000    | £000            |
| <b>163,057</b>  | <b>Balance at 1 April</b>  |         | <b>149,953</b>  |
| 6,075           | Upward revaluation of assets   | 17,770  |                 |
| (12,845)        | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of services             | (6,489) |                 |
| <b>(6,770)</b>  | <b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b> |         | <b>11,281</b>   |
| (4,715)         | Difference between fair value depreciation and historical cost depreciation  | (4,492) |                 |
| (1,619)         | Accumulated gains on assets sold or scrapped   | (5,829) |                 |
|                 | Amounts written off to the Capital Adjustment - Account resulting from IFRS restatement  | -       |                 |
| <b>(6,334)</b>  | <b>Total amount written off to the capital Adjustment Account</b>  |         | <b>(10,321)</b> |
| <b>149,953</b>  | <b>Balance at 31 March</b>   |         | <b>150,913</b>  |

The balance at 1 April 2010 has been increased by £11.761 million to reflect the change in accounting policy following the introduction for accounting for heritage assets.

### Available for Sale Financial Instrument Reserve

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

| 2010/11<br>£000 |   | 2011/12<br>£000 |
|-----------------|---|-----------------|
| 475             | <b>Balance at 1 April</b>   | 476             |
| 2               | Upward revaluation of investments   | 5               |
| (1)             | Downward revaluation of investments not charged to the Surplus/ Deficit on the Provision of Services  | -               |
| -               | Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income | (477)           |
| 476             | <b>Balance at 31 March</b>  | 4               |

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different accounting arrangements for the consumption of non-current assets and for their financing under statutory provisions. The Account is charged with costs of acquisition, construction or enhancement of assets. Depreciation, impairment losses and amortisations of assets are charged to the Comprehensive Income and Expenditure Statement with postings from the Revaluation Reserve to convert fair values to an historical cost basis.

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

| 2010/11         |  | 2011/12  |                  |
|-----------------|--|----------|------------------|
| £000            |  | £000     | £000             |
| 262,816         | <b>Balance at 1 April</b>  |          | <b>255,678</b>   |
|                 | <b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>                      |          |                  |
| (54,147)        | Charges for depreciation, revaluation losses and impairment of non-current assets  | (42,001) |                  |
| 4,759           | Historic cost adjustment on Revaluation losses on Property, Plant and Equipment  | 4,492    |                  |
| (329)           | Amortisation of intangible assets  | (322)    |                  |
| (4,169)         | Revenue expenditure funded from capital under statute  | (17,557) |                  |
| (10,979)        | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (59,858) |                  |
| <b>(64,865)</b> |  |          | <b>(115,246)</b> |
|                 | <b>Capital financing applied in the year:</b>  |          |                  |
| 3,000           | Use of the Capital Receipts Reserve to finance new capital expenditure   | 3,000    |                  |
| 34,159          | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing              | 24,364   |                  |
| 17,994          | Statutory provision for the financing of capital investment charged against the General Fund   | 13,204   |                  |
| 192             | Capital expenditure charged against the General Fund and other balances  | 1,660    |                  |
| <b>55,345</b>   |  |          | <b>42,228</b>    |
| 2,382           | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement                         | (1,056)  |                  |
| -               | - Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement  | 35       |                  |
| -               | - Asset Under Construction previously omitted from asset register  | 2,184    |                  |
| <b>2,382</b>    |  |          | <b>1,163</b>     |
| <b>255,678</b>  | <b>Balance at 31 March</b>   |          | <b>183,823</b>   |

## Financial Instrument Adjustment Account

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The balance in the Financial Instrument Adjustment Account at the end of the year represents the amount that should have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practices under the Code of Practice, but which Statutory Provisions allow or require to be deferred over future years.

The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. The account was also used to defer the impact of the estimated impairment on the Council's Heritable Bank investment. The Statutory Provision which allowed the deferment of impairment costs expired in 2010-11 and therefore the estimated impairment has been posted back to the General Fund Balance.

| 2010/11<br>£000 |   | 2011/12<br>£000 |
|-----------------|---|-----------------|
| 4,124           | <b>Balance at 1 April</b>   | 3,794           |
| (34)            | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements | (35)            |
| (296)           | Expiry of Statutory Provision to allow the impairment of Heritable Bank investment to be deferred.  | -               |
| 3,794           | <b>Balance at 31 March</b>  | 3,759           |

## Pensions Reserve

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

| 2010/11<br>£000  |  | 2011/12<br>£000  |
|------------------|--|------------------|
| (423,871)        | <b>Balance at 1 April</b>  | (334,820)        |
| 46,101           | Actuarial gains or losses on pensions assets and liabilities   | (64,364)         |
| 11,765           | Reversal of items relating to retirement benefits debited or credited to the surplus or Deficit on the Provision of Services in the comprehensive Income and Expenditure Statement | (30,049)         |
| 31,185           | Employer's pensions contributions and direct payments to pensioners payable in the year  | 34,155           |
| <b>(334,820)</b> | <b>Balance at 31 March</b>   | <b>(395,078)</b> |

### Collection Fund Adjustment Account

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

| 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 61              | <b>Balance at 1 April</b>  | 876             |
| 815             | Amount by which council tax income credited to the comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 1,095           |
| <b>876</b>      | <b>Balance at 31 March</b>   | <b>1,971</b>    |

## Accumulated Absences Account

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

| 2010/11 |   | 2011/12 |         |
|---------|---|---------|---------|
| £000    |   | £000    | £000    |
| (4,429) | <b>Balance at 1 April</b>   |         | (5,178) |
| 285     | Settlement or cancellation of accrual made at the end of the preceding year   | 1,034   |         |
| (1,034) | Amounts accrued at the end of the current year  | (487)   |         |
| (749)   | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements |         | 547     |
| (5,178) | <b>Balance at 31 March</b>  |         | (4,631) |

**25. CASH FLOW STATEMENT - OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:

| 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| (7,519)         | Interest received  | (6,148)         |
| 19,955          | Interest paid  | 19,456          |
|                 | <b><i>Adjust net (surplus)/ deficit on the provision of services for non cash movements:</i></b>                                     |                 |
| (19,446)        | Depreciation   | (19,876)        |
| (34,701)        | Impairment   | (22,125)        |
| (329)           | Amortisations of intangible assets   | (322)           |
| (2,041)         | Movement in provision for bad debt   | (2,529)         |
| 2,742           | (Increase) / decrease in long & short term creditors   | 8,530           |
| (11,394)        | Increase / (decrease) in long & short term debtors   | (6,950)         |
| 65              | Increase / (decrease) in stock / WIP   | 25              |
| 11,765          | Charges for retirement benefits in accordance with IAS 19  | (30,049)        |
| 31,185          | Actual amount paid to pension fund - charge against Council  | 34,155          |
| (13,202)        | Non cash items relating to the disposal of fixed assets  | (65,674)        |
| 328             | Non cash items relating to the disposal of investments   | 35              |
| (16,267)        | Movement in other provisions (additions) / utilised  | 11,691          |
| 2,382           | Movement in the value of investment properties   | (1,056)         |
| -               | - Donated Assets   | 35              |
| 66              | Collection Fund and Accumulated Absences   | 1,642           |
| 873             | Other misc non cash movements  | 107             |
| (47,974)        |  | (92,361)        |
|                 | <b><i>Adjust for items in the net (surplus)/ deficit on the provision of services that are investing or financing activities</i></b> |                 |
|                 | - Purchase of short-term and long-term investments   | -               |
|                 | - Proceeds from short-term and long-term investments   | -               |
| 2,225           | Proceeds from the sale of property, plant and equip., investment property and intangible assets                                      | 3,965           |
| 40,173          | Grants applied to the financing of capital expenditure   | 18,414          |
| -               | Any other items for which the cash effects are investing or financing cash flows.  |                 |
| 42,398          | <b><i>Net cash flow from operating activities</i></b>  | 22,379          |

**26. CASH FLOW STATEMENT - INVESTING ACTIVITIES**

| <b>2010/11<br/>£000</b> |  | <b>2011/12<br/>£000</b> |
|-------------------------|--|-------------------------|
| 45,875                  | Purchase of property, plant and equipment, investment property and intangible assets.          | 29,805                  |
| 103,000                 | Purchase of short-term and long-term investments   | 107,100                 |
|                         | Other payments for investing activities  |                         |
| (2,225)                 | Proceeds from sale of property, plant and equipment, investment property and intangible assets | (3,965)                 |
| (108,200)               | Proceeds from short-term and long-term investments   | (112,375)               |
| (37,836)                | Other receipts from investing activities   | (18,499)                |
| <b>614</b>              | <b>Net cash flows from investing activities</b>  | <b>2,066</b>            |

**27. CASH FLOW STATEMENT - FINANCING ACTIVITIES**

| <b>2010/11<br/>£000</b> |  | <b>2011/12<br/>£000</b> |
|-------------------------|--|-------------------------|
| (10,000)                | Cash receipts of short- and long-term borrowing  | (5,000)                 |
| (1,367)                 | Other receipts from financing activities   | 182                     |
| 3,211                   | Cash payments for the reduction of outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts | 3,295                   |
| 16,280                  | Repayment of short- and long-term borrowing  | 14,750                  |
| -                       | Other payments for financing activities  | -                       |
| <b>8,124</b>            | <b>Net cash flows from financing activities</b>  | <b>13,227</b>           |

## 28. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- amounts charged to departments in relation to capital expenditure (depreciation for example) are reversed out through the Finance Department. In the Statement of Accounts these are reversed out through the Movement in Reserves Statement.
- Levies and reserves are treated as departmental costs

The income and expenditure by the Council department recorded in the budget reports for the year 2010/11 is as follows:

| Departmental<br>Income and<br>Expenditure<br>2010/11 | Adult Social<br>Services<br>£000 | Children<br>and Young<br>People<br>£000 | Corporate<br>Services<br>£000 | Finance<br>£000  | Law, HR<br>and Asset<br>Manage-<br>ment<br>£000 | Technical<br>Services<br>£000 | Mersey-<br>travel<br>£000 | Total<br>£000    |
|--|----------------------------------|---|-------------------------------|------------------|---|-------------------------------|---------------------------|------------------|
| Fees, charges<br>and other service<br>income         | (61,317)                         | (85,663)                                | (11,731)                      | (46,317)         | (31,997)  | (37,307)                      | -                         | (274,332)        |
| Government<br>grants                                 | (2,658)                          | (251,497)                               | (7,055)                       | (160,543)        | (142)   | (92)                          | -                         | (421,987)        |
| <b>Total Income</b>                                  | <b>(63,975)</b>                  | <b>(337,160)</b>                        | <b>(18,786)</b>               | <b>(206,860)</b> | <b>(32,139)</b>                                 | <b>(37,399)</b>               | -                         | <b>(696,319)</b> |
| Employee<br>expenses                                 | 40,420                           | 254,958                                 | 8,988                         | 35,224           | 15,031  | 29,376                        | -                         | 383,997          |
| Other service<br>expenses                            | 106,628                          | 157,584                                 | 36,573                        | 142,750          | 22,448  | 57,615                        | 27,344                    | 550,942          |
| Support service<br>recharges                         | 17,130                           | 36,242                                  | 6,716                         | 15,073           | 10,084  | 19,218                        | -                         | 104,463          |
| <b>Total<br/>Expenditure</b>                         | <b>164,178</b>                   | <b>448,784</b>                          | <b>52,277</b>                 | <b>193,047</b>   | <b>47,563</b>                                   | <b>106,209</b>                | <b>27,344</b>             | <b>1,039,402</b> |
| <b>Net Expenditure</b>                               | <b>100,203</b>                   | <b>111,624</b>                          | <b>33,491</b>                 | <b>(13,813)</b>  | <b>15,424</b>                                   | <b>68,810</b>                 | <b>27,344</b>             | <b>343,083</b>   |

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

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

|  | 2010/11<br>£000 | 2011/12<br>£000 |
|--|-----------------|-----------------|
| Net expenditure in the Departmental Analysis   | 343,083         | 298,775         |
| Net expenditure of services and support services not included in the Analysis                            |                 |                 |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | (60,175)        | (11,881)        |
| Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement      | (18,225)        | (21,230)        |
| <b>Cost of Services in Comprehensive Income and Expenditure Statement</b>                                | <b>264,683</b>  | <b>265,664</b>  |

| 2010/11  | Departmental Analysis | Services and Support Services not in Analysis | Amounts not reported to management for decision making | Amounts not included in I&E | Allocation of Recharges | Cost of Services | Corporate Amounts | Total              |
|--|-----------------------|---|--|-----------------------------|-------------------------|------------------|-------------------|--------------------|
|  | £000                  | £000  | £000   | £000                        | £000                    | £000             | £000              | £000               |
| Fees, charges & other service income                     | (274,332)             | -   | -  | 1,703                       | -                       | (272,629)        | -                 | (272,629)          |
| Surplus or deficit on associates and joint ventures      | -                     | -   | -  | -                           | -                       | -                | -                 | -                  |
| Interest and investment income                           | -                     | -   | -  | -                           | -                       | -                | 12,918            | 12,918             |
| Income from council tax                                  | -                     | -   | -  | -                           | -                       | -                | (132,013)         | (132,013)          |
| Government grants and contributions                      | (421,987)             | -   | -  | 1,468                       | -                       | (420,519)        | (242,613)         | (663,132)          |
| <b>Total Income</b>                                      | <b>(696,319)</b>      | <b>-</b>                                      | <b>-</b>   | <b>3,171</b>                | <b>-</b>                | <b>(693,148)</b> | <b>(361,708)</b>  | <b>(1,054,856)</b> |
|  |                       |   |  |                             |                         |                  |                   | -                  |
| Employee expenses  | 383,997               |   | (60,175)   | -                           | -                       | 323,822          | -                 | 323,822            |
| Other service expenses                                   | 550,942               |   | -  | (21,396)                    | -                       | 529,546          | -                 | 529,546            |
| Support Service recharges                                | 104,463               | -   | -  | -                           | -                       | 104,463          | -                 | 104,463            |
| Depreciation, amortisation and impairment                | -                     | -   | -  | -                           | -                       | -                | -                 | -                  |
| Interest Payments  | -                     | -   | -  | -                           | -                       | -                | 14,489            | 14,489             |
| Precepts & Levies  | -                     | -   | -  | -                           | -                       | -                | 44,564            | 44,564             |
| Payments to Housing Capital Receipts Pool                | -                     | -   | -  | -                           | -                       | -                | 17                | 17                 |
| Gain or Loss on Disposal of Fixed Assets                 | -                     | -   | -  | -                           | -                       | -                | 10,979            | 10,979             |
| <b>Total expenditure</b>                                 | <b>1,039,402</b>      | <b>-</b>                                      | <b>(60,175)</b>  | <b>(21,396)</b>             | <b>-</b>                | <b>957,831</b>   | <b>70,049</b>     | <b>1,027,880</b>   |
| <b>Surplus or (deficit) on the provision of services</b> | <b>343,083</b>        | <b>-</b>                                      | <b>(60,175)</b>  | <b>(18,225)</b>             | <b>-</b>                | <b>264,683</b>   | <b>(291,659)</b>  | <b>(26,976)</b>    |

| Departmental<br>Income and<br>Expenditure<br>2011/12 | Adult Social<br>Services<br>£000 | Children<br>and Young<br>People<br>£000 | Corporate<br>Services<br>£000 | Finance<br>£000  | Law, HR<br>and Asset<br>Manage-<br>ment<br>£000 | Technical<br>Services<br>£000 | Mersey-<br>travel<br>£000 | Total<br>£000    |
|--|----------------------------------|---|-------------------------------|------------------|---|-------------------------------|---------------------------|------------------|
| Fees, charges<br>and other service<br>income         | (47,765)                         | (79,167)                                | (9,080)                       | (41,311)         | (39,043)  | (27,484)                      | -                         | (243,850)        |
| Government<br>grants                                 | (7,842)                          | (240,345)                               | (3,643)                       | (166,278)        | (64)  | -                             | -                         | (418,172)        |
| <b>Total Income</b>                                  | <b>(55,607)</b>                  | <b>(319,512)</b>                        | <b>(12,723)</b>               | <b>(207,589)</b> | <b>(39,107)</b>                                 | <b>(27,484)</b>               | -                         | <b>(662,022)</b> |
| Employee<br>expenses                                 | 25,923                           | 224,522                                 | 8,744                         | 29,659           | 14,548  | 21,716                        | -                         | 325,112          |
| Other service<br>expenses                            | 93,137                           | 151,277                                 | 22,673                        | 160,489          | 31,123  | 54,661                        | 28,817                    | 542,177          |
| Support service<br>recharges                         | 12,434                           | 32,440                                  | 5,131                         | 13,269           | 10,020  | 19,895                        | -                         | 93,189           |
| <b>Total<br/>Expenditure</b>                         | <b>131,494</b>                   | <b>408,239</b>                          | <b>36,548</b>                 | <b>203,417</b>   | <b>55,691</b>                                   | <b>96,272</b>                 | <b>28,817</b>             | <b>960,478</b>   |
| <b>Net Expenditure</b>                               | <b>75,887</b>                    | <b>88,727</b>                           | <b>23,825</b>                 | <b>(4,172)</b>   | <b>16,584</b>                                   | <b>68,788</b>                 | <b>28,817</b>             | <b>298,456</b>   |

During 2011/12 Corporate Services was renamed as the Regeneration, Housing and Planning department.

| 2011/12  | Departmental Analysis<br>£000 | Services and Support Services not in Analysis<br>£000 | Amounts not reported to management for decision making<br>£000 | Amounts not included in I&E<br>£000 | Allocation of Recharges<br>£000 | Cost of Services<br>£000 | Corporate Amounts<br>£000 | Total<br>£000    |
|--|-------------------------------|---|--|-------------------------------------|---------------------------------|--------------------------|---------------------------|------------------|
| Fees, charges & other service income                     | (243,851)                     | -   | (69)   | -                                   | -                               | (243,920)                | -                         | (243,920)        |
| Surplus or deficit on associates and joint ventures      | -                             | -   | -  | -                                   | -                               | -                        | -                         | -                |
| Interest and investment income                           | -                             | -   | -  | 2,320                               | -                               | 2,320                    | 8,911                     | 11,231           |
| Income from council tax                                  | -                             | -   | -  | -                                   | -                               | -                        | (135,814)                 | (135,814)        |
| Government grants and contributions                      | (418,171)                     | -   | -  | 7,312                               | -                               | (410,859)                | (184,225)                 | (595,084)        |
| <b>Total Income</b>                                      | <b>(662,022)</b>              | <b>-</b>  | <b>(69)</b>  | <b>9,632</b>                        | <b>-</b>                        | <b>(652,459)</b>         | <b>(311,128)</b>          | <b>(963,587)</b> |
|  |                               |   |  |                                     |                                 |                          |                           | -                |
| Employee expenses  | 325,112                       |   | (14,220)   | 2,019                               | -                               | 312,911                  | -                         | 312,911          |
| Other service expenses                                   | 542,177                       |   | 2,408  | (32,881)                            | -                               | 511,704                  | -                         | 511,704          |
| Support Service recharges                                | 93,189                        | -   | -  | -                                   | -                               | 93,189                   | -                         | 93,189           |
| Depreciation, amortisation and impairment                | -                             | -   | -  | -                                   | -                               | -                        | -                         | -                |
| Interest Payments  | -                             | -   | -  | -                                   | -                               | -                        | 14,359                    | 14,359           |
| Precepts & Levies  | -                             | -   | -  | -                                   | -                               | -                        | 44,975                    | 44,975           |
| Payments to Housing Capital Receipts Pool                | -                             | -   | -  | -                                   | -                               | -                        | 12                        | 12               |
| Gain or Loss on Disposal of Fixed Assets                 | -                             | -   | -  | -                                   | -                               | -                        | 61,719                    | 61,719           |
| <b>Total expenditure</b>                                 | <b>960,478</b>                | <b>-</b>  | <b>(11,812)</b>  | <b>(30,862)</b>                     | <b>-</b>                        | <b>917,804</b>           | <b>121,065</b>            | <b>1,038,869</b> |
| <b>Surplus or (deficit) on the provision of services</b> | <b>298,456</b>                | <b>-</b>  | <b>(11,881)</b>  | <b>(21,230)</b>                     | <b>-</b>                        | <b>265,345</b>           | <b>(190,063)</b>          | <b>75,282</b>    |

## 29. TRADING OPERATIONS

The Council has established a number of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of the major units, which follow, have a trading objective to break even:-

|  |                   | 2009/10 |      | 2010/11 |      | 2011/12 |      |
|--|-------------------|---------|------|---------|------|---------|------|
|  |                   | £000    | £000 | £000    | £000 | £000    | £000 |
| <b>(1) Vehicle Maintenance Unit</b><br>The Vehicle Maintenance Unit won the contract under open competition and still operates along the lines of the former CCT DSO.  | Turnover          | 468     |      | 471     |      | 464     |      |
|  | Expenditure       | 456     |      | 471     |      | 323     |      |
|  | Surplus/(Deficit) |         | 12   |         | -    |         | 141  |
| <b>(2) Building Cleaning</b><br>The Council manages a Building Cleaning operation on the basis of an agreement between the service provider and other departments.   | Turnover          | 1,071   |      | 1,048   |      | 839     |      |
|  | Expenditure       | 978     |      | 976     |      | 744     |      |
|  | Surplus/(Deficit) |         | 93   |         | 72   |         | 95   |
| <b>(3) Grounds Maintenance Services</b><br>The Council operates its Grounds Maintenance Services for the maintenance of Council and other land on the basis of an agreement between the service provider and other Council departments and other bodies. | Turnover          | 1,619   |      | 1,645   |      | -       |      |
|  | Expenditure       | 1,619   |      | 1,645   |      | -       |      |
|  | Surplus/(Deficit) |         | -    |         | -    |         | -    |

From 2011/12 Grounds Maintenance services have been defined as an operational service. They are included in the previous year for comparative purposes.

## 30. POOLED BUDGETS

Pooled funds enable health bodies and Local Authorities to work collaboratively to address specific local health and social care issues. Health service resources can be used to deliver Local Council services and vice versa.

Wirral Community NHS Trust is the host for a pooled budget for integrated community equipment services.

Wirral Council's contribution for 2011/12 is £726,000 out of total expenditure of £2.27 million.

## 31. COMMUNITY FUND

The Community Fund was established following the Large Scale Voluntary Transfer of the Council's housing stock. Its purposes include meeting transferred stock warranty claims, assisting to meet housing requirements, encouraging economic regeneration, helping to reduce crime and for other environmental benefits.

The Fund is administered and held in a separate bank account by Wirral Partnership Homes. Its use is jointly controlled by representatives of Wirral Council and Wirral Partnership Homes. Wirral Council's accounts do not include the assets, income or expenditure of the Fund. Any grants paid to the Council from the Community Fund will, however, be included within the Council's accounts.

During 2011/12 the Fund received £4.4 million of income from savings relating to refurbishment programme VAT arrangements and from interest earned on the Fund balances.

The fund incurred Expenditure of £10 million in the year. Wirral Council received grants of £0.75 million (£8.1 million in 2010/11). £0.5 million funded support for Housing initiatives and £0.25 million funded schemes tackling Domestic Abuse. Wirral Partnership Homes received £9.0 million of grants in 2011/12 (£0 million in 2010/11). The Your Wirral Grant scheme also received £0.25 million (£0.53 million in 2010/11) to fund community initiatives.

| <b>Community Fund Statement</b>            | <b>£000</b> | <b>£000</b>  |
|--|-------------|--------------|
| Balance at 1 April 2011                    | 12,940      |              |
| Adjustment to Opening Balance: Accrued VAT | (9)         | 12,931       |
|  |             |              |
| Movement 2011/12                           |             |              |
| Income                                     |             |              |
| - Contributions arising from VAT savings   | 4,366       |              |
| - Property Sale                            | -           |              |
| - Interest received                        | 35          | 4,401        |
| Expenditure                                |             |              |
| Grant Payments to Wirral Council           | (750)       |              |
| Grant Payments to Wirral Partnership Homes | (9,009)     |              |
| Your Wirral Grant Scheme                   | (250)       | (10,009)     |
|  |             |              |
| <b>Balance at 31 March 2012</b>            |             | <b>7,323</b> |

After earmarking funds for any potential warranty liabilities, as at 31 March 2012 the Fund held £4.8 million for distribution.

### 32. MEMBERS' ALLOWANCES

The Council paid the following amounts to Members of the council during the year.

|              | <b>2010/11<br/>£000</b> | <b>2011/12<br/>£000</b> |
|--------------|-------------------------|-------------------------|
| Salaries     | 11                      | 12                      |
| Allowances   | 774                     | 761                     |
| Expenses     | 22                      | 10                      |
| <b>Total</b> | <b>807</b>              | <b>783</b>              |

**33. OFFICERS' REMUNERATION**

The remuneration paid to the Council's senior employees is as follows:

|   | <b>Salary</b>  | <b>Allowances</b> | <b>Compensation for loss of Office</b> | <b>Pension Contributions</b> | <b>Total inc Pension Contributions</b> |
|---|----------------|-------------------|--|------------------------------|--|
|   | £              | £                 | £                                      | £                            | £                                      |
| <b>Financial Year 2011/12</b>                       |                |                   |  |                              |  |
| Chief Executive                                     | 129,759        | -                 | -                                      | 15,571                       | 145,330                                |
| Director of Technical Services                      | 112,849        | 2,653             | -                                      | 13,541                       | 129,043                                |
| Director of Finance                                 | 114,290        | 1,899             | -                                      | 13,714                       | 129,903                                |
| Interim Director of Adult Social Services (retired) | 85,850         | 1,734             | -                                      | 10,302                       | 97,886                                 |
| Interim Director of Children's Services             | 104,149        | 1,239             | -                                      | 12,497                       | 117,885                                |
| Director Law, HR and Asset Management               | 110,027        | -                 | -                                      | 13,203                       | 123,230                                |
| Acting Director of Reperation, Housing and Planing  | 104,385        | -                 | -                                      | 12,526                       | 116,911                                |
|   | <b>761,309</b> | <b>7,525</b>      | <b>-</b>                               | <b>91,354</b>                | <b>860,188</b>                         |
| <b>Financial Year 2010/11</b>                       |                |                   |  |                              |  |
| Interim Chief Executive                             | 123,334        | 726               | -                                      | 21,706                       | 145,766                                |
| Chief Executive (retired)                           | 67,670         | -                 | 157,537                                | 11,910                       | 237,117                                |
| Director of Technical Services                      | 112,848        | 2,556             | -                                      | 19,861                       | 135,265                                |
| Director of Finance                                 | 112,848        | 1,823             | -                                      | 19,861                       | 134,532                                |
| Interim Director of Adult Social Services           | 112,848        | 1,424             | -                                      | 19,861                       | 134,133                                |
| Director of Adult Social Services (retired)         | 64,182         | 929               | 152,339                                | 11,296                       | 228,746                                |
| Director Law, HR and Asset Management               | 107,205        | 297               | -                                      | 18,868                       | 126,370                                |
|   | <b>700,935</b> | <b>7,755</b>      | <b>309,876</b>                         | <b>123,363</b>               | <b>1,141,929</b>                       |

Where an employer makes decisions which result in additional benefits paid to a member, this produces a strain on the Pension Fund. The costs of providing these additional benefits are calculated by the Pension Fund and recharged to the Council, who reimburse the Fund over 5 years. The main category of these costs relates to early retirement.

| Remuneration band   | 2010/11 Number of Employees |            |            | 2011/12 Number of Employees |            |            |
|---------------------|-----------------------------|------------|------------|-----------------------------|------------|------------|
|                     | General                     | Teaching   | Total      | General                     | Teaching   | Total      |
| £50,000 - £54,999   | 47                          | 107        | 154        | 36                          | 73         | 109        |
| £55,000 - £59,999   | 38                          | 77         | 115        | 16                          | 65         | 81         |
| £60,000 - £64,999   | 35                          | 37         | 72         | 16                          | 33         | 49         |
| £65,000 - £69,999   | 20                          | 22         | 42         | 8                           | 22         | 30         |
| £70,000 - £74,999   | 29                          | 10         | 39         | 14                          | 9          | 23         |
| £75,000 - £79,999   | 9                           | 5          | 14         | 1                           | 3          | 4          |
| £80,000 - £84,999   | 6                           | 4          | 10         | 5                           | 5          | 10         |
| £85,000 - £89,999   | 2                           | 3          | 5          | 3                           | 3          | 6          |
| £90,000 - £94,999   | 2                           | 8          | 10         | 1                           | 3          | 4          |
| £95,000 - £99,999   | 3                           | 4          | 7          | 2                           | 2          | 4          |
| £100,000 - £104,999 | 1                           | 1          | 2          | 1                           | 1          | 2          |
| £105,000 - £109,999 | 2                           | 6          | 8          | 3                           | -          | 3          |
| £110,000 - £114,999 | 2                           | -          | 2          | 1                           | 1          | 2          |
| £115,000 - £119,999 | 3                           | 1          | 4          | 2                           | -          | 2          |
| £120,000 - £124,999 | 1                           | 1          | 2          | -                           | -          | -          |
| £125,000 - £129,999 | 1                           | -          | 1          | 1                           | -          | 1          |
| £135,000 - £139,999 | -                           | -          | -          | -                           | 1          | 1          |
| £165,000 - £169,999 | -                           | -          | -          | 1                           | -          | 1          |
| £175,000 - £179,999 | -                           | -          | -          | 1                           | -          | 1          |
|                     | <b>201</b>                  | <b>286</b> | <b>487</b> | <b>112</b>                  | <b>221</b> | <b>333</b> |

The number of teachers employed by the Council has fallen in 2011/12. This is due to the transfer out of the Council's control of a number of schools e.g. the establishment of Academies.

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

| (a)<br>Exit Package cost<br>band (including<br>special payments) | (b)<br>Number of<br>compulsory<br>redundancies |         | (c)<br>Number of other<br>departures<br>agreed |           | (d)<br>Total number of<br>exit packages by<br>cost band |           | (b)<br>Total cost of exit<br>packages in each<br>band |              |
|--|--|---------|--|-----------|---|-----------|---|--------------|
|  | 2010/11  | 2011/12 | 2010/11  | 2011/12   | 2010/11   | 2011/12   | 2010/11   | 2011/12      |
|  |  |         |  |           |   |           | £000  | £000         |
| £ 0 - £ 20,000   | -  | -       | 756  | 26        | 756   | 26        | 7,474   | 359          |
| £ 20,001 - £ 40,000  | -  | -       | 344  | 29        | 344   | 29        | 9,687   | 857          |
| £ 40,001 - £ 60,000  | -  | -       | 76   | 5         | 76  | 5         | 3,540   | 241          |
| £ 60,001 - £ 80,000  | -  | -       | 17   | 1         | 17  | 1         | 1,165   | 64           |
| £ 80,001 - £100,000  | -  | -       | 1  | -         | 1   | -         | 87  | -            |
| £100,001 - £150,000  | -  | -       | -  | 2         | -   | 2         | -   | 221          |
|  | -  | -       | <b>1,194</b>                                   | <b>63</b> | <b>1,194</b>  | <b>63</b> | <b>21,953</b>   | <b>1,742</b> |

### 34. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

|  | 2010/11<br>£000 | 2011/12<br>£000 |
|--|-----------------|-----------------|
| Fees payable to The Audit Commission with regard to external audit services carried out by the appointed auditor | 392             | 415             |
| Fees payable to The Audit Commission for the certification of grant claims and returns                           | 128             | 100             |
| <b>Total</b>   | <b>520</b>      | <b>515</b>      |

The fee for 2011/12 includes £62,000 for additional audit relating to 2010/11. These fees were however paid in 2011/12.

### 35. DEDICATED SCHOOLS GRANT

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

The increase in DSG from 2010/11 (£194 million) to 2011/12 (£206 million) is due to the transfer of Specific Grants into the DSG for 2011/12 (£35 million) and the recouplement for Academy Schools transferring out (£23 million).

Details of the deployment of DSG receivable are as follows

|  | Central<br>Expenditure<br>£000 | Individual<br>Schools<br>Budget<br>£000 | Total<br>£000 |
|--|--------------------------------|---|---------------|
| Final DSG for 2010/11                      |                                |   | 194,032       |
| Brought forward from 2009/10               |                                |   | 1,500         |
| Carry forward to 2011/12 agreed in advance |                                |   | (1,537)       |
| Agreed budgeted distribution 2010/11       | 20,974                         | 173,021                                 | 193,995       |
| less: Actual central expenditure           | (19,851)                       |   | (19,851)      |
| less: Actual ISB deployed to schools       |                                | (173,004)                               | (173,004)     |
| <b>Authority contribution for 2010/11</b>  | <b>182</b>                     |   | <b>182</b>    |
| Carry forward to 2011/12 agreed in advance |                                |   | 1,537         |
| <b>Total carried forward to 2011/12</b>    | <b>1,305</b>                   | <b>17</b>                               | <b>2,859</b>  |

|  | Central<br>Expenditure<br>£000 | Individual<br>Schools<br>Budget<br>£000 | Total<br>£000 |
|--|--------------------------------|---|---------------|
| Final DSG for 2011/12                      |                                |   | 206,127       |
| Brought forward from 2010/11               |                                |   | 2,859         |
| Carry forward to 2012/13 agreed in advance |                                |   | (580)         |
| Agreed budgeted distribution 2011/12       | 21,097                         | 187,309                                 | 208,406       |
| less: Actual central expenditure           | (20,421)                       |   | (20,421)      |
| less: Actual ISB deployed to schools       |                                | (187,485)                               | (187,485)     |
| <b>Authority contribution for 2011/12</b>  | <b>1,000</b>                   | <b>176</b>                              | <b>1,176</b>  |
| Carry forward to 2012/13 agreed in advance |                                |   | 580           |
| <b>Total carried forward to 2012/13</b>    | <b>1,676</b>                   | -                                       | <b>2,256</b>  |

### 36. GRANT INCOME

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

| Credited to Taxation and Non Specific Grant Income:             | 2010/11<br>£000 | 2011/12<br>£000 |
|---|-----------------|-----------------|
| <b>Revenue Grants :</b>   |                 |                 |
| National Non Domestic Rates                                     | 137,844         | 121,312         |
| Area Based Grant  | 37,662          | -               |
| Revenue Support Grant   | 20,016          | 37,498          |
| Schools Private Finance Initiative                              | 5,471           | 5,471           |
| Local Services Support Grant                                    | -               | 1,495           |
| Council Tax Freeze Grant  | -               | 3,286           |
| <b>Total Revenue Grants</b>                                     | <b>200,993</b>  | <b>169,062</b>  |
| <b>Capital Grants :</b>   |                 |                 |
| Standards Fund  | 25,600          | 8,163           |
| Housing Market Renewal Initiative                               | 3,090           | 2,699           |
| Transport Supplementary Grant                                   | 2,366           | 4,443           |
| Regional Housing Pot  | 2,355           | -               |
| Homes and Communities Agency                                    | 2,066           | -               |
| Childrens Centres   | 1,709           | -               |
| Growth Point  | 1,567           | -               |
| Community Capacity  |                 | 941             |
| Town Link Viaduct   | -               | 870             |
| Challenge Fund  | -               | 659             |
| Other Capital Grants (less than 200k)                           | 1,699           | 674             |
| North West Development Agency                                   | 728             | -               |
| Social Care Single Capital Pot - Extra Care                     | 237             | -               |
| Waste Infrastructure  | 203             | -               |
| <b>Total Capital Grants</b>                                     | <b>41,620</b>   | <b>18,449</b>   |
| <b>Total Credited to Taxation and Non Specific Grant Income</b> | <b>242,613</b>  | <b>187,511</b>  |

Grants credited to Taxation and Non-specific Grants saw a reduction of £55 million from 2010/11. The main reasons for this include the ending of Area Based Grants (£37 million), Homes and Communities Agency (£2 million) and the Regional Housing Pot (£2 million). Standards Fund also reduced, following the completion of the Primary Capital Programme (£7 million) and Building Schools For the Future (£6 million).

|  | 2010/11<br>£000 | 2011/12<br>£000 |
|--|-----------------|-----------------|
| <b>Credited to Services:</b>                           |                 |                 |
| Dedicated Schools Grant                                | 192,389         | 206,127         |
| Housing Benefits                                       | 159,880         | 165,929         |
| 16-19 Further Education Young People's Learning Agency | 6,800           | 17,419          |
| Early Intervention Grant                               | -               | 15,500          |
| Learning Disabilities & Health Reform Grant            | -               | 6,709           |
| Pupil Premium  | -               | 5,394           |
| Future Job Fund  | -               | 1,359           |
| Step Up to Social Work                                 | -               | 1,157           |
| Youth Justice Board                                    | 1,009           | 882             |
| Adult Safeguarded Learning                             | -               | 853             |
| Worklessness Grant                                     | -               | 641             |
| Music Grant  | -               | 635             |
| Winter Maintenance                                     | 297             | 626             |
| Apprentice   | -               | 460             |
| Intensive Start Up Support                             | -               | 376             |
| Rates Relief   | 359             | 347             |
| Social Work Improvement Fund                           | -               | 340             |
| Big Lottery  | -               | 237             |
| Complementary Strand Grant                             | -               | 226             |
| ERDF   | -               | 150             |
| Standards Fund   | 26,043          | -               |
| 6th Form   | 22,302          | -               |
| Sure Start   | 10,811          | -               |
| School Standards Grant                                 | 7,924           | -               |
| Other Young People's Learning Agency                   | 7,292           | -               |
| School Standards Grant - Personalisation               | 2,738           | -               |
| Adults Social Care Reform                              | 1,873           | -               |
| Aiming High for Disabled Children                      | 1,640           | -               |
| Think Family   | 649             | -               |
| Youth Opportunity                                      | 318             | -               |
| Other  | 865             | 1,028           |
| <b>Total Credited to Services</b>                      | <b>443,189</b>  | <b>426,395</b>  |

Grants credited to Services has reduced by £17 million in 2011/12. Also, as mentioned in Note 35 Dedicated Schools Grant (DSG), schools specific grants were transferred into the DSG. Academy transfers reduced 2011/12 grant by £23 million, whilst the receipt of the new Pupil Premium Grant increased grants credited to services by £5 million.

PFI Grant of £5.471 million is now reflected within Revenue Grants credited to Taxation, and Non-Specific Grant Income.

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them. These will require the monies to be returned to the giver, if not spent in accordance with the conditions. The balances at the year-end are as follows:

|  | <b>31 March 2011</b><br><b>£000</b> | <b>31 March 2012</b><br><b>£000</b> |
|--|-------------------------------------|-------------------------------------|
| <b>Grants Receipts in Advance</b>      |                                     |                                     |
| Local Area Agreement Reward Grant      | 1,811                               | 1,811                               |
| West Kirby Marine Lake                 | 300                                 | 300                                 |
| Mulberry Properties                    | 275                                 | 275                                 |
| Atherton Street                        | 225                                 | 225                                 |
| Aiming higher - disabled children      | -                                   | 203                                 |
| Other                                  | 117                                 | -                                   |
| <b>Total Grant Receipts in Advance</b> | <b>2,728</b>                        | <b>2,814</b>                        |

Revenue grants with conditions totalling less than £1 million are included in short term creditors.

### **37. RELATED PARTIES**

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### **Central Government**

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 36 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are detailed in the same note.

#### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2011/12 is shown in note 32. Members of the Council are also Board Members of Wirral Partnership Homes (WPH) as well as Beechwood and Ballantyne Community Housing Association (BBCHA). Members have declared interests, where required, in items associated with these organisations. During the year the Council made payments of £3.0 million (£3.3 million in 2010/11) to WPH. No payments were made to BBCHA (£0.1 million in 2010/11). In addition as part of the development agreement WPH paid £0.75 million (£8.1 million in 2010/11) to the Council in respect of the Community Fund in support of community asset transfers and investment to support regeneration and housing.

A number of Members hold positions on the governing body of various voluntary organisations to which the Council gave grants of £0.7 million (£0.8 million in 2010/11).

The relevant Members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the Register of Members' Interest which is open to public inspection.

### Officers

No material declarations of interest were made in the year.

### Other Public Bodies

The Council has member representation on committees of the following organisations to which the Council pays a levy or precept

|                                     | <b>Number<br/>of Repe-<br/>sentative(s)</b> | <b>Precept/<br/>Levy<br/>2010/11<br/>£000</b> | <b>Precept/<br/>Levy<br/>2011/12<br/>£000</b> |
|-------------------------------------|---|---|---|
| Merseyside Police Authority         | 4   | 15,308  | 15,336  |
| Merseyside Fire and Rescue Service  | 4   | 6,781   | 6,793   |
| Merseyside Waste Disposal Authority | 2   | 17,044  | 15,988  |
| Merseyside Port Health              | 3   | 128   | 128   |
| Merseytravel                        | 2   | 27,344  | 28,817  |

The Council has a pooled budget arrangement with Wirral Primary Care Trust for the provision of integrated community equipment services. Further details are contained in note 30.

The Council acts as the administering authority to Merseyside Pension Fund and charged the Fund £3.8 million (2010/11 £4.9 million) for administration and investment management costs.

**38. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

| <b>Summary of Capital Expenditure and Financing</b>      | <b>2010/11<br/>£000</b> | <b>2011/12<br/>£000</b> |
|--|-------------------------|-------------------------|
| <b>Capital Investment</b>                                |                         |                         |
| Property, Plant & Equipment                              | 43,344                  | 28,446                  |
| Intangible Assets  | 11                      | 107                     |
| Investment Properties                                    | -                       | 15                      |
| Asset Held for Sale                                      | 31                      | -                       |
| Revenue Expenditure Funded from Capital under Statute    | 14,840                  | 17,557                  |
| Long Term Debtors  | 769                     | 487                     |
|  | <b>58,995</b>           | <b>46,612</b>           |
| <b>Sources of Finance</b>                                |                         |                         |
| Borrowing supported by Government financial assistance   | (6,375)                 | -                       |
| Borrowing unsupported by Government financial assistance | (5,300)                 | (17,585)                |
| Capital Receipts   | (3,000)                 | (3,000)                 |
| Government Grants and Other Contributions                | (43,877)                | (24,364)                |
| Revenue Provision  | (443)                   | (1,663)                 |
|  | <b>(58,995)</b>         | <b>(46,612)</b>         |
|  |                         |                         |
| <b>Opening Capital Financing Requirement</b>             | <b>384,595</b>          | <b>379,385</b>          |
|  |                         |                         |
| <b>Closing Capital Financing Requirement</b>             | <b>379,385</b>          | <b>377,922</b>          |

**39. LEASES****Finance Leases****Council as Lessee**

The Council has acquired a number of assets such as I.T. and grounds maintenance equipment, refuse collection and street cleansing vehicles under finance leases. These assets are carried in the Balance Sheet within Vehicles, Plant and Equipment at the following net amounts:

|                               | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
|-------------------------------|-----------------------------------|-----------------------------------|
| Vehicles, Plant and Equipment | 4,169                             | 3,039                             |
|                               | 4,169                             | 3,039                             |

The Council is committed to make minimum payments under these leases. Such payments comprise an element for the interest in the property acquired and an element for finance costs payable by the Council while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

|  | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
|--|-----------------------------------|-----------------------------------|
| Finance lease liabilities (net present value of minimum lease payments): |                                   |                                   |
| • current  | 1,028                             | 1,072                             |
| • non-current  | 2,045                             | 1,088                             |
| Finance costs payable in future years                                    | 475                               | 286                               |
| <b>Minimum lease payments</b>  | <b>3,548</b>                      | <b>2,446</b>                      |

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

|   | <b>Minimum Lease Payments</b>     |                                   | <b>Finance Lease Liabilities</b>  |                                   |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|   | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
| Not later than one year                           | 1,231                             | 1,222                             | 1,028                             | 1,072                             |
| Later than one year and not later than five years | 2,307                             | 1,224                             | 2,002                             | 1,088                             |
| Later than five years                             | 10                                | -                                 | 43                                | -                                 |
|   | <b>3,548</b>                      | <b>2,446</b>                      | <b>3,073</b>                      | <b>2,160</b>                      |

The Council has assets acquired under Finance Leases which are sub-leased to schools that have been granted Academy status during 2011/12. The amounts paid in respect of such sub-leased assets are as follows:

|                               | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
|-------------------------------|-----------------------------------|-----------------------------------|
| Minimum lease payments        | -                                 | 21                                |
| Contingent Rents              | -                                 | -                                 |
| Sub-lease Payments Receivable | -                                 | (21)                              |
|                               | -                                 | -                                 |

## Operating Leases

### Council as lessee

The Council has acquired a number of vehicles by entering into operating leases.

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

|   | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
|---|-----------------------------------|-----------------------------------|
| Not later than one year                           | 35                                | -                                 |
| Later than one year and not later than five years | -                                 | -                                 |
| Later than five years                             | -                                 | -                                 |
|   | <b>35</b>                         | <b>-</b>                          |

## Finance Leases

### Council as Lessor

The Council has leased out the following properties on finance leases with the remaining terms shown:

| Property                                   | Lessor                                 | Remaining term |
|--|--|----------------|
| Birkenhead Market                          | Birkenhead Market Ltd                  | 116 years      |
| Wirral Country Park Caravan Site (Touring) | The Caravan Club Ltd                   | 17 years       |
| Wirral Country Park Caravan Site (Static)  | Thurstaston Caravan Owners Association | 37 years       |
| New Brighton Marine Point                  | Neptune Developments                   | 250 years      |

The Council has gross investments in the leases, made up of the minimum lease payments expected to be received over the remaining terms and the residual value anticipated for the properties when the leases come to an end. The minimum lease payments comprise settlement of the long-term debtors for the interest in the properties acquired by the lessees and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

|   | <b>31 March<br/>2012<br/>£000</b> |
|---|-----------------------------------|
| Finance lease debtor (net present value of minimum lease payments): |                                   |
| • current   | 189                               |
| • non-current   | 1,837                             |
| Unearned finance income   | 24,132                            |
| Unguaranteed residual value of property                             | 3,460                             |
| <b>Gross investment in the lease</b>                                | <b>29,618</b>                     |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

|   | <b>Gross<br/>Investment in<br/>the Lease<br/>31 March 2012<br/>£000</b> | <b>Minimum<br/>Lease<br/>Payments<br/>31 March 2012<br/>£000</b> |
|---|---|--|
| Not later than one year                           | 287   | 189  |
| Later than one year and not later than five years | 1,146   | 588  |
| Later than five years                             | 28,185  | 1,235  |
|   | <b>29,618</b>   | <b>2,012</b>   |

## Operating Leases

### Council as Lessor

The Council leases out property under operating leases. The future minimum lease payments receivable under non-cancellable leases in future years are:

|   | <b>31 March<br/>2011<br/>£000</b> | <b>31 March<br/>2012<br/>£000</b> |
|---|-----------------------------------|-----------------------------------|
| Not later than one year                           | 600                               | 586                               |
| Later than one year and not later than five years | 812                               | 848                               |
| Later than five years                             | 17                                | 148                               |
|   | <b>1,429</b>                      | <b>1,582</b>                      |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## 40. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

The Wirral Schools' PFI Scheme Project Agreement was originally signed in March 2001 and involved the rebuilding and/or refurbishment of one primary and eight secondary schools in Wirral. A Deed of Amendment was entered into on 9 September 2004 to extend the contract until July 2031.

The first phase of the Project (Construction Works) was completed on the final schools in August 2006 and the Council now receive support services in accordance with a detailed set of Output Specifications. These include building and services maintenance, grounds maintenance, catering, cleaning, caretaking, security, utilities and telecommunications.

The specifications for Support Services are not prescriptive and it is up to our PFI Partner, Wirral Schools' Services Ltd (WSSL) to devise a programme of service delivery which achieves the Council's Output Specifications. The success of this is measured by way of a payment mechanism and deductions system.

It is only in pre-agreed circumstances that WSSL is excused from performance. These situations are known as Relief Events and they include the declaration of any emergency by the Council, failure by any utility company, loss or damage to a road servicing a school or any strike affecting the relevant industry.

Other than under these clearly defined circumstances, risk on the above services is transferred to WSSL. There are examples of "Shared Risk" such as that on Utility Consumption, "Limited Risk" such as that on the maintenance of loose furniture, fittings and equipment and "No Risk" to WSSL whereby the costs of damage caused by an Act of Vandalism under specific conditions, rest with the Council.

The price for the provision of the services (i.e. the provision of the School accommodation and the Support Services) is essentially a fixed price for the duration of the term.

There are several provisos to this e.g. annual indexation in accordance with the Retail Prices Index and Value for Money Testing. The latter is carried out at five year intervals and basically involves a comparison between the current price paid for a particular service (such as cleaning or catering) with equivalent prevailing market costs. If the market average is higher or lower than the current cost by a certain amount, then any excess outside of that range leads to a price adjustment.

The Project Agreement will come to an end on its agreed expiry date of 31 July 2031. Thirty months prior to the Expiry Date, a Handback Survey will be carried out. This will detail each asset and component of each school and will report on the residual life of those assets. On the Expiry Date, the facilities will be handed back to the Council, at nil consideration, in a condition which complies with specific standards / life expectancies for individual components within each school.

The Council only has the right to terminate the contract if it compensates the contractor. Guidelines are clearly set out for rules governing Compensation on Termination, as classified under events of Project Co. Default or Council Default.

The contract was originally treated as an operating lease but with the introduction of IFRIC 12 'Service Concession Arrangements', has now been accounted for as a finance lease. The value of assets held under the Schools PFI scheme is shown below:

Bebington High, Hilbre High and South Wirral High have adopted Foundation status. University Academy Birkenhead, Weatherhead High, Wirral Grammar School and Prenton High have adopted Academy status. Consequently, the corresponding assets are no longer reflected in the balance sheet.

Valuation information for PFI assets recognised in the Balance Sheet:

|  | Leasowe<br>Primary<br>£000 | Prenton<br>High<br>£000 | Wallasey<br>High<br>£000 | Total<br>£000 |
|--|----------------------------|-------------------------|--------------------------|---------------|
| <b>Movement in 2011/12</b>                 |                            |                         |                          |               |
| <b>Valuation</b>                           |                            |                         |                          |               |
| Valuation at 1 April 2011                  | 3,044                      | 4,921                   | 9,550                    | 17,515        |
| Disposals                                  | -                          | (4,921)                 | -                        | (4,921)       |
| Accumulative Depreciation at 1 April 2011  | (244)                      | (400)                   | (766)                    | (1,410)       |
| Depreciation 2011/12                       | (76)                       | (124)                   | (238)                    | (438)         |
| Adjustment for disposal                    | -                          | 524                     | -                        | 524           |
| Accumulative Depreciation at 31 March 2012 | (320)                      | -                       | (1,004)                  | (1,324)       |
| <b>Net Book Value</b>                      |                            |                         |                          |               |
| at 31 March 2012                           | 2,724                      | -                       | 8,546                    | 11,270        |
| at 31 March 2011                           | 2,800                      | 4,521                   | 8,784                    | 16,105        |
| <b>Comparative Movement in 2010/11</b>     |                            |                         |                          |               |
| Valuation at 1 April 2010                  | 3,044                      | 4,921                   | 9,550                    | 17,515        |
| Accumulative Depreciation at 1 April 2010  | (168)                      | (275)                   | (528)                    | (971)         |
| Depreciation 2010/11                       | (76)                       | (125)                   | (238)                    | (439)         |
| Accumulative Depreciation at 31 March 2011 | (244)                      | (400)                   | (766)                    | (1,410)       |

The valuation for Leasowe Primary School has now been amended to include the value of the land. As a result the valuation above is increased by £46,000.

The valuation for Wallasey High School has now been amended to exclude the City Learning Centre. As a result the valuation above is reduced by £365,000 and accumulated depreciation by £40,000.

## Payments

Payments remaining to be made under PFI contracts are as follows:

|                              | Services<br>£000 | Lease<br>Liability<br>£000 | Interest<br>£000 | Life cycle<br>costs<br>£000 | Total<br>£000  |
|------------------------------|------------------|----------------------------|------------------|-----------------------------|----------------|
| Payable in 2012/13           | 3,091            | 1,827                      | 2,044            | 934                         | 7,896          |
| Payable within 2 - 5 years   | 11,903           | 9,547                      | 7,422            | 2,710                       | 31,582         |
| Payable within 6 - 10 years  | 14,482           | 13,642                     | 7,246            | 4,109                       | 39,479         |
| Payable within 11 - 15 years | 14,677           | 16,831                     | 4,698            | 3,273                       | 39,479         |
| Payable within 16 - 20 years | 12,903           | 17,596                     | 1,434            | 1,121                       | 33,054         |
| <b>Total</b>                 | <b>57,056</b>    | <b>59,443</b>              | <b>22,844</b>    | <b>12,147</b>               | <b>151,490</b> |

The unitary payment in 2011/12 is £10,184,542 allocated as follows

|                              | 2010/11<br>£000 | 2011/12<br>£000 |
|------------------------------|-----------------|-----------------|
| Service costs                | 3,921           | 4,038           |
| Interest and similar charges | 3,165           | 3,379           |
| Lease liability              | 1,969           | 2,233           |
| Life cycle costs             | 710             | 534             |
|                              | <b>9,765</b>    | <b>10,184</b>   |

The value of the outstanding lease liability is:

|                                      | 2010/11<br>£000 | 2011/12<br>£000 |
|--------------------------------------|-----------------|-----------------|
| Balance outstanding at start of year | 68,786          | 61,617          |
| Lease payments during the year       | (2,004)         | (2,936)         |
| Other movements                      | (5,165)         | 23              |
|                                      | <b>61,617</b>   | <b>58,704</b>   |

In calculating the future unitary payments to the end of the contract from 2012-13 onward the most up to date information available has been used. This gives a more accurate estimate of the total outstanding liability. However, substituting this information revises upward the original calculation of the liability at 31 March 2011 by £23,000. The annual unitary payment is increased by the Retail Price Index less 10%. Since 2010/11 the RPI has been estimated using figures provided by the Office of Budget Responsibility whereas previous calculations were extracted from the operator's financial model.

Lease payments in 2010/11 were understated by £35,000. This has now been restated with a consequential adjustment reducing the balance at 31 March 2011 to £61,617,000.

**41. TERMINATION BENEFITS**

The Council ended the employment contracts of a number of employees in 2011/12, incurring liabilities of £1.7m (£23.4m in 2010/11) – see note 33 for the number of exit packages and total cost per band

The Council in October 2010 offered all employees the opportunity to apply to leave through voluntary severance and/or early voluntary retirement. Under this scheme over 1,100 individuals left the Council between December 2010 and July 2011.

**42. LONG TERM DEBTORS**

|                           | Repay-<br>ment of<br>former<br>MCC Debt<br>£000 | Regen-<br>eration<br>Property<br>Loans<br>£000 | Repay-<br>ment of<br>Council<br>Mortgages<br>£000 | Leases<br>£000 | Total<br>£000 |
|---------------------------|---|--|---|----------------|---------------|
| <b>Balance 1.4.2010</b>   | <b>67,029</b>                                   | <b>886</b>                                     | <b>103</b>  | -              | <b>68,018</b> |
| Advances                  | -   | 769  | -   | -              | 769           |
| Repaid/reclassified       | (4,469)   | -  | (22)  | -              | (4,491)       |
| <b>Balances 31.3.2011</b> | <b>62,560</b>                                   | <b>1,655</b>                                   | <b>81</b>   | -              | <b>64,296</b> |
| <b>Balance 1.4.2011</b>   | <b>62,560</b>                                   | <b>1,655</b>                                   | <b>81</b>   | -              | <b>64,296</b> |
| Advances                  | -   | 487  | -   | 2,675          | 3,162         |
| Repaid/reclassified       | (4,469)   | -  | (15)  | -              | (4,484)       |
| <b>Balances 31.3.2012</b> | <b>58,091</b>                                   | <b>2,142</b>                                   | <b>66</b>   | <b>2,675</b>   | <b>62,974</b> |

**43. DEFERRED CREDITS**

These amounts relate to the Council's share of the receipts from sales of former council housing by Wirral Partnership Homes and Beechwood and Ballantyne Community Housing Association, as well as the balances on outstanding mortgages previously granted by the Council in respect of Right to Buy properties.

|  | 2010/11<br>£000 | 2011/12<br>£000 |
|--|-----------------|-----------------|
| Receipts for Sale of Former Council Houses | -               | 142             |
| Outstanding mortgages                      | 81              | 66              |
|  | <b>81</b>       | <b>208</b>      |

#### **44. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES**

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

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

In 2011/12, the Council paid £12.2 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £14.1 million and 14.1%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 45.

In 2011/12 the Council paid £3.7 million by way of enhanced pensions, with the equivalent figure in 2010/11 being £3.0 million.

#### **45. DEFINED BENEFIT PENSION SCHEMES**

##### **Participation in Pension Schemes**

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

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Wirral Council - this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

## Transactions Relating to Post-employment Benefits

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

|   | Local Government Pension Scheme |                 | Discretionary Benefits Arrangements |                 | Unfunded Teachers Scheme |                 |
|---|---------------------------------|-----------------|-------------------------------------|-----------------|--------------------------|-----------------|
|   | 2010/11<br>£000                 | 2011/12<br>£000 | 2010/11<br>£000                     | 2011/12<br>£000 | 2010/11<br>£000          | 2011/12<br>£000 |
| Comprehensive Income and Expenditure Statement  |                                 |                 |                                     |                 |                          |                 |
| <i>Cost of Services:</i>  |                                 |                 |                                     |                 |                          |                 |
| • current service cost  | 25,737                          | 21,957          | -                                   | -               | -                        | -               |
| • past service Costs  | (56,725)                        | -               | (2,099)                             | -               | (2,025)                  | -               |
| • settlements and curtailments  | 4,618                           | (2,999)         | -                                   | -               | 964                      | 174             |
| <i>Financing and Investment Income and Expenditure</i>  |                                 |                 |                                     |                 |                          |                 |
| • interest cost   | 55,705                          | 51,411          | 2,336                               | 2,021           | 1,896                    | 1,794           |
| • expected return on scheme assets  | (42,172)                        | (44,309)        | -                                   | -               | -                        | -               |
| <i>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</i> | (12,837)                        | 26,060          | 237                                 | 2,021           | 835                      | 1,968           |

(Table continues on following page)

(Table continued from previous page)

|   | Local Government Pension Scheme |                 | Discretionary Benefits Arrangements |                 | Unfunded Teachers Scheme |                 |
|---|---------------------------------|-----------------|-------------------------------------|-----------------|--------------------------|-----------------|
|   | 2010/11<br>£000                 | 2011/12<br>£000 | 2010/11<br>£000                     | 2011/12<br>£000 | 2010/11<br>£000          | 2011/12<br>£000 |
| <i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>  |                                 |                 |                                     |                 |                          |                 |
| • actuarial gains and losses  | (44,580)                        | 62,348          | (2,489)                             | 857             | 968                      | 1,159           |
| <i>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>  | (57,417)                        | 88,408          | (2,252)                             | 2,878           | 1,803                    | 3,127           |
| <i>Movement in Reserves Statement</i>   |                                 |                 |                                     |                 |                          |                 |
| • reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | 12,837                          | (26,060)        | (237)                               | (2,021)         | (835)                    | (1,968)         |
| <i>Actual amount charged against the General Fund Balance for pensions in the year:</i>   |                                 |                 |                                     |                 |                          |                 |
| • employers' contributions payable to scheme  | 25,390                          | 28,411          |                                     |                 | 3,094                    | 3,023           |
| • retirement benefits payable to pensioners   |                                 |                 | 2,701                               | 2,721           |                          |                 |

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £64,364,000.

**Assets and Liabilities in Relation to Post-employment Benefits**

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

|                                      | <b>Funded liabilities:<br/>Local Government<br/>Pension Scheme</b> |                         | <b>Unfunded<br/>liabilities:<br/>Discretionary<br/>Benefits</b> |                         | <b>Unfunded<br/>Teachers Scheme</b> |                         |
|--------------------------------------|--|-------------------------|---|-------------------------|-------------------------------------|-------------------------|
|                                      | <b>2010/11<br/>£000</b>  | <b>2011/12<br/>£000</b> | <b>2010/11<br/>£000</b>   | <b>2011/12<br/>£000</b> | <b>2010/11<br/>£000</b>             | <b>2011/12<br/>£000</b> |
| Opening balance at 1 April           | 997,404  | 945,813                 | 43,061  | 38,108                  | 36,022                              | 34,731                  |
| Current service cost                 | 25,737   | 21,957                  | -   | -                       | -                                   | -                       |
| Interest cost                        | 55,705   | 51,411                  | 2,336   | 2,021                   | 1,896                               | 1,794                   |
| Contributions by scheme participants | 9,293  | 8,362                   | -   | -                       | -                                   | -                       |
| Actuarial (gains) and losses         | (49,851)   | 34,044                  | (2,489)   | 857                     | 968                                 | 1,159                   |
| Benefits paid                        | (40,368)   | (41,331)                | (2,701)   | (2,721)                 | (3,094)                             | (3,023)                 |
| Past service costs/ (gain)           | (56,725)   | -                       | (2,099)   | -                       | (2,025)                             | -                       |
| Curtailments                         | 4,618  | 3,934                   | -   | -                       | 964                                 | 174                     |
| Settlements                          | -  | (9,858)                 | -   | -                       | -                                   | -                       |
| Closing balance at 31 March          | 945,813  | 1,014,332               | 38,108  | 38,265                  | 34,731                              | 34,835                  |

**Reconciliation of fair value of the scheme (plan) assets:**

|                                      | <b>Local Government<br/>Pension Scheme</b> |                         | <b>Unfunded liabilities<br/>Discretionary Benefits</b> |                         |
|--------------------------------------|--|-------------------------|--|-------------------------|
|                                      | <b>2010/11<br/>£000</b>                    | <b>2011/12<br/>£000</b> | <b>2010/11<br/>£000</b>                                | <b>2011/12<br/>£000</b> |
| Opening balance at 1 April           | 652,616                                    | 683,832                 | -  | -                       |
| Expected rate of return              | 42,172                                     | 44,309                  | -  | -                       |
| Actuarial gains and losses           | (5,271)                                    | (28,304)                | -  | -                       |
| Employer contributions               | 25,390                                     | 28,411                  | 2,701  | 2,721                   |
| Contributions by scheme participants | 9,293                                      | 8,362                   | -  | -                       |
| Benefits paid                        | (40,368)                                   | (41,331)                | (2,701)  | (2,721)                 |
| Entity combinations                  | -  | -                       | -  | -                       |
| Settlements                          | -  | (2,925)                 | -  | -                       |
| Closing balance at 31 March          | 683,832                                    | 692,354                 | -  | -                       |

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

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

The actual return on scheme assets in the year was £16,005,000 (2010/11: £52,371,000).

| <b>Scheme History</b>                | <b>2007/08<br/>£000</b> | <b>2008/09<br/>£000</b> | <b>2009/10<br/>£000</b> | <b>2010/11<br/>£000</b> | <b>2011/12<br/>£000</b> |
|--------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Present value of liabilities:</b> |                         |                         |                         |                         |                         |
| Local Government Pension Scheme      | 838,119                 | 715,668                 | 997,404                 | 945,813                 | 1,014,332               |
| Discretionary Benefits               | 42,228                  | 36,044                  | 43,061                  | 38,108                  | 38,265                  |
| Teachers pension scheme              | 36,254                  | 31,022                  | 36,022                  | 34,731                  | 34,835                  |
|                                      | <b>916,601</b>          | <b>782,734</b>          | <b>1,076,487</b>        | <b>1,018,652</b>        | <b>1,087,432</b>        |
| <b>Fair value of assets:</b>         |                         |                         |                         |                         |                         |
| Local Government Pension Scheme      | 582,775                 | 485,456                 | 652,616                 | 683,832                 | 692,354                 |
|                                      |                         |                         |                         |                         |                         |
| <b>Surplus/(deficit):</b>            |                         |                         |                         |                         |                         |
| Local Government Pension Scheme      | (255,344)               | (230,212)               | (344,788)               | (261,981)               | (321,978)               |
| Discretionary Benefits               | (42,228)                | (36,044)                | (43,061)                | (38,108)                | (38,265)                |
| Teachers pension scheme              | (36,254)                | (31,022)                | (36,022)                | (34,731)                | (34,835)                |
| <b>Total</b>                         | <b>(333,826)</b>        | <b>(297,278)</b>        | <b>(423,871)</b>        | <b>(334,820)</b>        | <b>(395,078)</b>        |

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £395,078,000 has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £83.608 million. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2013 is £25.0 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £2.7 million. Expected contributions to unfunded teachers pensions in the year to 31 March 2012 are £3.0 million.

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Mercer, an independent firm of actuaries, estimates for the Merseyside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

|  | Local Government Pension Scheme |         | Discretionary Benefits |         |
|--|---------------------------------|---------|------------------------|---------|
|  | 2010/11                         | 2011/12 | 2010/11                | 2011/12 |
| Long-term expected rate of return on assets in the scheme:           |                                 |         |                        |         |
| Equity investments   | 7.5%                            | 7.0%    | -                      | -       |
| Government Bonds   | 4.4%                            | 3.1%    | -                      | -       |
| Other Bonds  | 5.1%                            | 4.1%    |                        |         |
| Property   | 6.5%                            | 6.0%    |                        |         |
| Cash / Liquidity   | 0.5%                            | 0.5%    |                        |         |
| Other  | 7.5%                            | 7.0%    | -                      | -       |
| Mortality assumptions:   |                                 |         |                        |         |
| Longevity at 65 for current pensioners:                              |                                 |         |                        |         |
| • Men  | 21.4                            | 21.5    | 16.4                   | 16.4    |
| • Women  | 24.1                            | 24.2    | 20.1                   | 20.3    |
| Longevity at 65 for future pensioners:                               |                                 |         |                        |         |
| • Men  | 22.8                            | 22.8    | -                      | -       |
| • Women  | 25.7                            | 25.8    | -                      | -       |
| Rate of CPI inflation  | 2.9%                            | 2.5%    | 2.8%                   | 2.7%    |
| Rate of increase in salaries   | 4.4%                            | 4.0%    | 2.8%                   | 2.7%    |
| Rate of increase in pensions   | 2.9%                            | 2.5%    | -                      | -       |
| Rate for discounting scheme liabilities                              | 5.5%                            | 4.9%    | 2.8%                   | 2.7%    |
| Take-up of option to convert annual pension into retirement lump sum | 50%                             | 50%     | 6.2%                   | 6.1%    |

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

|                    | 2010/11<br>% | 2011/12<br>% |
|--------------------|--------------|--------------|
| Equity investments | 60.7         | 59.1         |
| Government bonds   | 10.7         | 15.7         |
| Other bonds        | 6.7          | 4.0          |
| Property           | 7.9          | 9.3          |
| Cash/liquidity     | 2.3          | 2.2          |
| Other              | 11.7         | 9.7          |
|                    | 100.0        | 100.0        |

### History of Experience Gains and Losses

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

|  | 2007/08<br>% | 2008/09<br>% | 2009/10<br>% | 2010/11<br>% | 2011/12<br>% |
|--|--------------|--------------|--------------|--------------|--------------|
| Differences between the expected and actual return on assets | (9.82)       | (29.56)      | (20.35)      | 1.49         | (4.09)       |
| Experience gains and losses on liabilities                   | (2.40)       | -            | -            | 6.10         | -            |

### 46. TRUST FUNDS

The Council acts as a trustee for a number of trust funds. These do not represent assets of the Council and have not been included in the Balance Sheet.

The E.F. Callister trust promotes youth development. The Stitt and Russell trusts exist to promote educational achievement.

|                                      | EF Callister<br>£ | Stitt<br>Scholarship<br>£ | RJ Russell<br>Prize<br>£ | Criminal<br>Injuries<br>£ | Other<br>£     | Total<br>£     |
|--------------------------------------|-------------------|---------------------------|--------------------------|---------------------------|----------------|----------------|
| <b>Balance<br/>1 April 2010</b>      | <b>372,822</b>    | <b>36,480</b>             | <b>85,715</b>            | <b>33,891</b>             | <b>102,647</b> | <b>631,555</b> |
| Income                               | -                 | 182                       | 374                      | -                         | 12,786         | 13,342         |
| Expenditure                          | -                 | -                         | -                        | (31,558)                  | (1,030)        | (32,588)       |
| <b>Balance<br/>31 March<br/>2011</b> | <b>372,822</b>    | <b>36,662</b>             | <b>86,089</b>            | <b>2,333</b>              | <b>114,403</b> | <b>612,309</b> |
| Income                               | -                 | 183                       | 430                      | 12                        | 3,901          | 4,526          |
| Expenditure                          | -                 | -                         | -                        | -                         | (8,225)        | (8,225)        |
| <b>Balance<br/>31 March<br/>2012</b> | <b>372,822</b>    | <b>36,845</b>             | <b>86,519</b>            | <b>2,345</b>              | <b>110,079</b> | <b>608,610</b> |

Fund assets are as follows:

|             | <b>Balance<br/>1 April 2010<br/>£</b> | <b>Balance<br/>31 March 2011<br/>£</b> | <b>Balance<br/>31 March 2012<br/>£</b> |
|-------------|---------------------------------------|--|--|
| Property    | 372,822                               | 372,822                                | 372,822                                |
| Investments |                                       |  |  |
| Internal    | 238,014                               | 214,127                                | 213,813                                |
| Equities    | 6,922                                 | 6,922                                  | 6,922                                  |
| Cash        | 13,797                                | 18,438                                 | 15,053                                 |
|             | <b>631,555</b>                        | <b>612,309</b>                         | <b>608,610</b>                         |

## 47. CONTINGENT ASSETS AND LIABILITIES

### Wirral Partnership Homes (WPH)

On the transfer of the Council housing stock in 2005, an environmental warranty was agreed with Wirral Partnership Homes (WPH). This warranty requires remediation of any environmental contamination. It has been agreed that the funding of such costs will be from the Community Fund that is administered by WPH and the Council.

The Community Fund is administered by WPH but all expenditure must be agreed by both WPH and the Council. The utilisation of the Fund by each organisation must be in accord with the agreed purposes of improving the economic, environmental and social well-being of Wirral's residents and compliance with the charitable objectives of WPH.

### Pay Review

As a consequence of the National Joint Council (NJC) for Local Government Services pay award the Council is implementing a Local Pay Review which is being backdated to 1 April 2007. The review is addressing any equality issue in relation to equal pay for work of equal value, and whilst substantially complete the final cost is not yet known. The accounts include sums set aside as a contribution towards these additional costs.

The Council also undertook a negotiated settlement of its equal pay obligations. With the payment of back pay for certain employees relating to past years' service made a small number of cases remain to be settled and, to date, the Council has received a small number of claims. There is the likelihood of further potential liabilities or amounts that may be required to settle obligations.

### Development and Investment

The Housing Market Renewal Initiative involves a substantial programme of clearance and redevelopment in Birkenhead and Wallasey. A potential liability exists if the developments do not proceed given the current economic and public funding situation.

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

The Council has adopted CIPFA's Code of Practice on Treasury Management and complies with The Prudential Code of Capital Finance for Local Authorities (both revised in November 2011).

As part of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Investment Guidance for Local Authorities. This Guidance emphasises that priority is to be given security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

- **Credit Risk:** The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the other party.
- **Liquidity Risk:** The possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments
- **Market Risk:** The possibility that the value of an instrument will fluctuate because of changes in interest rates, market prices etc.

### **Credit Risk**

The Council manages credit risk by ensuring that investments are placed with counterparties having sufficiently high credit ratings as set out in the Treasury Management Strategy. Limits are also placed on the amount of money that can be invested with a single counterparty and for institutions that are part of the same banking group.

It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of credit indicators. All investments have been made in line with the Council's Treasury Management Strategy Statement for 2011/12, approved by Full Council on 1 March 2011.

Until November 2011 the minimum credit rating criteria for new investments in 2011/12 was a long term rating of A+/A1/A+ (Fitch/Moody's/S&P). Following downgrades to a number of systemically important financial institutions in autumn 2011, a lower minimum credit rating criteria of A-/A3/A- (Fitch/Moody's/S&P) was adopted by the Council once the revised Treasury Strategy was approved by Full Council.

The table below summarises the nominal value of the Council's investment portfolio as at 31 March 2012 by the counterparty's country of origin and its credit rating. The table confirms that all investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

| Financial Institution / Instrument and Country | Credit Rating *  |                   | Maturity of Investment |               |              |              |                | Balance Invested as at 31.03.12 |
|--|------------------|-------------------|------------------------|---------------|--------------|--------------|----------------|---------------------------------|
|  | Long Term Rating | Short Term Rating | Cash Equivalent        | 0-3 Months    | 3-6 Months   | 6-12 Months  | Over 12 Months |                                 |
|  |                  |                   | £000                   | £000          | £000         | £000         | £000           | £000                            |
| <b>LOANS AND RECEIVABLES</b>                   |                  |                   |                        |               |              |              |                |                                 |
| <u>Banks</u>                                   |                  |                   |                        |               |              |              |                |                                 |
| UK   | A+               | F1                | 15,000                 | -             | -            | -            | -              | 15,000                          |
| UK   | A                | F1                | -                      | 6,600         | 4,900        | 2,000        | 6,000          | 19,500                          |
| <u>Building Societies</u>                      |                  |                   |                        |               |              |              |                |                                 |
| UK   | A                | F1                | -                      | 5,500         | -            | -            | -              | 5,500                           |
| <u>Other Local Authorities</u>                 |                  |                   |                        |               |              |              |                |                                 |
|  | n/a              | n/a               | -                      | 3,500         | 4,000        | 6,800        | 19,500         | 33,800                          |
| <b>TOTAL LOANS AND RECEIVABLES</b>             |                  |                   | <b>15,000</b>          | <b>15,600</b> | <b>8,900</b> | <b>8,800</b> | <b>25,500</b>  | <b>73,800</b>                   |
| <b>AVAILABLE FOR SALE FINANCIAL ASSETS</b>     |                  |                   |                        |               |              |              |                |                                 |
| Gilts  | AAA              | F1+               | -                      | -             | -            | -            | 7,500          | 7,500                           |
| Other Externally Managed Funds                 | AAA              | F1+               | -                      | 999           | -            | -            | -              | 999                             |
| Money Market Fund                              | AAA              | F1+               | 19,730                 | -             | -            | -            | -              | 19,730                          |
| <b>TOTAL AVAILABLE FOR SALE ASSETS</b>         |                  |                   | <b>19,730</b>          | <b>999</b>    | <b>-</b>     | <b>-</b>     | <b>7,500</b>   | <b>28,229</b>                   |
| <b>Total Financial Instruments</b>             |                  |                   | <b>34,730</b>          | <b>16,599</b> | <b>8,900</b> | <b>8,800</b> | <b>33,000</b>  | <b>102,029</b>                  |

\* Credit rating is lowest common denominator equivalent derived from the rating allocated by the Agencies Fitch, Standard & Pools and Moody's

This table excludes the Council's impaired investment with Heritable Bank but includes a risk assessment of cash equivalents.

The Council has an impaired loan and receivable of £2m with Heritable bank at an interest rate of 6.22% which was due to mature on 28 November 2008. Early in October 2008 Heritable Bank went into administration. The latest creditor progress report issued by the administrators Ernst and Young dated 28 July 2011 outlined that the return to creditors is projected be 90p in the £ by the end of 2012/13 and the final recovery could be higher. The Council has, therefore, decided to recognise an impairment based on it recovering 90p in the £.

## Trade Debtors

The credit risk associated with loans secured against property is minimal. Trade debtors are also subject to non payment, a bad debt provision is calculated for these based on the historic experience of levels of default. By including these provisions within the accounts the credit risk is recognised in the accounts.

| <b>2010/11 Trade Debtors</b>   | <b>2011/12</b> |
|--------------------------------|----------------|
| <b>£000</b>                    | <b>£000</b>    |
| 15,353 Gross Debtors           | 21,808         |
| 6,489 Bad Debt Provision       | 7,622          |
| <b>8,864 Net Trade Debtors</b> | <b>14,186</b>  |

## Liquidity Risk

The Council has access to borrowing facilities from the Public Works Loan Board. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates by aiming to have an even spread of maturities in each year.

The maturity analysis of the nominal value of the Council's debt at 31 March 2012 was as follows

|                                      | <b>31.03.2012</b> |               |
|--------------------------------------|-------------------|---------------|
| <b>Maturity of Borrowing (Years)</b> | <b>£000</b>       | <b>%</b>      |
| <u>Short Term Borrowing</u>          |                   |               |
| Less than 1 year                     | 17,129            | 6.48          |
| <b>Total Short Term Borrowing</b>    | <b>17,129</b>     | <b>6.48</b>   |
| <u>Long Term Borrowing:-</u>         |                   |               |
| Over 1 year under 2 years            | 30,006            | 11.35         |
| Over 2 years under 3 years           | 13,035            | 4.93          |
| Over 3 years under 4 years           | 7,536             | 2.85          |
| Over 4 years under 5 years           | 8,036             | 3.04          |
| Over 5 years under 10 years          | 34,038            | 12.88         |
| Over 10 years under 20 years         | 23,529            | 8.90          |
| Over 20 years under 40 years         | 33,000            | 12.49         |
| Over 40 years under 60 years         | 79,500            | 30.08         |
| Over 60 years under 70 years         | 18,500            | 7.00          |
| <b>Total Long Term Borrowing</b>     | <b>247,180</b>    | <b>93.52</b>  |
| <b>Total Borrowing</b>               | <b>264,309</b>    | <b>100.00</b> |

## Market Risk

### (1) Interest Rate Risk:

The Council is exposed to risks arising from movements in interest rates. To give the Council maximum flexibility during the year's unsettled market conditions the Treasury Management Strategy did not place limits on the amount of debt that can be exposed to fixed or variable interest rates. At 31 March 2012 100% of the debt portfolio was held in fixed rate instruments.

Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect on investment income would have been an increase of approximately £1,430,000. There would be no effect on interest payable on borrowings as all borrowings held are at fixed rates of interest.

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

### **(2) Price risk:**

The Council only invests in AAA rated money market funds with a Constant Net Asset Value (CNAV) and, therefore, is only subject to very minimal price risk (i.e. the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments).

### **(3) Foreign exchange risk**

The Council has no financial assets or liabilities denominated in a foreign currency. It, therefore, has no exposure to loss arising as a result of adverse movements in exchange rates.

## **49. SURPLUS OR DEFICIT ON THE REVALUATION OF PROPERTY, PLANT AND EQUIPMENT**

This note relates to the 2010/11 amount of £10.5 million for the surplus or deficit on the Revaluation of Property, Plant and Equipment.

The deficit on the revaluation of property, plant and equipment contains £6m related to capital grants. This is an item of uncertainty as these grants are not related to the change in the value of the Council's assets. It is related to the funding of capital expenditure and should not be included in this line. The contra correction would have the effect of reducing service specific gross income. The correction has no effect on the Council's general fund balances as these items offset in the Comprehensive Income and Expenditure Statement.

## **50. PRIOR PERIOD ADJUSTMENTS**

### **(1) HERITAGE ASSETS**

For 2011/12 the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as vehicles or land and buildings at valuation within the property, plant and equipment classification or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. The Council's accounting policies for recognition and measurement of heritage assets are set out in the section on accounting policies.

In applying the new accounting policy, the Council has identified that the assets that were previously held as vehicles at £150,650 or land and buildings at £496,784 (within the property, plant and equipment classification) should now be recognised as heritage assets. However, no change in valuation was required to restate the position at 1 April

2010. An adjustment was however required to write off accumulated depreciation for the assets involved (2 trams and a lighthouse). This resulted in an increase in the Capital Adjustment Account.

The Council will also recognise an additional £11,842,230 for the recognition of heritage assets that were not previously recognised in the Balance Sheet. These assets relate to the Museum's art and other collections, civic regalia, heritage buildings and vehicles within the Transport Museum. This increase is reflected in the Revaluation Reserve and the Capital Adjustment Account for a number of donated assets. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

At 1 April 2010 the carrying amount of Heritage Assets is presented at its valuation at £12.490 million. The element that was previously recognised in property, plant and equipment has been reclassified and written down by £0.457 million. The Revaluation Reserve has increased by £11.761 million and the Capital Adjustment account by £0.272 million.

#### Effect on Opening Balance Sheet 1 April 2010

|                                   | <b>Opening<br/>Balances as<br/>at 1 April<br/>2010</b> | <b>Restatement</b> | <b>Restatement<br/>required to<br/>opening<br/>balances as<br/>at 1 April<br/>2010</b> |
|-----------------------------------|--|--------------------|--|
|                                   | <b>£000</b>  | <b>£000</b>        | <b>£000</b>  |
| Property, Plant and Equipment     | 713,720  | 713,263            | (457)  |
| Heritage Assets                   | -  | 12,490             | 12,490   |
|                                   |  |                    |  |
| <b>Long-term Assets</b>           | <b>807,344</b>   | <b>819,377</b>     | <b>12,033</b>  |
|                                   |  |                    |  |
| <b>Total Net Assets</b>           | <b>127,861</b>   | <b>139,894</b>     | <b>12,033</b>  |
|                                   |  |                    |  |
| Unusable Reserves                 | (18,048)   | (6,015)            | 12,033   |
|                                   |  |                    |  |
| <b>Net Worth / Total Reserves</b> | <b>127,861</b>   | <b>139,894</b>     | <b>12,033</b>  |

#### Movement in Reserves Statement – Unusable Reserves 2010/11

The restatement of the relevant lines of the Movement in Reserves statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

|  | <b>As<br/>Previously<br/>Stated 31<br/>March 2011<br/>£000</b> | <b>As Restated<br/>31 March<br/>2011<br/>£000</b> | <b>Restatement<br/>required to<br/>balances at<br/>31 March<br/>2011<br/>£000</b> |
|--|--|---|---|
| <b>Balance as at the end of the previous reporting period - 31 March 2010</b>    | <b>127,861</b>   | <b>139,894</b>                                    | <b>12,033</b>   |
| Surplus or Deficit on the Provision of Services                                  | 26,976   | 26,976  | -   |
| Other Comprehensive Income and Expenditure                                       | 40,738   | 40,738  | -   |
| Adjustments between the accounting basis and the funding basis under regulations | -  | -   | -   |
| <b>Increase / (decrease) in the year</b>   | <b>67,714</b>  | <b>67,714</b>                                     | <b>-</b>  |
| <b>Balance at the end of the current reporting period 31 March 2011</b>          | <b>195,575</b>   | <b>207,608</b>                                    | <b>12,033</b>   |

The resulting restated Balance Sheet for 31 March 2011 is provided on page 43. The adjustments that have been made to the Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

#### Effect on Balance Sheet 31 March 2011

|                               | <b>As<br/>Previously<br/>Stated 31<br/>March 2011<br/>£000</b> | <b>Restatement<br/>£000</b> | <b>Restatement<br/>required to<br/>balances at<br/>31 March<br/>2011<br/>£000</b> |
|-------------------------------|--|-----------------------------|---|
| Property, Plant and Equipment | 684,858  | 684,401                     | <b>(457)</b>  |
| Heritage Assets               | -  | 12,490                      | 12,490  |
| <b>Long-term Assets</b>       | <b>775,367</b>   | <b>787,400</b>              | <b>12,033</b>   |
| <b>Total Net Assets</b>       | <b>195,575</b>   | <b>207,608</b>              | <b>12,033</b>   |
| Unusable Reserves             | 51,158   | 63,191                      | 12,033  |
| <b>Total Reserves</b>         | <b>195,575</b>   | <b>207,608</b>              | <b>12,033</b>   |

There has been no further impact on the Balance Sheet apart from the changes referred to above for the period to 1 April 2010. The fully restated 1 April 2010 is provided on page 43.

## FINANCING AND INVESTMENT INCOME LINE WITHIN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

In the 2011/12 Statement of Accounts the Council has restated the line for Financing and Investment income and Expenditure for 2010/11 within the Comprehensive Income and Expenditure Statement. This is due to a change of accounting treatment in respect of pension assets, investment properties and other investment income.

|                  | <b>Gross<br/>Expenditure<br/>£000</b> | <b>Gross<br/>Income<br/>£000</b> | <b>Net<br/>Expenditure<br/>£000</b> |
|------------------|---------------------------------------|----------------------------------|-------------------------------------|
| 2010/11 Original | 31,287                                | 3,880                            | 27,407                              |
| 2010/11 Restated | 77,543                                | 50,136                           | 27,407                              |
| <b>Change</b>    | <b>46,256</b>                         | <b>46,256</b>                    | <b>-</b>                            |

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# **Additional Financial Statements**

## **Collection Fund**

**ADDITIONAL FINANCIAL STATEMENTS****COLLECTION FUND****INCOME AND EXPENDITURE ACCOUNT**

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of Wirral Council (the billing authority) in relation to the collection from taxpayers and distribution to the Council and the Merseyside Police and Fire and Rescue Authorities of Council Tax and to the Government of non-domestic rates.

|   | 2010/11 |            | 2011/12 |              |
|---|---------|------------|---------|--------------|
|   | £000    | £000       | £000    | £000         |
| <b>Income</b>   |         |            |         |              |
| Council Tax (Note 2)  | 123,292 |            | 124,642 |              |
| Transfers from General Fund:-   |         |            |         |              |
| • Council Tax Benefits  | 31,034  |            | 31,217  |              |
| • Pensioner Discounts   | 780     |            | 815     |              |
| Income Collectable from Business Rate Payers (Note 3)                     | 56,976  |            | 61,502  |              |
| Contribution from Preceptors to previous years estimated deficit (Note 6) | -       |            | -       |              |
|   |         | 212,082    |         | 218,176      |
| <b>Expenditure</b>  |         |            |         |              |
| Precepts from District, Police and Fire (Note 4)                          | 153,287 |            | 153,563 |              |
| Business Rate   |         |            |         |              |
| - Payment to National Pool (Note 3)                                       | 56,631  |            | 61,162  |              |
| - Costs of Collection   | 345     |            | 340     |              |
| Bad and Doubtful Debts  |         |            |         |              |
| - Provisions (Note 5)   | 866     |            | 1,829   |              |
| Contribution to Preceptors from previous years estimated surplus          | -       |            | -       |              |
|   |         | 211,129    |         | 216,894      |
| <b>Movement on Collection Fund Balance</b>                                |         | <b>953</b> |         | <b>1,282</b> |

**COLLECTION FUND BALANCE**

|                                  | 2010/11<br>£000 | 2011/12<br>£000 |
|----------------------------------|-----------------|-----------------|
| Fund Balance b/f 1 April         | 71              | 1,024           |
| Movement in year                 | 953             | 1,282           |
| <b>Fund Balance c/f 31 March</b> | <b>1,024</b>    | <b>2,306</b>    |

In accordance with accounting practice the Collection Fund balance has been allocated to individual preceptors, which includes Wirral Council.

**NOTES TO THE ADDITIONAL FINANCIAL STATEMENTS****COLLECTION FUND****1. GENERAL**

These accounts represent the statutory requirement to establish and maintain a separate fund for the collection and distribution of amounts in respect of Council Tax and National Non-Domestic Rates (NNDR).

**2. INCOME FROM COUNCIL TAX**

The Council set a Council Tax in 2011/12 for each band of dwelling as shown below:

| <b>Band</b> | <b>£</b> | <b>Band</b> | <b>£</b> | <b>Band</b> | <b>£</b> | <b>Band</b> | <b>£</b> |
|-------------|----------|-------------|----------|-------------|----------|-------------|----------|
| A           | 976.14   | C           | 1,301.51 | E           | 1,789.58 | G           | 2,440.34 |
| B           | 1,138.82 | D           | 1,464.20 | F           | 2,114.96 | H           | 2,928.40 |

The Council Tax was set estimating the number of properties in each band, after allowing for discounts and a 1.5% provision for non-collection. The tax in each band is set in relation to Band D. The maximum is Band H which is twice Band D. The minimum is Band A which is 2/3 of Band D.

The properties making up the estimated tax base are shown below. A number of adjustments are made to reflect the estimated reductions, reliefs and exemptions that apply to properties in each band. This gives the number of effective properties in each band, which is converted into the Band D equivalent using the ratios given:

| <b>Band</b>                           | <b>No. of Properties</b> | <b>Less Discounts</b> | <b>Effective Properties</b> | <b>Band Ratio</b> | <b>Band D Equivalent</b> |
|---------------------------------------|--------------------------|-----------------------|-----------------------------|-------------------|--------------------------|
| A                                     | 58,757                   | 11,039.50             | 47,717.50                   | 6/9               | 31,811.67                |
| B                                     | 31,041                   | 3,889.75              | 27,151.25                   | 7/9               | 21,117.64                |
| C                                     | 27,207                   | 2,828.25              | 24,378.75                   | 8/9               | 21,670.00                |
| D                                     | 13,028                   | 1,181.75              | 11,846.25                   | 1                 | 11,846.25                |
| E                                     | 8,039                    | 639.00                | 7,400.00                    | 11/9              | 9,044.44                 |
| F                                     | 4,273                    | 315.75                | 3,957.25                    | 13/9              | 5,716.03                 |
| G                                     | 3,101                    | 244.00                | 2,857.00                    | 15/9              | 4,761.67                 |
| H                                     | 271                      | 42.50                 | 228.50                      | 18/9              | 457.00                   |
|                                       | 145,717                  | 20,180.50             | 125,536.50                  |                   | 106,424.70               |
| Add Band A Disabled Relief Band D     |                          |                       |                             |                   | 51.10                    |
| <b>Total Council Tax Base 2011/12</b> |                          |                       |                             |                   | <b>106,475.80</b>        |
| Estimated Collection Rate             |                          |                       |                             |                   | x 98.5%                  |
| Adjusted Council Tax Base 2011/12     |                          |                       |                             |                   | 104,879                  |

The amounts credited to the Collection Fund for Council Tax are as follows: -

|                     | <b>2010/11</b> | <b>2011/12</b> |
|---------------------|----------------|----------------|
|                     | <b>£000</b>    | <b>£000</b>    |
| Cash Payable        | 123,292        | 124,642        |
| Council Tax Benefit | 31,034         | 31,217         |
| Pensioner Discounts | 780            | 815            |
|                     | <b>155,106</b> | <b>156,674</b> |

### 3. INCOME FROM BUSINESS RATE PAYERS

The Council collects Non-Domestic rates for its area. This is based on local estimated rateable values. The estimated rateable value is split between general and small business. For 2011/12, the total rateable value was £179,816,768 of this, £164,019,590 related to general, charged at £0.433. Total small business was £15,797,178, charged at £0.426. This gave an opening charge of £77.765 million. After certain reliefs are granted and a provision for losses in collection made this produces collectable income of £61.502 million.

The income amount less a costs of collection allowance is paid to a central pool managed by Central Government. The pool pays back to authorities an amount based on a standard amount per head of the local adult population. This distribution is paid into the Council's General Fund. The total rateable value of all hereditaments within the Council area at 31 March 2012 was £180,910,478.

### 4. PRECEPTS

The Collection Fund paid the following precepts during the year: -

|                                    | <b>2010/11</b> | <b>2011/12</b> |
|------------------------------------|----------------|----------------|
|                                    | <b>£000</b>    | <b>£000</b>    |
| Wirral Council                     | 131,197        | 131,434        |
| Merseyside Police Authority        | 15,309         | 15,336         |
| Merseyside Fire and Rescue Service | 6,781          | 6,793          |
|                                    | <b>153,287</b> | <b>153,563</b> |

### 5. PROVISION FOR BAD AND DOUBTFUL DEBTS

A provision for bad debts is made each year for uncollectable amounts. The Council assumed a general collection rate of 98.5% for 2011/12. The bad debt provision is assessed annually and amounts set aside adjusted on an age profile of outstanding debt. In 2011/12 an additional £0.75 million has been placed in the provision to reflect increased billing arising from the charging for empty properties and potential future liabilities for non-payment. The costs of bad and doubtful debts are split between the Collection Fund preceptors based upon their precept shares.

### 6. CONTRIBUTION FROM/TO COLLECTION FUND

A year-end surplus/deficit on the Council Tax element of the Collection Fund is only physically distributed/recovered between the billing and precepting authorities where an estimated surplus/deficit has already been notified to those authorities.

For 2011/12 the preceptors were originally notified on 15 January 2012 that the Collection Fund would be in a surplus position, with an estimate of £1.7 million. As at 31 March 2012 there was a surplus of £2.306 million and this was allocated amongst the precept authorities accordingly. The additional amount has been allocated on the basis of the 2012/13 precept proportions.

In accordance with the changes in accounting practice any outstanding amounts at year end are distributed to preceptors on an accrued basis. Wirral's balance sheet reflects the share of any amounts owing or owed to it. An agency arrangement is reflected in Wirral Council's accounts with a single debtor or creditor representing amounts owed or owing to the Merseyside Fire & Civil Defence and Merseyside Police Authorities.

## 7. ALLOCATION OF YEAR END BALANCES

The year end balance on the Collection Fund is in respect of Council Tax and is shared in proportion to the precepts on the Collection Fund. The surplus is allocated on two bases. The surplus that was reported on 15 January 2012 (£1.7 million) is apportioned using the 2011/12 precept votes, whereas the additional surplus resulting from the final position as at 31 March 2012, is apportioned using the 2012/13 precept votes.

| Payable to:                        | Estimate<br>15 Jan 12 | Additional<br>Surplus 31<br>Mar 12 | Total<br>Allocation |
|------------------------------------|-----------------------|------------------------------------|---------------------|
| Wirral Council                     | 1,455                 | 516                                | 1971                |
| Merseyside Police Authority        | 170                   | 62                                 | 232                 |
| Merseyside Fire and Rescue Service | 75                    | 28                                 | 103                 |
|                                    | <b>1,700</b>          | <b>606</b>                         | <b>2,306</b>        |

The share of any Collection Fund surplus or deficit is reflected within the precepting organisation's 2011/12 accounts. Wirral Council's element is included within the Taxation and Non-Specific Grant Income line within the Comprehensive Income and Expenditure Statement.

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# **Additional Financial Statements**

## **Merseyside Pension Fund Accounts**

**MERSEYSIDE PENSION FUND ACCOUNTS****FINANCIAL STATEMENTS**

| <b>FUND ACCOUNT</b>  | <b>Note</b> | <b>2010/11</b>   | <b>2011/12</b>   |
|--|-------------|------------------|------------------|
| <b>For the year ended 31 March 2012</b>  |             | <b>£000</b>      | <b>£000</b>      |
| <b>Contributions and Benefits:</b>   |             |                  |                  |
| Contributions receivable   | 6           | 266,747          | 243,213          |
| Transfers in   | 7           | 19,273           | 11,024           |
| Administration Income  |             | 326              | 199              |
|  |             | <b>286,346</b>   | <b>254,436</b>   |
| Benefits payable   | 8           | 259,911          | 267,053          |
| Payments to and on account of leavers  | 9           | 18,589           | 13,119           |
| Administration expenses  | 10          | 4,778            | 4,107            |
|  |             | <b>283,278</b>   | <b>284,279</b>   |
| <b>Net additions/(withdrawals) from dealing with members</b>                           |             | <b>3,068</b>     | <b>(29,843)</b>  |
| <b>Return on Investments:</b>  |             |                  |                  |
| Investment Income  | 11          | 88,540           | 91,070           |
| Profit and losses on disposal of investments and change in market value of investments | 13          | 330,903          | 35,962           |
| Taxes on income  | 11          | (1,988)          | (1,453)          |
| Investment management expenses   | 12          | (10,300)         | (11,225)         |
| <b>Net return on Investments</b>   |             | <b>407,155</b>   | <b>114,354</b>   |
| Net increase/(decrease) in the Fund during the year                                    |             | 410,223          | 84,511           |
| Net Assets of the Fund start of the year   |             | 4,705,649        | 5,115,872        |
| <b>Net Assets of the Fund end of the year</b>  |             | <b>5,115,872</b> | <b>5,200,383</b> |

| <b>NET ASSETS STATEMENT</b>                  | <b>Note</b> | <b>2010/11</b>   | <b>2011/12</b>   |
|--|-------------|------------------|------------------|
| <b>For the year ended 31 March 2012</b>      |             | <b>£000</b>      | <b>£000</b>      |
| <b>Investment Assets</b>                     | 13          |                  |                  |
| Equities                                     |             | 1,725,620        | 1,514,762        |
| Pooled Investment Vehicles                   |             | 2,960,106        | 3,216,404        |
| Derivative Contracts                         |             | 756              | 6,669            |
| Direct Property                              |             | 251,935          | 290,965          |
| Short Term Cash Deposits                     |             | 59,570           | 56,271           |
| Other Investment Balances                    |             | 89,555           | 75,895           |
|  |             | <b>5,087,542</b> | <b>5,160,966</b> |
| <b>Investment Liabilities</b>                | 16          | <b>(37,114)</b>  | <b>(15,338)</b>  |
|  |             | <b>5,050,428</b> | <b>5,145,628</b> |
| Long term assets                             | 17          | 30,844           | 30,864           |
| Current Assets                               | 18          | 50,586           | 36,330           |
| Current Liabilities                          | 18          | (15,986)         | (12,439)         |
| <b>Net Assets of the Fund as at 31 March</b> |             | <b>5,115,872</b> | <b>5,200,383</b> |

## NOTES TO THE PENSION FUND ACCOUNTS

### 1. GENERAL

Merseyside Pension Fund (MPF/the fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Wirral Council. Wirral Council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The fund is a contributory defined benefit pension scheme administered by Wirral Council to provide pensions and other benefits for pensionable employees of the Merseyside Local Authorities and a range of other scheduled and admitted bodies. Teachers, police officers and fire fighters are not included as they come within other national pension schemes.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in Merseyside Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are organisations that participate in the fund under an admission agreement between the fund and the relevant organisation.

Benefits are funded by employee and employer contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS and are matched by employers' contributions which are set based on triennial actuarial funding valuations.

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service. In May 2012 the Local Government Association announced the 2012 new LGPS proposals to take effect from 1 April 2014 subject to consultation. The new proposed scheme is a career average revalued scheme.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

### 2. BASIS OF PREPARATION

#### Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2011/12 financial year and its position at year end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the

United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are shown within the statement by the actuary on pages 176-177.

### **3. ACCOUNTING POLICIES**

The financial statements have been prepared on an accruals basis, unless otherwise stated.

#### **Contributions and benefits**

Contributions are accounted for on an accruals basis. Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump-sum benefits outstanding as at the year end. Augmentation and pension strain payments due from employers in future years are accrued for.

#### **Transfers to and from other schemes**

Transfer payments relate to those early leavers whose transfers have been paid during the year plus an accrual for future payments in respect of members moving their service to other schemes under bulk transfer arrangements.

#### **Taxation**

The fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

#### **Administration expenses**

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions team are charged direct to the fund. Management and other overheads are apportioned to the fund in accordance with council policy.

#### **Investment management expenses**

All investment management expenses are accounted for on an accrual basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

For certain unquoted investments including private equity, hedge funds, opportunities and infrastructure the fund do not charge costs for these to the fund account because the fund manager costs are not charged directly to the fund. They are instead deducted from the value of the fund's holding in that investment or from investment income paid to the fund.

The cost of obtaining investment advice from external consultants is included in investment management expenses.

Costs in respect of the internal investment team are classified as investment management expenses.

### **Property expenses**

Property expenditure is accounted for in the calendar year.

### **Investment income**

Income from equities is accounted for when the related investment is quoted ex dividend. Income from pooled investment vehicles and interest on short term deposits has been accounted for on an accruals basis. Distributions from associate and joint ventures are treated as return of capital until the book value is nil then treated as income on an accruals basis.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

### **Rental income**

Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown net of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

### **Valuation of investments**

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. The values of investments as shown in the net asset statement are determined as follows:

Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the fund would have obtained should the securities have been sold at that date.

For unlisted investments wherever possible valuations are obtained via the independent administrator. Valuations that are obtained direct from the manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date.

Hedge funds and infrastructure are recorded at fair value based on net asset values provided by fund administrators or using latest financial statements published by respective fund managers adjusted for any cash flows.

Private equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent.

Indirect property is valued at net asset value or capital fair value basis provided by the fund manager and of listed funds net asset value per unit is obtained through data vendors.

Direct property is valued at fair value as defined by the IASB and market rent as set out in VS 3.3 of the Professional Standards, as at the reporting date. Direct properties have been valued independently by Colliers International in accordance with Royal Institute of Chartered Surveyors Valuation Professional Standards as at 31 March 2012.

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes

income which is reinvested by the manager of the vehicle in the underlying investment, net of applicable withholding tax.

### **Translation of foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

### **Derivatives**

The fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

### **Financial Liabilities**

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

### **Basis of estimates**

Estimates for post year end outstanding items have been used for the following activities: payments of retirement grants, death grants and investment managers' fees

- retirement grants due for payment, but not paid by 31 March: using actual figures as far as possible, and assuming maximum commutation to be taken where the knowledge of the individual member's choice is still outstanding
- death grants due for payment, but not paid by 31 March: for example awaiting Probate
- investment managers' fees outstanding: estimated using the Fund's valuations as at 31 March 2012.

Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Hedge funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the hedge fund directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

#### 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

##### Unquoted investments

The fund has significant unquoted investments within private equity, infrastructure, property and other alternative investments. These are valued within the financial statements using valuations from the managers of the respective assets. There are clear accounting standards for these valuations and the fund has in place procedures for ensuring that valuations applied by managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2012 was £1,021 million (£874 million at 31 March 2011).

#### 5. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2012, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

#### 6. CONTRIBUTIONS RECEIVABLE

|                         | 2010/11<br>£000 | 2011/12<br>£000 |
|-------------------------|-----------------|-----------------|
| <b>Employers</b>        |                 |                 |
| Normal                  | 165,836         | 100,690         |
| Augmentation            | 45              | 145             |
| Pension Strain          | 28,471          | 19,501          |
| Deficit Funding         | 11,874          | 67,673          |
| <b>Employees</b>        |                 |                 |
| Normal                  | 60,521          | 55,204          |
|                         | <b>266,747</b>  | <b>243,213</b>  |
| <b>Relating to:</b>     |                 |                 |
| Administering Authority | 41,317          | 37,271          |
| Statutory Bodies        | 187,628         | 171,379         |
| Admission Bodies        | 37,802          | 34,563          |
|                         | <b>266,747</b>  | <b>243,213</b>  |

Employers normal contributions for 2012 no longer includes an element of past service deficit, as this is now shown under deficit funding. However, the 2011 employers normal contributions does include an element of past service deficit. The 2007 actuarial valuation calculated the average employer contribution rate of 17.8%, 12.1% was determined the average employer rate in respect of future service only and 5.7% for past service deficit.

"Augmentation" represents payments by employers to the Fund for the costs of additional membership benefits awarded under LGPS regulations. An accrual has been made for agreed future payments to the Fund.

"Pension Strain" represents the cost to employers when their employees retire early to compensate the Fund for the reduction in contribution income and the early payment of benefits. Payments to the Fund for such costs are made over agreed periods. An accrual has been made for agreed future payments to the Fund.

"Deficit Funding" for 2012 includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. However, the 2011 deficit funding represents additional payments by employers only as the past service deficit element was included in employers normal contributions. Also included is £1.4 million relating to Magistrates Courts (2010/11 £7.2 million) which was previously an active member of the Fund.

The fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2011/12 no such charges were levied.

## 7. TRANSFERS IN

|                      | 2010/11       | 2011/12       |
|----------------------|---------------|---------------|
|                      | £'000         | £'000         |
| Group transfers      | 4,609         | 169           |
| Individual transfers | 14,664        | 10,855        |
|                      | <b>19,273</b> | <b>11,024</b> |

## 8. BENEFITS PAYABLE

|                              | 2010/11        | 2011/12        |
|------------------------------|----------------|----------------|
|                              | £000           | £000           |
| Pensions                     | 182,237        | 199,812        |
| Lump sum retiring allowances | 72,053         | 62,277         |
| Lump sum death benefits      | 5,621          | 4,964          |
|                              | <b>259,911</b> | <b>267,053</b> |
| <b>Relating to:</b>          |                |                |
| Administering Authority      | 40,647         | 40,995         |
| Statutory Bodies             | 186,790        | 188,629        |
| Admission Bodies             | 32,474         | 37,429         |
|                              | <b>259,911</b> | <b>267,053</b> |

## 9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

|  | 2010/11       | 2011/12       |
|--|---------------|---------------|
|  | £000          | £000          |
| Refunds to members leaving service       | 15            | 7             |
| Payment for members joining State scheme | 1             | 3             |
| Income for members from State scheme     | (18)          | (5)           |
| Individual transfers to other schemes    | 18,591        | 13,114        |
|  | <b>18,589</b> | <b>13,119</b> |

**10. ADMINISTRATION EXPENSES**

|                               | <b>2010/11</b> | <b>2011/12</b> |
|-------------------------------|----------------|----------------|
|                               | <b>£000</b>    | <b>£000</b>    |
| Administration and processing | 4,396          | 3,717          |
| Actuarial fees                | 312            | 283            |
| External audit fees           | 37             | 81             |
| Internal audit fees           | 33             | 26             |
|                               | <b>4,778</b>   | <b>4,107</b>   |

External audit fees for 2011/12 includes fees for 2010/11.

**11. INVESTMENT INCOME**

|  | <b>2010/11</b> | <b>2011/12</b> |
|--|----------------|----------------|
|  | <b>£000</b>    | <b>£000</b>    |
| Dividends from Equities                  | 58,027         | 55,447         |
| Income from Pooled Investment Vehicles   | 9,005          | 15,448         |
| Net Rents from Properties                | 17,242         | 15,960         |
| Interest on Short Term Cash Deposits     | 705            | 369            |
| Income from Associate and Joint Ventures | 2,405          | 2,682          |
| Income from Derivatives                  | 257            | 349            |
| Other                                    | 899            | 815            |
|  | <b>88,540</b>  | <b>91,070</b>  |
| Irrecoverable withholding tax            | <b>(1,988)</b> | <b>(1,453)</b> |
|  | <b>86,552</b>  | <b>89,617</b>  |
| <b>Rents from properties</b>             |                |                |
| Rental income                            | 22,001         | 21,773         |
| Direct operating expenses                | <b>(4,759)</b> | <b>(5,813)</b> |
| Net rent from properties                 | <b>17,242</b>  | <b>15,960</b>  |

Within investment income for 2011 £450,000 of dividends from equities has been reattributed to income from pooled investment vehicles.

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £1.8 million (2010/11 £1.6 million).

The fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, but is not accruing for future receipt of such income within these accounts. Repayments received in 2011/12 £68,344 (2010/11 nil).

As at 31 March 2012, £177.0 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £185.7 million, giving a margin of 4.9%. Collateral is marked to market, and adjusted daily. Income from stock lending amounted to £739,965 and is included within "Other" Investment Income. As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation. As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

The risks associated with stocklending are set out in the fund's "Statement of Investment Principles".

## 12. INVESTMENT MANAGEMENT EXPENSES

|                           | 2010/11<br>£000 | 2011/12<br>£000 |
|---------------------------|-----------------|-----------------|
| External management fees  | 9,197           | 10,277          |
| External services         | 707             | 638             |
| Internal management costs | 396             | 310             |
|                           | <b>10,300</b>   | <b>11,225</b>   |

## 13. INVESTMENTS

|                               | Market Value<br>31.3.2011<br>£000 | Purchases<br>at cost &<br>Derivative<br>Payments<br>£000 | Sale<br>Proceeds &<br>Derivative<br>Receipts<br>£000 | Change in<br>Market<br>Value *<br>£000 | Market<br>Value<br>31.3.2012<br>£000 |
|-------------------------------|-----------------------------------|--|--|--|--------------------------------------|
| Equities                      | 1,725,620                         | 716,073  | (849,852)  | (77,079)                               | 1,514,762                            |
| Pooled Investment<br>Vehicles | 2,960,106                         | 487,686  | (349,177)  | 117,789                                | 3,216,404                            |
| Derivative Contracts          | 756                               | 109,632  | (99,993)   | (3,726)                                | 6,669                                |
| Direct Property               | 251,935                           | 41,447   | -  | (2,417)                                | 290,965                              |
|                               | <b>4,938,417</b>                  | <b>1,354,838</b>   | <b>(1,299,022)</b>                                   | <b>34,567</b>                          | <b>5,028,800</b>                     |
| Short term cash<br>deposits   | 59,570                            | -  | -  | 67                                     | 56,271                               |
| Other investment<br>balances  | 89,555                            | -  | -  | 1,328                                  | 75,895                               |
|                               | <b>5,087,542</b>                  | <b>-</b>   | <b>-</b>   | <b>35,962</b>                          | <b>5,160,966</b>                     |

\*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation. For 2010/11 purchases £2.4 billion and sales of £2.4 billion.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties. They have been added to purchases and netted against sales proceeds as appropriate. Transaction costs during the year amounted to £1.7 million (2010/11 £2.1 million). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

**13a Analysis of investments**

|                                       | <b>2010/11</b><br><b>£000</b> | <b>2011/12</b><br><b>£000</b> |
|---------------------------------------|-------------------------------|-------------------------------|
| <b>Equities (segregated holdings)</b> |                               |                               |
| UK Quoted                             | 855,304                       | 678,776                       |
| Overseas Quoted                       | 870,316                       | 835,986                       |
|                                       | <b>1,725,620</b>              | <b>1,514,762</b>              |
| <b>Pooled Investment Vehicles</b>     |                               |                               |
| UK Managed Funds:                     |                               |                               |
| Property                              | 26,000                        | 24,208                        |
| Equities                              | 224,555                       | 193,450                       |
| Private Equity                        | 143,309                       | 161,631                       |
| Hedge Funds                           | 48,818                        | 56,939                        |
| Corporate Bonds                       | 188,279                       | 186,523                       |
| Infrastructure                        | 26,992                        | 47,966                        |
| Opportunities                         | 96,680                        | 129,629                       |
| <b>Overseas Managed Funds:</b>        |                               |                               |
| Equities                              | 292,919                       | 267,703                       |
| Private Equity                        | 97,198                        | 104,008                       |
| Hedge Funds                           | 176,358                       | 173,771                       |
| Infrastructure                        | 11,321                        | 18,316                        |
| Opportunities                         | 18,370                        | 57,750                        |
| <b>UK Unit Trusts:</b>                |                               |                               |
| Property                              | 80,337                        | 84,444                        |
| <b>Overseas Unit Trusts:</b>          |                               |                               |
| Property                              | 57,863                        | 51,315                        |
| <b>Unitised Insurance Policies</b>    | 1,471,107                     | 1,658,751                     |
|                                       | <b>2,960,106</b>              | <b>3,216,404</b>              |
| <b>UK properties</b>                  |                               |                               |
| Freehold                              | 211,761                       | 249,387                       |
| Leasehold                             | 40,174                        | 41,578                        |
|                                       | <b>251,935</b>                | <b>290,965</b>                |
|                                       |                               |                               |
| Balance at 1 April                    | 210,225                       | 251,935                       |
| Additions                             | 42,722                        | 41,447                        |
| Disposals                             | (10,317)                      | -                             |
| Net gain/loss of fair value           | (653)                         | -                             |
| Transfers in/out                      | -                             | -                             |
| Other changes in fair value           | 9,958                         | (2,417)                       |
| <b>Balance at 31 March</b>            | <b>251,935</b>                | <b>290,965</b>                |

As at 31 March 2012 there were no amounts of restrictions on the realisability of investment property or of income and proceeds of disposal.

Contractual obligations for development, repairs and maintenance amounted to £2.5 million. There were no obligations to purchase new properties.

|                                 | <b>2010/11</b><br><b>£000</b> | <b>2011/12</b><br><b>£000</b> |
|---------------------------------|-------------------------------|-------------------------------|
| <b>Short term cash deposits</b> |                               |                               |
| Sterling                        | 59,570                        | 55,316                        |
| Foreign currency                | -                             | 955                           |
|                                 | <b>59,570</b>                 | <b>56,271</b>                 |

Short term deposits only cover cash balances held by the Fund. Cash held by investment managers awaiting investment is shown under "other investment balances".

|  | <b>2010/11</b><br><b>£000</b> | <b>2011/12</b><br><b>£000</b> |
|--|-------------------------------|-------------------------------|
| <b>Other investment balances</b>                                   |                               |                               |
| Amounts due from brokers   | 257                           | 349                           |
| Outstanding trades   | 35,523                        | 7,018                         |
| Outstanding dividends entitlements and recoverable withholding tax | 16,034                        | 17,081                        |
| Cash deposits  | 37,741                        | 51,447                        |
|  | <b>89,555</b>                 | <b>75,895</b>                 |

### **13b Impairment on Icelandic deposits**

At the time Iceland banks collapsed in October 2008, the fund had two investments £2.5 million with Heritable Bank and £5 million with Glitnir Bank.

The administrators for Heritable Bank estimated that the total amount to be received was to be between 86% and 90% of the claim. The Fund has therefore decided to recognise an impairment based on it recovering the mid point 88%. As at 31 March 2012 the fund had received dividend payments totalling £1.7 million.

In December 2011, the courts determined that local authority deposits with Glitnir Bank qualified for priority status. In March 2012, 81 pence in the £ was recovered and the remaining 19% remains held in Icelandic Krona in an escrow account. An impairment charge of £338,477 against accrued interest has been recognised in the Fund Account in 2011/12.

The total amount of accrued interest is £183,933 (2010/11 £385,653).

**13c Analysis of derivatives**

| <b>Derivatives as at 31 March 2012</b> |                | <b>£000</b>              | <b>£000</b>         |
|--|----------------|--------------------------|---------------------|
| <b>Futures</b>                         |                |                          |                     |
| <b>Type of Contract</b>                | <b>Expires</b> | <b>Economic Exposure</b> | <b>Market Value</b> |
| <b>Assets</b>                          |                |                          |                     |
| EURO STOXX 50 Index Futures            | Jun-12         | 3,474                    | 347                 |
| Swiss Market Index Futures             | Jun-12         | 933                      | 93                  |
| <b>Total Assets</b>                    |                |                          | <b>440</b>          |
| <b>Liabilities</b>                     |                |                          |                     |
| Total Liabilities                      |                |                          | -                   |
| <b>Net futures</b>                     |                |                          | <b>440</b>          |
| <b>Derivatives as at 31 March 2011</b> |                |                          |                     |
| <b>Futures</b>                         |                |                          |                     |
| <b>Type of Contract</b>                | <b>Expires</b> | <b>Economic Exposure</b> | <b>Market Value</b> |
| <b>Assets</b>                          |                |                          |                     |
| EURO STOXX 50 Index Futures            | Jun-11         | 2,694                    | 269                 |
| <b>Total Assets</b>                    |                |                          | <b>269</b>          |
| <b>Liabilities</b>                     |                |                          |                     |
| Total Liabilities                      |                |                          | -                   |
| <b>Net futures</b>                     |                |                          | <b>269</b>          |

A futures contract is the obligation under a legal agreement to make or take delivery of a specified instrument at a fixed future date, at a price determined at the time of dealing. Merseyside Pension Fund's index futures contracts are externally managed and their objective is to hedge overseas investment positions against adverse index movements.

Futures dealing requires the posting of margin. Initial margin which must be posted before you can trade and variation margin, the mark-to-market value of the futures contracts you hold. Variation margin is exchanged daily and exists to reduce counterparty credit exposure. Collateral is held in EUR, CHF and GBP currency and the Sterling equivalent is £104,088. DJ Euro STOXX 50 and Swiss Index Futures have a contract multiplier of x10 therefore the notional value underlying the futures contracts is £4.4 million.

**Forward currency contracts**

The funds forward currency contracts are exchange traded and are used by a number of our external investment managers to hedge exposures to foreign currency back into sterling.

| Settlement date                                  | Currency bought<br>000 | Currency sold<br>000 | Asset<br>£000 | Liability<br>£000 |
|--|------------------------|----------------------|---------------|-------------------|
| Up to one month                                  | AUD 17,531             | GBP 11,424           | 72            | -                 |
| Up to one month                                  | GBP 8,275              | AUD 12,713           | -             | (71)              |
| Up to one month                                  | EUR 62,092             | GBP 53,473           | 4,368         | -                 |
| Up to one month                                  | GBP 50,426             | EUR 58,660           | -             | (4,370)           |
| Up to one month                                  | HKD 14,816             | GBP 1,197            | -             | -                 |
| Up to one month                                  | GBP 1,271              | MYR 6,235            | -             | -                 |
| Up to one month                                  | SGD 6,224              | GBP 3,139            | -             | -                 |
| Up to one month                                  | GBP 3,502              | SGD 7,025            | -             | -                 |
| Up to one month                                  | GBP 745                | SEK 7,700            | -             | -                 |
| Up to one month                                  | CHF 21,149             | GBP 14,753           | 1,200         | -                 |
| Up to one month                                  | GBP 16,172             | CHF 23,280           | -             | (1,202)           |
| Up to one month                                  | GBP 194                | THB 9,626            | -             | -                 |
| Up to one month                                  | USD 9,178              | GBP 5,613            | -             | -                 |
| Up to one month                                  | GBP 5,424              | USD 8,745            | -             | -                 |
|  |                        |                      | 5,640         | (5,643)           |
| Net forward currency contracts at 31 March 2012  |                        |                      |               | (3)               |
| Prior year comparative                           |                        |                      |               |                   |
| Open forward currency contracts at 31 March 2011 |                        |                      | 18            | -                 |
| Net forward currency contracts at 31 March 2011  |                        |                      |               | 18                |

## Options

| Type of Option | Expires      | Underlying Investment        | Notional Holding<br>£000 | Market value 31<br>March 2011<br>£000 | Notional Holding<br>£000 | Market value 31<br>March 2012<br>£000 |
|----------------|--------------|------------------------------|--------------------------|---------------------------------------|--------------------------|---------------------------------------|
| Purchased Call | October 2012 | Etihad Etisalat Co SAR 10.00 | 469                      | 469                                   | 598                      | 589                                   |

A call option is an agreement that gives an investor the right (but not the obligation) to buy a stock, bond, commodity, or other instrument at a specified price within a specific time period. The funds only call exposure is a residual holding from a manager transition.

**13d Summary of Managers' Portfolio Values at 31 March 2012**

|   | 2010/11      |              | 2011/12      |              |
|---|--------------|--------------|--------------|--------------|
|   | £m           | %            | £m           | %            |
| <b>Externally Managed</b>   |              |              |              |              |
| JP Morgan (European equities)   | 192          | 3.8          | 175          | 3.4          |
| UBS (US equities)   | 417          | 8.2          | 401          | 7.8          |
| Nomura (Japan)  | 201          | 4.0          | 204          | 3.9          |
| Schroders (fixed income)  | 189          | 3.7          | 187          | 3.6          |
| Legal & General (pooled assets - UK and Emerging Markets equities & index linked) | 859          | 16.9         | 1,035        | 20.1         |
| Legal & General (fixed income)  | 195          | 3.8          | 223          | 4.3          |
| Unigestion (European equities)  | 147          | 2.9          | 141          | 2.7          |
| M&G (UK equities)   | 167          | 3.3          | 171          | 3.3          |
| M&G (global emerging markets)   | 134          | 2.6          | 127          | 2.5          |
| TT International (UK equities)  | 148          | 2.9          | 156          | 3.0          |
| Blackrock (UK equities)   | 165          | 3.2          | 168          | 3.2          |
| Blackrock (Pacific Rim)   | 110          | 2.2          | 104          | 2.0          |
| Newton (UK equities)  | 135          | 2.7          | 138          | 2.7          |
| Amundi (global emerging markets)  | 139          | 2.7          | 124          | 2.4          |
| Maple-Brown Abbot (Pacific Rim equities)  | 104          | 2.0          | 101          | 2.0          |
|   | <b>3,302</b> | <b>64.9</b>  | <b>3,455</b> | <b>66.9</b>  |
| <b>Internally Managed</b>   |              |              |              |              |
| UK equities   | 481          | 9.4          | 270          | 5.2          |
| European equities   | 144          | 2.8          | 127          | 2.5          |
| Property (direct)   | 252          | 5.0          | 291          | 5.6          |
| Property (indirect)   | 172          | 3.4          | 166          | 3.2          |
| Private equity  | 241          | 4.7          | 266          | 5.2          |
| Hedge funds   | 225          | 4.4          | 237          | 4.6          |
| Infrastructure  | 38           | 0.8          | 66           | 1.3          |
| Opportunities   | 115          | 2.3          | 196          | 3.8          |
| Short term deposits & other investments   | 117          | 2.3          | 87           | 1.7          |
|   | <b>1,785</b> | <b>35.1</b>  | <b>1,706</b> | <b>33.1</b>  |
|   | <b>5,087</b> | <b>100.0</b> | <b>5,161</b> | <b>100.0</b> |

The following holdings each represent more than 5% of the net assets of the Fund:

|  | 2010/11 |     | 2011/12 |      |
|--|---------|-----|---------|------|
|  | £000    | %   | £000    | %    |
| Legal & General pooled UK index linked gilts | 487,795 | 9.7 | 575,949 | 11.2 |
| UBS USA equity tracker                       | 417,291 | 8.3 | 401,274 | 7.8  |
| Legal & General pooled UK equities           | 371,470 | 7.4 | 410,018 | 8.0  |

## 14. FINANCIAL INSTRUMENTS

### 14a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading.

|                                    | 31 March 2012            |   |   |
|------------------------------------|--------------------------|---|---|
|                                    | Loans and<br>receivables | Financial<br>liabilities at<br>amortised cost | Designated as at<br>fair value through<br>profit and loss |
|                                    | £000                     | £000  | £000  |
| <b>Financial Assets</b>            |                          |   |   |
| Equities                           | -                        | -   | 1,514,762   |
| Pooled Investment Vehicles         | -                        | -   | 3,216,404   |
| Derivatives                        | -                        | -   | 6,669   |
| Cash deposits                      | 56,271                   | -   | -   |
| Other investment balances          | -                        | -   | 75,895  |
| Debtors                            | 67,194                   | -   | -   |
| <b>Total financial assets</b>      | <b>123,465</b>           | <b>-</b>                                      | <b>4,813,730</b>  |
| <b>Financial Liabilities</b>       |                          |   |   |
| Other investment balances          | -                        | -   | 15,338  |
| Creditors                          | -                        | 12,439  | -   |
| <b>Total financial liabilities</b> | <b>-</b>                 | <b>12,439</b>                                 | <b>15,338</b>   |
| <b>Net</b>                         | <b>123,465</b>           | <b>(12,439)</b>                               | <b>4,798,392</b>  |

|                                    | 31 March 2011            |   |   |
|------------------------------------|--------------------------|---|---|
|                                    | Loans and<br>receivables | Financial<br>liabilities at<br>amortised cost | Designated as at<br>fair value through<br>profit and loss |
|                                    | Restated                 | Restated                                      | Restated  |
|                                    | £000                     | £000  | £000  |
| <b>Financial Assets</b>            |                          |   |   |
| Equities                           | -                        | -   | 1,725,620   |
| Pooled Investment Vehicles         | -                        | -   | 2,960,106   |
| Derivatives                        | -                        | -   | 756   |
| Cash deposits                      | 59,570                   | -   | -   |
| Other investment balances          | -                        | -   | 89,555  |
| Debtors                            | 81,430                   | -   | -   |
| <b>Total financial assets</b>      | <b>141,000</b>           | <b>-</b>                                      | <b>4,776,037</b>  |
| <b>Financial Liabilities</b>       |                          |   |   |
| Other investment balances          | -                        | -   | 37,114  |
| Creditors                          | -                        | 15,986  | -   |
| <b>Total financial liabilities</b> | <b>-</b>                 | <b>15,986</b>                                 | <b>37,114</b>   |
| <b>Net</b>                         | <b>141,000</b>           | <b>(15,986)</b>                               | <b>4,738,923</b>  |

#### 14b Net gains and losses on financial instruments

|   | 2010/11<br>£000 | 2011/12<br>£000 |
|---|-----------------|-----------------|
| <b>Financial Assets</b>                 |                 |                 |
| Fair Value through profit and loss      | 321,598         | 38,312          |
| Loans and receivables                   | -               | 67              |
| <b>Total financial assets</b>           | <b>321,598</b>  | <b>38,379</b>   |
| <b>Financial Liabilities</b>            |                 |                 |
| Fair Value through profit and loss      | -               | -               |
| Financial liabilities at amortised cost | -               | -               |
| <b>Total financial liabilities</b>      | <b>-</b>        | <b>-</b>        |
| <b>Net</b>                              | <b>321,598</b>  | <b>38,379</b>   |

**14c Fair value of financial instruments and liabilities**

|   | 2010/11                |                    | 2011/12                |                    |
|---|------------------------|--------------------|------------------------|--------------------|
|   | Carrying value<br>£000 | Fair Value<br>£000 | Carrying value<br>£000 | Fair Value<br>£000 |
| <b>Financial Assets</b>                 |                        |                    |                        |                    |
| Fair Value through profit and loss      | 3,831,197              | 4,776,037          | 3,961,786              | 4,813,730          |
| Loans and receivables                   | 141,000                | 141,000            | 123,465                | 123,465            |
| <b>Total financial assets</b>           | <b>3,972,197</b>       | <b>4,917,037</b>   | <b>4,085,251</b>       | <b>4,937,195</b>   |
|   |                        |                    |                        |                    |
| <b>Financial Liabilities</b>            |                        |                    |                        |                    |
| Fair Value through profit and loss      | 37,114                 | 37,114             | 15,338                 | 15,338             |
| Financial liabilities at amortised cost | 15,986                 | 15,986             | 12,439                 | 12,439             |
| <b>Total financial liabilities</b>      | <b>53,100</b>          | <b>53,100</b>      | <b>27,777</b>          | <b>27,777</b>      |

The above table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values. The carrying value is the book cost and the fair value is market value.

**14d Valuation of financial instruments carried at fair value**

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

**Level 1**

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

Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

**Level 2**

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

**Level 3**

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

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

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

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

| <b>Values at 31 March 2012</b>                              | <b>Level 1<br/>£000</b> | <b>Level 2<br/>£000</b> | <b>Level 3<br/>£000</b> | <b>Total<br/>£000</b> |
|---|-------------------------|-------------------------|-------------------------|-----------------------|
| <b>Financial assets</b>                                     |                         |                         |                         |                       |
| Financial assets at fair value through profit and loss      | 1,938,397               | 2,066,665               | 808,668                 | 4,813,730             |
| Loans and receivables                                       | 123,465                 | -                       | -                       | 123,465               |
| <b>Total financial assets</b>                               | <b>2,061,862</b>        | <b>2,066,665</b>        | <b>808,668</b>          | <b>4,937,195</b>      |
| <b>Financial liabilities</b>                                |                         |                         |                         |                       |
| Financial liabilities at fair value through profit and loss | 15,338                  | -                       | -                       | 15,338                |
| Financial liabilities at amortised cost                     | 12,439                  | -                       | -                       | 12,439                |
| <b>Total financial liabilities</b>                          | <b>27,777</b>           | <b>-</b>                | <b>-</b>                | <b>27,777</b>         |
| <b>Net financial assets</b>                                 | <b>2,034,085</b>        | <b>2,066,665</b>        | <b>808,668</b>          | <b>4,909,418</b>      |

| <b>Values at 31 March 2011</b>                              | <b>Level 1<br/>£000</b> | <b>Level 2<br/>£000</b> | <b>Level 3<br/>£000</b> | <b>Total<br/>£000</b> |
|---|-------------------------|-------------------------|-------------------------|-----------------------|
| <b>Financial assets</b>                                     |                         |                         |                         |                       |
| Financial assets at fair value through profit and loss      | 2,194,139               | 1,896,995               | 684,903                 | 4,776,037             |
| Loans and receivables                                       | 141,000                 | -                       | -                       | 141,000               |
| <b>Total financial assets</b>                               | <b>2,335,139</b>        | <b>1,896,995</b>        | <b>684,903</b>          | <b>4,917,037</b>      |
| <b>Financial liabilities</b>                                |                         |                         |                         |                       |
| Financial liabilities at fair value through profit and loss | 37,114                  | -                       | -                       | 37,114                |
| Financial liabilities at amortised cost                     | 15,986                  | -                       | -                       | 15,986                |
| <b>Total financial liabilities</b>                          | <b>53,100</b>           | <b>-</b>                | <b>-</b>                | <b>53,100</b>         |
| <b>Net financial assets</b>                                 | <b>2,282,039</b>        | <b>1,896,995</b>        | <b>684,903</b>          | <b>4,863,937</b>      |

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

### Risk and risk management

The fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long term, the fund's objective is to set policies that will seek to ensure that investment returns achieved will at least match the assumptions underlying the actuarial valuation and therefore be appropriate to the liabilities of the fund.

Having regard to its liability profile, the fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation but will be reviewed as required particularly if there have been significant changes in the underlying liability profile or the investment environment.

The fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

The fund is also cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk and the risk/return characteristics of each asset and their relative correlations are reflected in the make up of the strategic benchmark.

The fund believes that, over the long term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The fund considers that its strong employer covenant, maturity profile and cash flows enable it to adopt a long term

investment perspective. A mix of short term assets such as bonds and cash is maintained to cover short term liabilities while equities (both passive and active), private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks. The fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner. The fund manages investment risks through the following measures:

- Broad diversification of types of investment and investment managers
- Explicit mandates governing the activity of investment managers.
- The use of a specific benchmark, related to liabilities of the fund for investment asset allocation
- The appointment of independent investment advisors to the Investment Monitoring Working Party
- Comprehensive monitoring procedures for investment managers including internal officers and scrutiny by elected Members

### Market Risk

The fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The tables below show the fund's exposure to asset classes and their reasonable predicted variance (as provided by the fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward looking assumption of future volatility based on analysis of previous performance and probability

The first table below shows the values of different financial instruments for 2010/11 and 2011/12 with no material difference in the values.

|  | <b>2010/11</b> | <b>2011/12</b> |
|--|----------------|----------------|
|  | <b>£m</b>      | <b>£m</b>      |
| UK Equities (all equities include pooled vehicles) | 1,452          | 1,283          |
| US Equities  | 417            | 404            |
| European Equities                                  | 477            | 443            |
| Japan Equities                                     | 201            | 204            |
| Emerging Markets Equities inc Pac Rim              | 485            | 454            |
| UK Fixed Income Pooled Vehicles                    | 383            | 458            |
| UK Index Linked Pooled Vehicles                    | 488            | 576            |
| Pooled Property                                    | 164            | 161            |
| Private Equity                                     | 241            | 264            |
| Hedge Funds  | 225            | 231            |
| Infrastructure                                     | 38             | 66             |
| Other Alternative Assets                           | 115            | 187            |
| Short term deposits & other investment balances    | 178            | 178            |
|  | <b>4,864</b>   | <b>4,909</b>   |

|  | <b>Value<br/>March<br/>2012<br/>£m</b> | <b>Potential<br/>Variance</b> | <b>Value on<br/>increase<br/>£m</b> | <b>Value on<br/>decrease<br/>£m</b> |
|--|--|-------------------------------|-------------------------------------|-------------------------------------|
| UK Equities (all equities include pooled vehicles) | 1,283                                  | 22.5%                         | 1,572                               | 994                                 |
| US Equities  | 404                                    | 21.0%                         | 489                                 | 319                                 |
| European Equities                                  | 443                                    | 22.5%                         | 543                                 | 343                                 |
| Japan Equities                                     | 204                                    | 22.5%                         | 250                                 | 158                                 |
| Emerging Markets Equities inc Pac Rim              | 454                                    | 31.5%                         | 597                                 | 311                                 |
| UK Fixed Income Pooled Vehicles                    | 458                                    | 10.0%                         | 504                                 | 412                                 |
| UK Index Linked Pooled Vehicles                    | 576                                    | 9.0%                          | 628                                 | 524                                 |
| Pooled Property                                    | 161                                    | 16.0%                         | 187                                 | 135                                 |
| Private Equity                                     | 264                                    | 29.0%                         | 341                                 | 187                                 |
| Hedge Funds  | 231                                    | 8.0%                          | 249                                 | 213                                 |
| Infrastructure                                     | 66                                     | 16.0%                         | 77                                  | 55                                  |
| Other Alternative Assets                           | 187                                    | 22.5%                         | 229                                 | 145                                 |
| Short term deposits & other investment balances    | 178                                    | 0.0%                          | 178                                 | 178                                 |
|  | <b>4,909</b>                           |                               | <b>5,843</b>                        | <b>3,975</b>                        |

### Credit Risk

The fund does not hold any fixed interest securities directly and the managers of the pooled fixed income vehicles are responsible for managing credit risk, section a of this note covers the market risks of these holdings.

The fund's arrangements for derivatives, securities lending and impaired items are dealt with in other notes to the accounts.

The short term cash deposits and other investment balances are diversified with investment grade financial institutions. The fund has a treasury management policy that is compliant with current best practice.

### Liquidity risk

The fund's key priority is to pay pensions in the long term and in the short term and the asset allocation is the key strategy in ensuring this. The earlier sections have dealt with the longer term risks associated with market volatility.

To ensure liquidity for payment of pensions the fund has an allocation of 1% to cash; £56 million is the actual figure at balance sheet date which equates to over 2 months of pensions payments. The fund also has £3,846m in assets which could be realised in under a months notice

The fund has no borrowing or borrowing facilities.

The management of the fund also prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. Whilst the fund has a net withdrawal for 2011/12 in its dealing with Members of £29 million, this is offset by investment income of £91 million.

## 16. INVESTMENT LIABILITIES

|                             | <b>2010/11</b><br><b>£000</b> | <b>2011/12</b><br><b>£000</b> |
|-----------------------------|-------------------------------|-------------------------------|
| Derivative contracts        | -                             | 5,644                         |
| Amounts due to stockbrokers | 37,114                        | 9,694                         |
|                             | <b>37,114</b>                 | <b>15,338</b>                 |

## 17. LONG TERM ASSETS

|                                       | <b>2010/11</b><br><b>£000</b> | <b>2011/12</b><br><b>£000</b> |
|---------------------------------------|-------------------------------|-------------------------------|
| Assets due in more than one year      | 30,844                        | 30,864                        |
|                                       | <b>30,844</b>                 | <b>30,864</b>                 |
| <b>Relating to:</b>                   | Restated                      |                               |
| Central Government Bodies             | 5,969                         | 5,535                         |
| Other Local Authorities               | 16,533                        | 23,230                        |
| NHS                                   | -                             | -                             |
| Public Corporations and Trading Funds | 6,785                         | 285                           |
| Bodies External to General Government | 1,557                         | 1,814                         |
|                                       | <b>30,844</b>                 | <b>30,864</b>                 |

A debtor has been identified as being classed as a central government body. The 2011 debtors have been restated to take account of this change.

Payments are being received in respect of pensioner and deferred members of the Magistrates Courts, which was previously an active employer in the fund. Year 1 is shown as a current asset, but years 2 - 8 have been discounted at a rate of 4% and are included above. Also discounted are future payments of pension strain to be paid by employers in 2013/14 onwards.

**18. CURRENT ASSETS AND LIABILITIES**

|   | <b>2010/11</b> | <b>2011/12</b> |
|---|----------------|----------------|
|   | <b>£000</b>    | <b>£000</b>    |
| <b>Assets</b>                               |                |                |
| Contributions due                           | 24,280         | 24,824         |
| Amounts due from external managers          | 10,831         | -              |
| Accrued and outstanding investment income   | 1,582          | 3,006          |
| Transfer values receivable                  | 3,264          | -              |
| Retirement grants paid in advance           | 36             | -              |
| Sundries                                    | 9,836          | 7,957          |
| Provision for bad debts                     | (50)           | (375)          |
| Cash at bank                                | 807            | 918            |
|   | <b>50,586</b>  | <b>36,330</b>  |
| <b>Relating to:</b>                         | Restated       |                |
| Central Government Bodies                   | 887            | 1,272          |
| Other Local Authorities                     | 19,946         | 19,994         |
| NHS   | -              | 2              |
| Public Corporations and Trading Funds       | 2,559          | 525            |
| Bodies External to General Government       | 27,194         | 14,537         |
|   | <b>50,586</b>  | <b>36,330</b>  |
| <b>Liabilities</b>                          |                |                |
| Transfer values payable                     | -              | -              |
| Retirement grants due                       | 4,408          | 1,775          |
| Provisions                                  | 873            | 602            |
| Miscellaneous                               | 10,705         | 10,062         |
|   | <b>15,986</b>  | <b>12,439</b>  |
| <b>Relating to:</b>                         |                |                |
| Central Government Bodies                   | 2,737          | 2,292          |
| Other Local Authorities                     | 3,564          | 1,380          |
| NHS   | -              | -              |
| Public Corporations and Trading Funds       | 855            | 16             |
| Bodies External to General Government       | 8,830          | 8,751          |
|   | <b>15,986</b>  | <b>12,439</b>  |
|   |                |                |
| <b>Total current assets and liabilities</b> | <b>34,600</b>  | <b>23,891</b>  |

"Sundries" mainly covers general debtors, property arrears due, agents' balances and recoverable taxation.

"Provision for bad debt" relates to property rental income, and is based on an assessment of all individual property debts as at 31 March 2012.

The main components of "Miscellaneous Liabilities" are the outstanding charges for investment management fees, payable quarterly in arrears, custodial and actuarial fees, plus income tax due, pre-paid rent and administering authority re-imburement.

A number of debtors have been identified as being classed as bodies external to general government. The 2011 debtors have been restated to take account of this change.

## 19. CONTRACTUAL COMMITMENTS

Commitments for investments amounted to £285.7m as at 31 March 2012. (2010/11 £187.7 million). These commitments relate to Private Equity £159.8 million, Infrastructure £72.9 million, Opportunities £9.1 million, Indirect Property £43.9 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

## 20. CONTINGENT ASSETS

When determining the appropriate fund policy for employers the different participating characteristics as either a contractor or community body or whether a guarantor of sufficient financial standing agrees to support the pension obligations is taken into consideration when setting the fiduciary strategy.

It is the policy to actively seek mechanisms to strengthen employer covenants by engaging "contingent assets" in the form of bonds/indemnity insurance, local authority guarantors, parent company guarantors or charge on assets to mitigate the risk of employers exiting the Fund leaving unrecoverable debt.

These financial undertakings are drawn in favour of Wirral Borough Council, as the Administrating Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

## 21. RELATED PARTY TRANSACTIONS

There are three groups of related parties: transactions between Wirral Council, as Administering Authority and the Fund, between employers within the Fund and the Fund, and between Members and Senior Officers and the Fund.

Administration and investment management costs include charges by Wirral Council in providing services in its role as administering authority to the Fund, which amount to £3.8 million. (2011 £4.9 million). Such charges principally relate to staffing required to maintain the pension service. Central, finance and IT costs are apportioned to the fund on the basis of time spent on fund work by Wirral Council. There was a debtor of £14.8 million and creditor £276,680 balances as at 31 March 2012.

Employers are related parties in so far as they pay contributions to the fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions in respect of March 2012 payroll are included within the debtors figure in note 18.

A specific declaration has been received from Pension Committee Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Councillors or Board members of particular scheme employers, listed below, who maintain a conventional employer relationship with the Fund:

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, all of whose Councillors may become scheme members, Wirral Council, Liverpool John Moores University, CDS Housing, Greater Hornby Homes and Wirral Partnership Homes. The value of the transactions with each of these related parties,

namely the routine monthly payments to the fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such no related party transactions have been declared.

Patrick Dowdall, Investment Manager - Alternatives, acts in an un-remunerated advisory capacity on 6 investment bodies in which the fund has an interest, Standard Life (£7.3m), F&C (£2.1m) and Palatine previously called Zeus (£3.7m), by whom travel expenses and accommodation were paid, plus Key Capital (£3.9m) Enterprise (£1.8m) and Capital Dynamics (£90.7m). New commitments to these funds during 2011/12 were as follows: Standard Life £10m, F&C £7.5m, Palatine £10m, Key Capital £2m and Capital Dynamics £38m approved at Pensions Committee 23 March 2011 and 20 March 2012.

Owen Thorne, Investment Officer acts in an un-remunerated board member capacity at Institutional Investors Group on Climate Change (IIGCC), to which the fund pays an annual subscription.

Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

### Key management personnel

The posts of Director of Finance, Deputy Director of Finance and Head of Pension Fund are deemed to be key management personnel with regards to the pension fund. The financial value of their relationship with the fund (in accordance with IAS24) are set out below:

|                                      | 2010/11<br>£000 | 2011/12<br>£000 |
|--------------------------------------|-----------------|-----------------|
| Short term benefits*                 | 318             | 309             |
| Long term/post retirement benefits** | 1,559           | 1,686           |
| <b>Total</b>                         | <b>1,877</b>    | <b>1,995</b>    |

\* This is the pensions element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions.

\*\* This is the accrued pension benefits, expressed as cash equivalent transfer value.

## 22. ADDITIONAL VOLUNTARY CONTRIBUTION INVESTMENTS

The Committee holds assets invested separately from the main fund. In accordance with regulation 5 (2) (c) of the Pensions Schemes (Management and Investment of Funds) Regulations 1998, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

|   | <b>2010/11</b> | <b>2011/12</b> |
|---|----------------|----------------|
|   | <b>£000</b>    | <b>£000</b>    |
| The aggregate amount of AVC investments is as follows : |                |                |
| Equitable Life  | 2,898          | 2,596          |
| Standard Life   | 6,035          | 5,683          |
| Prudential  | 4,079          | 4,477          |
|   | <b>13,012</b>  | <b>12,756</b>  |
| Changes during the year were as follows:                |                |                |
| Contributions   | 1,705          | 1,677          |
| Repayments  | 3,544          | 2,278          |
| Change in market values                                 | 517            | 345            |

### 23. BACKGROUND INFORMATION

Merseyside Pension Fund operates the Local Government Pensions Scheme (LGPS) which provides for the occupational pensions of employees (other than teachers, police officers and fire fighters) of the local authorities within the Merseyside Area. The current contributing employers are shown below. As at 31 March 2012, there were 45,521 active members (March 2011 47,554), 44,118 pensioners and dependents (March 2011 42,439), and 32,912 deferred beneficiaries (March 2011 31,361). Membership statistics quoted for March 2011 are adjusted for the provision of late notification of retirements, leavers with deferred benefits and other work in progress at the time of reporting last year.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2011/12 included 10 councillors from Wirral Council, the Administering authority, plus one councillor from each of the 4 other Borough Councils, and one member representing the other employers in the scheme. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes an external adviser and a consultant. In 2010/11 a Governance and Risk Working Party was established.

The Pensions Committee annually reviews its Statement of Investment Principles. The principles ensure that the Fund's investments would continue to be determined by all relevant considerations including the Council's fiduciary duty to employing bodies and the Council taxpayer, rate of return, risk, environmental, social and governance considerations rather than a blanket policy of disinvestment from any specific industry or sector. The latest review was in March 2010, and is available on the Fund's website: [mpfmembers.org.uk](http://mpfmembers.org.uk).

Under the LGPS Regulations, employer contributions are calculated by the Fund's actuary, having regards to the assumptions and methodology set out in the Fund's Funding Strategy Statement (FSS). The most recent Triennial Valuation by the actuary was as at 31 March 2010, when the funding level was 78% of projected actuarial liabilities. The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies a maximum period for achieving full funding of 25 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The table below sets out the summary of the market (gilts) yields at the valuation date, together with the yields at the date of the previous valuation:

|  | <b>31 March<br/>2010</b> | <b>31 March<br/>2007</b> |
|--|--------------------------|--------------------------|
| Long-dated gilt yield                        | 4.50%                    | 4.40%                    |
| Long-dated index-linked gilt yield           | 0.07%                    | 1.30%                    |
| Market expectation for inflation (long term) | 3.80%                    | 3.10%                    |

The assumptions to which the valuation results are particularly sensitive are:-

|                                   | <b>2010 Funding Target</b>  |
|-----------------------------------|---|
| Investment Return pre-retirement  | 6.50%   |
| Investment Return post-retirement | 5.50%   |
| Salary increases                  | 4.50%   |
| Pension increases in payment      | 3.00%   |
| Non-retired members mortality     | Pension Annuity 92 Medium Cohort<br>Year of Birth tables + 2 years  |
| Retired members mortality         | Continuous Mortality Investigation<br>(CMI) Self-Administered Pension<br>Schemes (SAPS) tables with scheme<br>and member category specific<br>adjustments |

The outcomes of the next Triennial Valuation, as at March 2013 are expected in the Autumn of 2013.

**Scheme Employers with Active Members as at 31 March 2012****Scheduled Bodies**

Academy of St Francis  
Arena & Convention Centre Liverpool  
Belvedere Academy  
Birkdale High School (Academy)  
Birkenhead Sixth Form College  
Blue Coat School (Academy)  
Carmel College  
Chesterfield High School (Academy)  
De la Salle Academy (Academy)  
Deyes High School (Academy)  
Enterprise South Liverpool Academy  
Formby High School (Academy)  
Greenbank High School (Academy)  
Halewood Parish Council  
Hope Academy  
Hugh Baird College  
King George V College  
Knowsley Community College  
Knowsley M.B.C.  
Knowsley Parish Council  
Liverpool City Council  
Liverpool Community College  
Liverpool John Moores University  
Maghull High School (Academy)  
Merseyside Fire & Rescue Authority  
Merseyside Integrated Transport Authority (MITA)  
Merseyside Passenger Transport Executive (MPTE)  
Merseyside Police Authority  
Merseyside Valuation Tribunal  
Merseyside Waste Disposal Authority  
National Probation Service  
North Liverpool Academy Ltd  
Oldershaw Academy  
Prenton High School for Girls (Academy)  
Prescot Town Council  
Rainford Parish Council  
Rainhill Parish Council  
Range High School (Academy)  
Sefton M.B.C.  
Southport College  
St. Anselms College (Academy)  
St. Edwards College (Academy)  
St. Helens College  
St. Helens M.B.C.  
Sutton Academy  
University Academy of Birkenhead  
Upton Hall School (Academy)  
Weatherhead High School (Academy)  
West Kirby Grammar School (Academy)  
Whiston Town Council

Wirral Council  
Wirral Grammar School for Boys (Academy)  
Wirral Grammar School for Girls (Academy)  
Wirral Metropolitan College

### **Admission Bodies**

Age UK - Liverpool  
Agilisys Limited  
Arriva North West  
Arvato Public Sector Services Limited  
Association of Police Authorities  
Balfour Beatty Workplace Ltd  
Beechwood and Ballantyne Housing Assoc.  
Berrybridge Housing Ltd  
Birkenhead Market Services Ltd  
Birkenhead School (2002)  
Capita Symonds (Sefton)  
Care Quality Commission  
Catholic Children's Society  
CDS Housing  
Cobalt Housing Ltd  
COLAS  
Compass (Scolarest) Liverpool Schools  
Compass (Scolarest) Wirral Schools  
Computacenter (UK) Ltd  
Comtechsa Limited  
Crime Reduction Initiatives  
Elite Cleaning & Environmental Services Ltd  
Enterprise (Liverpool Highways) Ltd  
Enterprise Liverpool Cleansing  
Enterprise Liverpool Neighbourhood Grounds  
Geraud Markets Liverpool Ltd  
Glendale (Liverpool Parks Services) Ltd  
Glenvale Transport Ltd/Stagecoach.  
Greater Hornby Homes  
Greater Merseyside Connexions  
Helena Partnerships Ltd.  
Hochtief Liverpool Schools  
Hochtief Wirral Schools  
Kingswood Colomendy Ltd.  
Knowsley Housing Trust  
LACORS  
Lee Valley Housing Association Ltd  
Liberata (UK) Ltd.  
Liverpool Association for the Disabled  
Liverpool Citizens Advice Bureau  
Liverpool Hope University  
Liverpool Housing Trust  
Liverpool Mutual Homes Ltd.  
Liverpool Vision Limited  
Local Government Association  
Mack Trading

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Merseyside Lieutenancy  
Merseyside Society for Deaf People  
Merseyside Welfare Rights  
Merseyside Youth Association  
Mouchel (2020 Knowsley Ltd)  
Mouchel (2020 Liverpool/Parkman)  
North Huyton New Deal New Future  
North Liverpool Citizens Advice Bureau  
Northgate Managed Services  
Novas Group  
Nugent Care  
One Vision Housing Ltd.  
Partners Credit Union  
Port Sunlight Village Trust  
RM Education PLC  
Sefton Education Business Partnership  
Sefton New Directions Ltd.  
South Liverpool Housing Ltd  
Southern Electric Co Ltd  
Southern Neighbourhood Council  
Taylor Shaw - King David  
Taylor Shaw (Meols Cop)  
University of Liverpool  
Vauxhall Neighbourhood Council  
Veolia ES Merseyside & Halton  
Village Housing Association Ltd  
Wavertree Citizens Advice Bureau  
Welsh Local Government Association  
Wirral Autistic Society  
Wirral Citizens Advice Bureau  
Wirral Partnership Homes Ltd

## MERSEYSIDE PENSION FUND

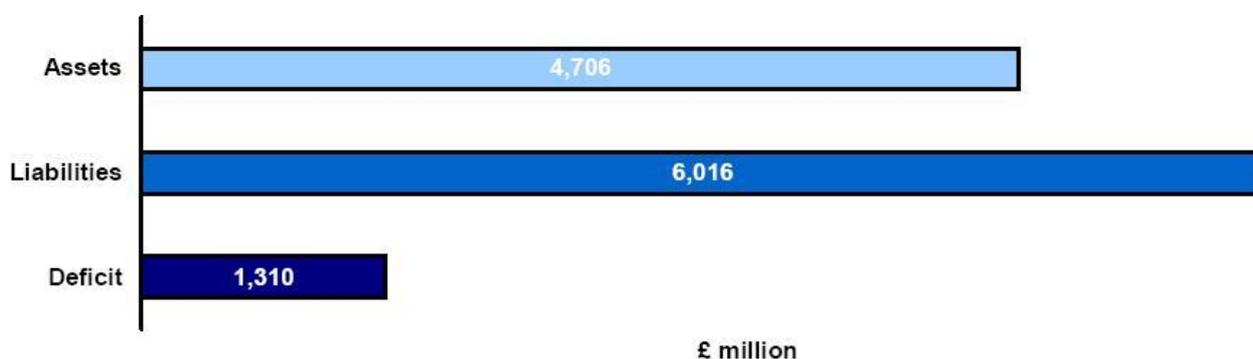
### Accounts for the year ended 31 March 2012

#### Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £4,706 million represented 78% of the Fund's past service liabilities of £6,016 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 11.6% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.4% of pensionable pay for 25 years. This would imply an average employer contribution rate of 18.0% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 30 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

|  | <b>For past service liabilities (Funding Target)</b> | <b>For future service liabilities (Common Contribution Rate)</b> |
|--|--|--|
| Rate of return on investments (discount rate)                                      |  |  |
| - pre retirement   | 6.5% per annum                                       | 6.75% per annum  |
| - post retirement  | 5.5% per annum                                       | 6.75% per annum  |
| Rate of pay increases  | 4.5% per annum                                       | 4.5% per annum   |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 3.0% per annum                                       | 3.0% per annum   |

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

### **Actuarial Present Value of Promised Retirement Benefits for the Purposes of International Accounting Standard 26 (IAS 26).**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions:

|  | <b>31 March 2011</b> | <b>31 March 2012</b> |
|--|----------------------|----------------------|
| Rate of return on investments (discount rate)                                      | 5.5% per annum       | 4.9% per annum       |
| Rate of pay increases  | 4.4% per annum       | 4.0% per annum       |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.9% per annum       | 2.5% per annum       |

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £6,720 million and £7,273 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £249 million.

Paul Middleman  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
August 2012

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# Glossary of Financial Terms

## **GLOSSARY OF FINANCIAL TERMS**

For the purpose of the Code of Practice the following definitions have been adopted.

### **ACCOUNTING POLICIES**

Define the process whereby transactions and other events are reflected in the financial statements.

### **ACCRUALS**

Income and Expenditure are recognised as they are earned or incurred, not as money is received or paid.

### **ACTUARIAL GAINS AND LOSSES**

Changes in actuarial deficits or surpluses that arise because:

- Events have not coincided with the actuarial assumptions made at the last valuation;
- The actuarial assumptions have changed.

### **AMORTISATION**

Amortisation is the equivalent of depreciation for intangible assets.

### **BUDGET**

Statement of spending plans for the year.

### **BUSINESS RATES (also NON DOMESTIC RATES)**

A levy on businesses based on national "rateable value" of the premises occupied. NDR is collected by the Council in line with national criteria, paid into a national pool and then redistributed to all local, fire and police authorities on the basis of population.

### **CAPITAL EXPENDITURE**

Expenditure on the acquisition of an asset or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

### **CAPITAL RECEIPTS**

Money received from the disposal of land and other assets, and from the repayment of grants and loans to the Council.

### **CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)**

This Institute produces Standards and Codes of Practice that must be followed in preparing the Council's financial statements.

### **CODE OF PRACTICE**

Local Authorities in England must comply with the Code of Practice on Local Authority Accounting in the United Kingdom in preparing their financial statements.

### **COLLECTION FUND**

Accounts required to be kept by the Council to record all income collected from local taxpayers, showing how this is passed on to other Local Authorities and Central Government.

### **CREDITORS**

Organisations and individuals to whom the Council owes money.

**CURRENT SERVICE COST (PENSIONS)**

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

**CURTAILMENT**

Curtailments show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

**DEBTORS**

Organisations and individuals who owe money to the Council.

**DEFINED BENEFIT SCHEME**

A pension or other retirement benefit scheme where the scheme's rules define the benefits.

**DEPRECIATION**

A charge representing the extent to which an asset has been worn out or used up during the year.

**EXPECTED RATE OF RETURN ON PENSIONS ASSETS**

For the Pension Fund the average rate of return, including both income and changes in fair value net of scheme expenses, expected over the remaining life of the asset.

**GENERAL FUND**

The main revenue fund of the Council. Day to day spending on services is met from the Fund.

**GOVERNMENT GRANTS**

There are two types of grant. Specific grants are for particular services such as Education. Others are non-specific and support services generally such as the Revenue Support Grant.

**IMPAIRMENT**

A reduction in the value of a fixed asset below the amount in the Balance Sheet.

**INTANGIBLE ASSETS**

Capital spend on items such as software licenses.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

The Standards establish broad rules and dictate specific accounting treatments. The Code of Practice interprets the Standards for local government.

**MINIMUM REVENUE PROVISION (MRP)**

The amount that the Council is required to charge to the revenue account each year to provide for the repayment of debt.

**NATIONAL NON-DOMESTIC RATES (NNDR)**

Another name for Business Rates and Non-Domestic Rates.

**NET BOOK VALUE**

The amount at which assets are included in the Balance Sheet i.e. their historical cost or current value less the cumulative amount provided for depreciation.

**NET EXPENDITURE**

Gross expenditure less specific service income but before the deduction of non-ring fenced government grants and local taxation.

**PRECEPT**

Amount the Council is required to raise from Council Tax on behalf of other authorities.

**PRIOR YEAR ADJUSTMENTS**

These are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

**PROVISIONS AND RESERVES**

Amounts set aside in one year to cover expenditure in the future.

**PUBLIC WORKS LOANS BOARD (PWLB)**

A government body that provides loans to local authorities to fund capital expenditure.

**REVENUE EXPENDITURE**

This is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.

**REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)**

This represents capitalisable items of expenditure where no asset exists but where the cost is to be amortised to revenue.

**REVENUE SUPPORT GRANT (RSG)**

This is a Government grant to fund Local Authority services generally. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

**SCHEME LIABILITIES**

The liabilities of the Pension Fund for outgoings due in the future. Scheme liabilities reflect the benefits that the employer is committed to provide for service up to a set date.

**SPECIFIC GOVERNMENT GRANTS**

Grants to fund particular services and may be revenue or capital in nature.

**UNAPPORTIONABLE CENTRAL OVERHEADS**

Overheads for which no user receives any specific benefit and the costs are not apportioned to services.

**USEFUL LIFE**

The period over which the local Council will derive benefits from the use of an asset.

# Further Information and Feedback

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## FURTHER INFORMATION AND FEEDBACK

Wirral Council produces the following documents that relate to its plans and finances. Copies of all these documents are available on the Wirral website at [www.wirral.gov.uk](http://www.wirral.gov.uk)

### CORPORATE PLAN

This document sets out the Council's strategy and direction for the next 5 years.

### COUNCIL TAX EXPLAINED

This booklet is issued annually with the Council Tax bills and sets out the plans for the coming year.

### STATEMENT OF ACCOUNTS

We welcome your comments on the Statement of Accounts and the information it contains. They will be used to improve future publications.

Was the document useful in helping you understand the Council's finances?

**YES**

**NO**

Would you like to see more information?

**YES**

**NO**

Please write any other comments below:

Please send any responses to Jenny Spick at Financial Services Division, Finance Department, Treasury Building, Cleveland Street, Birkenhead, CH41 6BU.

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