



# **Statement of Accounts 2012/13**

**30 September 2013**

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## FOREWORD AND FINANCIAL REPORT

### 1. INTRODUCTION

- 1.1 The Council is required to produce an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011. These require the Accounts to be prepared in accordance with proper accounting practices which primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the Service Reporting Code of Practice for Local Authorities 2012/13 (SeRCOP), supported by International Financial reporting Standards (IFRS).
- 1.2 The Statement of Accounts demonstrates the financial performance of the Council for the 2012/13 financial year and shows the financial position at the year-end of 31 March 2013.
- 1.3 This foreword aims 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. Whilst plain language has been used as far as possible technical language is required in some areas and a definition of financial terms has also been included.

### 2. ABOUT THE STATEMENT OF ACCOUNTS

- 2.1 A brief description of the various statements and their purposes:-
- Statement of Responsibilities. This sets out the responsibilities of the Council and of the Chief Finance Officer (Director Of Resources).
  - Auditor's Statement. This is the Independent Auditor's report to Members of Wirral Council including the conclusion of arrangements for securing Value For Money.
- 2.2 The Core 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 2013 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. This section provides further detail and explanation of the items contained within the Main Financial Statements.
- 2.3 There are Supplementary Financial Statements for:-
- The Collection Fund (and notes). Cover 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 administered by Wirral Council.

- 2.4 The Annual Governance Statement is no longer required as part of the Statement Of Accounts but has been included as it:-
- Gives public assurance that the Council has proper arrangements in place to manage its affairs. The Statement summarises the Council's responsibilities and shows the effectiveness of the arrangements in place to manage its affairs.
  - Shows the actions agreed by the Leader and Chief Executive to address those matters identified as requiring action to further enhance the governance arrangements.

### 3. PREPARATION OF THE STATEMENTS 2012/13

- 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 issued by the Chartered institute of Public Finance and Accountancy.
- 3.2 After the significant changes to the 2010/11 Accounts with the implementation of International Financial Reporting Standards (IFRS) 2011/12 saw changes to the accounting policy for heritage assets which did not impact upon the level of spend and the Council Tax. For 2012/13 there has been updates to narratives such as for the Carbon Reduction Commitment Scheme which have not impacted upon the level of spend and Council Tax.

### 4. REVIEW OF THE FINANCIAL YEAR

#### REVENUE EXPENDITURE

- 4.1 The spending on services provided to the people of Wirral is met from Government Grants and the local taxpayer through Council Tax. In 2012/13 there was no increase in the Wirral Council Tax and revenue spending was met from a combination of Government Grants, Council Tax and other income.
- 4.2 The Comprehensive Income and Expenditure Statement sets out the cost of services that the Council provides in accordance with the requirements for published accounts. This does not align with the way the financial position is managed during the year. Therefore the table below shows the 2012/13 financial position in accordance with the Departmental structure under which the Council operated and as presented to Members and Officers.
- 4.3 In March 2012 the Council agreed a net expenditure budget of £297.1 million for 2012/13.

#### Movement from Original Budget to Revised Budget 2012/13

	<b>£ million</b>
<b>Original Budget</b>	297.1
Council Tax Reimbursement funded in 2011/12	-3.9
Additional spending approved by Council on 15 October 2012	+0.7
<b>Revised Budget</b>	<b>293.9</b>

- 4.4 It was identified in September 2012 that the financial projections indicated a potential overspend of £17 million. Immediate actions were instigated including the introduction of enhanced monthly monitoring, the release of an Earmarked Reserve that was no longer required and the implementation of a Spending Freeze across the Council.
- 4.5 With the more robust monitoring arrangements, the curtailment in spending and the release of further Earmarked Reserves that were no longer deemed to be required the projected overspend reduced from the £17 million to a final out-turn of a £4.7 million overspend. The projections were a symptom of 'under-budgeting' which has been corrected in 2014/15.

#### 4.6 Comparison of the Revised Budget with the Actual 2012/13

	<b>Budget</b>	<b>Actual</b>	<b>Variation</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>Spend</b>			
Service expenditure	264.8	269.5	+4.7
Merseytravel	29.1	29.1	-
<b>Total spend</b>	<b>293.9</b>	<b>298.6</b>	<b>+4.7</b>
<b>Funded by</b>			
Government Grants	153.1	153.1	-
Council Tax	132.9	132.9	-
Use Of Balances	6.4	11.1	+4.7
Collection Fund Surplus	1.5	1.5	-
<b>Total Income</b>	<b>293.9</b>	<b>298.6</b>	<b>+4.7</b>

#### 4.7 Summary of the main variations by service area

<b>Service</b>	<b>£ million</b>
Care Services - Adult Social Services	+9.6
Care Services - Children's Services	+3.0
Freeze savings - cessation of Policy Options	-2.3
Savings – replacement of Efficiency Fund with a Reserve	-2.1
Reductions in Capital Programme and savings on borrowings	-1.7
Savings - Area Forum grants	-1.3
Other variations	-0.5
<b>Total Variation</b>	<b>+4.7</b>

- 4.8 Schools are funded primarily from the Dedicated Schools Grant and carry forward any surplus / deficit in net expenditure for the financial year. At the end of the financial year these balances are shown in the Council Balance Sheet but are only for use by the Schools.

#### GENERAL FUND BALANCES

- 4.9 During 2012/13 the Council adopted a localised approach to determining an appropriate level of balances. This takes account of the strategic, operational and financial risks being faced with particular risks relating to legislative changes, inflation and the delivery of the budget savings. It was agreed the Balances needed to be £13 million for 2013/14 and £17.7 million for 2014/15.

4.10 As at 31 March 2013 General Fund Balances were £27.4 million. With £10.2 million having been used in setting the Budget and Council Tax levels for 2013/14 the available balances were £17.2 million. This is more favourable than projected and is close to the level required for 2014/15.

#### 4.11 Summary of the General Fund Balances

Details	£ million	£ million
<b>Projected Balance when 2012/13 Budget agreed</b>		<b>8.8</b>
Additions to the Balances		
Addition following completion of 2011/12 accounts	+2.0	
Council Tax reimbursement met in 2011/12	+3.9	
Release of Earmarked Reserves	+26.6	+32.5
Reductions in Balances		
To create a Redundancy Reserve / Provision	-5.5	
To create an Efficiency Fund Reserve	-2.0	
To fund the overspend in 2012/13	-4.7	
To fund approved spend/bad debts	-1.7	-13.9
<b>Actual Balances at 31 March 2013</b>		<b>27.4</b>

4.12 As referred to previously Earmarked Reserves were reviewed and this resulted in the release of sums to the General Fund Balances. The main Reserves released were:

#### Main Reserves Released

Details	£ million
Debt Restructuring & Refinancing	7.9
Working Neighbourhood Fund	7.0
Minimum Revenue Provision	4.4
Housing Benefit	2.0
Capital (as funded from capital receipts)	0.9
Insurance Fund	0.8
Cosy Homes Insulation	0.8
Matching Fund	0.6

#### CAPITAL EXPENDITURE AND INCOME

4.13 The Council spends money on capital projects in accordance with the definition of capital expenditure in the Local Authority (Capital Finance and Accounting) Regulations 2003. This relates essentially to spending on assets that have a life of more than one year.

4.14 During 2012/13 the capital programme was reviewed and those schemes which were not progressing either because the scheme had not been fully determined or external funding was still being sought and those that relied upon borrowing which would place a burden upon future Council finances were reduced or removed. The opportunity was also taken to re-profile spending into 2013/14 together with the associated financing to better reflect the delivery time-scales in order to not present any further financial issues.



4.15 During 2012/13 over £33 million was spent on capital projects including the acquisition and improvement of assets and infrastructure. The spending incurred, by Department, and the funding of that spending is shown below.

#### 4.16 Capital Spend and Funding 2012/13

<b>Department</b>	<b>Spend</b>	<b>%</b>
	<b>£000</b>	
Adult Social Services	80	0.2
Children & Young People	14,994	44.9
Finance	51	0.2
Law, HR & Asset Management	3,615	11.0
Regeneration, Housing & Planning	7,398	22.2
Technical Services	7,190	21.5
<b>Total</b>	<b>33,328</b>	<b>100.0</b>

<b>Source</b>	<b>Funding</b>	<b>%</b>
	<b>£000</b>	
Borrowing	5,633	16.9
Grants	24,853	74.6
Revenue, Reserves & Contributions	295	0.9
Capital Receipts	2,547	7.6
<b>Total</b>	<b>33,328</b>	<b>100.0</b>

4.17 The major spending within Children & Young People relates to schools for which funding is largely provided by Government Grant. The year saw spend of £3.5 million as the Birkenhead High Girls Academy was completed with the total scheme costing £12 million. £4.5 million was spent on the £13.5 million Pensby Primary School / Stanley Special School project was split into two phases with Phase 1 progressing well during 2012/13 although additional costs were identified. Phase 2 is planned to commence during 2013/14. £5 million was spent on schools for which Schools Modernisation and Formula Capital support is provided by the Government. The timing of the spending is dependent upon the schools themselves.

4.18 Investment into regeneration continued with £3.4 million being targeted to the former Housing Market Renewal areas in Birkenhead and Wallasey. This is supported by Government Grant with the Council required to contribute match funding to ensure the successful delivery of the initiative which runs to 2014/15.

4.19 This investment into housing also includes empty property interventions designed to bring housing back into use and which contribute to the increased housing supply which brings additional resources in the form of the Government New Homes Bonus as well as additional Council Tax income.

4.20 In supporting individuals the Council spent £3.3 million on Renovation Grants and Disabled Facilities Grants with this spend funded largely from Government Grant. Additional resources are provided by the Council to support a range of housing initiatives including Wirral Healthy Homes and Cosy Homes.

- 4.21 The Council continues to make improvements to the highways infrastructure with £6.3 million spent on highways, bridges and road safety works which comprises the investment under Technical Services.
- 4.22 Whilst the Council can borrow to fund capital schemes as long as it is affordable the financial constraints limit such opportunities at present. A review of the asset holdings of the Council has identified the potential for increased revenue from capital receipts which will be used to support capital projects in the coming years. In 2012/13 the main source of funding, almost 75%, came from grants allocated by Central Government for specific schemes or projects being primarily investment in schools.

### **INCOME COLLECTION**

- 4.23 The Council collects income from a variety of sources of which the main areas are Council Tax, Business Rates and Sundry Debtors. The latter includes income from fees and charges although this is primarily paid at the point of service provision such as for cultural services facilities, golf courses, cemeteries and crematorium and car parking.

#### **Council Tax**

- 4.24 The Council collected 96.8% of the income due in 2012/13, which was the same collection rate as in 2011/12. In total £124 million was received during the year and the Council Tax arrears totalled £13.6 million at 31 March 2013. The number of properties remained at above 146,000 whilst there are over 42,000 recipients of benefit.
- 4.25 For 2013/14 there are significant changes with alterations to Central Government funding and the introduction of the Local Council Tax Support Scheme. This Scheme increases the numbers who have to pay Council Tax with many having to contribute for the first time and which will reduce the potential levels of collection.

#### **Business Rates**

- 4.26 Business Rates are collected by the Council and paid over to Central Government. In 2012/13 £65 million was collected and the arrears at 31 March 2013 were £6 million. In 2012/13 this was paid into a National Pool and the Government redistributed the Pool to local authorities based upon their respective populations. Under this arrangement Wirral received £2 for every £1 collected being a net beneficiary because of the relatively small Business Rate base.
- 4.27 From April 2013 changes to the funding of local government sees the opportunities of increased income and risks of reduced collection passing more to local authorities. The new arrangements will see Wirral receiving a 'top-up' payment from the Government because the Government formulae means Wirral's funding is set at a higher level than that collectable from Business Rates.

## Sundry Debtors

- 4.28 Sundry debtors incorporate a range of charges for services provided by the Council with the largest numbers by volume relating to care and care relate services. In respect of value this also includes the recovery of costs from other public sector organisations including health bodies and local authorities. During 2012/13 the Council raised around 48,000 invoices with a value in excess of £103 million and collected income of £103 million. The arrears at 31 March 2013 were reported as £30 million.
- 4.29 In November 2012 the Council identified that there were issues relating to the collection of debt, particularly outstanding debt within Adult Social Services. This led to an independent review conducted by Mr Eugene Sullivan which was reported in May 2013. This identified that there was the potential to write-off significant sums for which provision has been made in the accounts. Once this work has been concluded those debts which are recommended to be written-off will be reported to Cabinet for approval. As a result of the independent review all aspects of the Sundry Debtors process were reviewed and changes are being implemented to the billing, collection and recovery processes.

## 5. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

- 5.1 The Statement and the Movement in Reserves Statement show the financial performance and the net spend charged against Council Tax. The presentation of this Statement is determined by the Code Of Practice which has been set to aid comparison between local authorities. However the way local authorities manage and report their financial affairs will depend upon local circumstances. Section 4 of this report sets out how this has been achieved in Wirral.
- 5.2 **Gross expenditure distributed across services in 2012/13 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	39.5	5
Cultural and related services	38.2	5
Planning services	12.8	2
Environmental and regulatory services	28.1	4
Education and children's services	320.7	43
Highways and transport services	20.2	3
Other housing services	160.9	22
Adult social care	124.6	16
Corporate and democratic core	5.7	1
Non distributed costs	(5.2)	(1)
<b>Cost of Services</b>	<b>745.5</b>	<b>100</b>
Other operating expenditure	53.0	
Financing and investment	67.9	
<b>Provision of Services</b>	<b>866.4</b>	

### 5.3 The funding of the Gross Expenditure in 2012/13

<b>Funding</b>	<b>£000</b>	<b>%</b>
Specific Government Grants	402.8	48
General Government Grants	171.3	20
Council Tax	132.8	16
Fees and Charges	92.7	11
Financing and Investment Income	46.7	5
<b>Provision of Services</b>	<b>846.3</b>	<b>100</b>

5.4 The Specific Grants include £180 million for the Dedicated Schools Grant which is paid directly to the Council and £170 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.

## 6 MOVEMENT IN RESERVES STATEMENT

6.1 This shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (those which can be applied to fund revenue or capital spending) and unusable reserves (those relating to accounting processes which are not a usable resource for the Council).

6.2 The usable reserve balance at 31 March 2013 was £122 million which compares with £148 million at 31 March 2012. This comprises mainly of the General Fund balance, Earmarked Reserves and the Capital Receipts Reserve with the reduction in 2012/13 essentially due to the release of the Earmarked Reserves referred to earlier in this report.

6.3 The unusable reserves balance at 31 March 2013 was £120 million which compares with £64 million at 31 March 2012. This is made up of the reserves for revaluation and pensions, the adjustment accounts for capital and financial instruments and the compensated absences account. The increase in 2012/13 relates to the revaluation and pensions reserve.

## 7. BALANCE SHEET

7.1 The Balance Sheet at 31 March 2013 shows a Net Asset position of £1 million with the net worth of the Balance Sheet, excluding the Net Pensions Liability, being a net asset position of £473 million. This compares with the position at 31 March 2012 when the Net asset position was £84 million (£478 million when the Pensions Liability was excluded).

7.2 The Council required to recognise the potential pension liability and this is valued using an actuarial valuation and can fluctuate dependent upon external factors. The current review has increased this liability from previous years.

### 7.3 Summary of the Balance Sheet

	March 2012	March 2013
	£ million	£ million
<b>Long Term Assets</b>		
Property and Other	646.5	658.9
Long Term Investments	30.3	14.1
Long Term Debtors	63.0	59.0
<b>Long Term Assets</b>	<b>739.8</b>	<b>732.0</b>
<b>Current Assets and Current Liabilities</b>		
Current Assets	131.1	107.1
Current Liabilities	(81.3)	(87.2)
<b>Net Current Assets</b>	<b>49.8</b>	<b>19.9</b>
<b>Long Term Liabilities</b>		
Borrowing	(244.1)	(214.2)
Other Long Term Liabilities	(454.0)	(528.2)
Provisions and Capital Grants	(7.9)	(8.2)
<b>Long Term Liabilities</b>	<b>(706.0)</b>	<b>(750.6)</b>
<b>Net Assets</b>	<b>83.6</b>	<b>1.3</b>

#### Property and Other Assets

- 7.4 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 £659 million at 31 March 2013. 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.

#### Investments

- 7.5 Total investments at 31 March 2013 were £58million with the majority of investments being on a short term basis with financial institutions. Throughout 2012/13, 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 £1.1 million with an average rate of return of 0.8%.

#### Debtors

- 7.6 Debtors are classified as long-term or short-term debtors and the balance at 31 March 2013 was £103 million which was a reduction from the £117 million at 31 March 2012. The long-term debt includes £54million in respect of the former Merseyside County Council debt which is managed by Wirral Council.

**Creditors**

- 7.7 Creditors at 31 March 2013 were £46 million which was a reduction from the £52 million at 31 March 2012.

**Borrowing**

- 7.8 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).
- 7.9 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. The present economic position makes debt rescheduling unlikely in the short-to-medium term and in view of this the reserve held for Debt Restructuring and Refinancing was released to General Fund balances during 2012/13.
- 7.10 At 31 March 2013 the long term debt totalled £214 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.

**Retirement Benefits**

- 7.11 All Councils fully adopt the accounting policies contained with 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.
- 7.12 The majority of non-teaching staff who work for the Council are members of the Merseyside Pension Fund which Wirral administers on behalf of the Merseyside Councils as well over 120 other employing organisations. The figures included in the Statement of Accounts are based on the latest full valuation of the scheme as at 31 March 2010 and the IAS 19 actuarial report as at 31 March 2013 and presented by the independent firm of actuaries.
- 7.13 The actuaries have estimated the Council's underlying long term commitment to pay retirement benefits to be £472 million at 31 March 2013 which is an increase of £77 million from 31 March 2012. This has primarily resulted from 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.

- 7.14 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 statutory arrangements for finding the deficit will see the deficit made good by increased contributions over the remaining life of working employees as assessed by the scheme actuary. The contributions are reviewed every three years as part of the triennial revaluation of the Pension Fund and an investment strategy is then determined which aims to recover the deficit over a stated period (presently 25 years). Funding from the Council is only required to cover discretionary benefits when the pensions are actually paid.
- 7.15 Teachers employed by the Council are members of the teachers' pension scheme. This is administered by the Department for Education and it is not possible for the council to identify its share of the underlying liabilities. 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.

### **Net Assets**

- 7.16 The Net Assets are held in Reserves which are reported as usable or unusable. Usable reserves can be applied, subject to any statutory limitations on their use, to fund revenue or capital spending. 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.
- 7.17 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 2013 the major usable reserves were in respect of School balances £11.9 million, Housing Benefit £10.2 million and the Insurance Fund £7.8 million. The former are only available for use by the schools.

## **8. CASH FLOW STATEMENT**

- 8.1 The Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

## **9. COLLECTION FUND**

- 9.1 This Fund is maintained separately from the council's General Fund to specifically record income and expenditure associated with Council Tax and Non Domestic / Business Rates.
- 9.2 During 2012/13 the Fund showed a deficit of £0.1 million for the year and the accumulated year-end balance was £0.5 million at 31 March 2013. More detail is contained in the Collection Fund Statement.

## **10. MERSEYSIDE PENSION FUND**

- 10.1 The Fund is administered by Wirral Council and the Fund is reported and audited separately but form part of the Council's Statement of Accounts. Further information can be found within the Supplementary Statements section and also in the Merseyside Pension Fund Report and Accounts 2012/13.

## **11 FUTURE DEVELOPMENTS**

- 11.1 The global economic situation continues to affect public services in a variety of ways with Central Government actions to reduce the public sector deficit widely publicised and set to continue placing further pressure upon the public sector and the financial position of the Council.
- 11.2 Wirral's Council Tax was increased by 2% in 2013/14, after being held for two consecutive years, and initiatives such as the Council Tax relief scheme to over 70's households supports local people. Income continues to decline for many services and 2013/14 has seen the budget targets reduced accordingly. The level of outstanding debt and the ability of individuals to meet their financial obligations have been recognised and a further increase was made in the sums set aside for potential bad debts.
- 11.3 There will be continued pressures on all main services, particularly care services for both adults and children. The Council undertook a review of all budgets during 2012/13 and this review resulted in the re-alignment of budgets to better reflect spending demands. This included additional resources being identified, and allocated, for Adult Social Services and Children and Young People Services.
- 11.4 The changes to the financing of local government have brought new opportunities as well as new risks to the Council. The transfer of Public Health into the Council from April 2013 brings opportunities for greater integration with other Council services and improved outcomes for the residents of Wirral. April also saw the Local Council Tax Support Scheme implemented which places additional burdens upon individuals with the Scheme to be reviewed during 2013/14. The changes in respect of Business Rates bring both rewards and risks. The progression of the various regeneration initiatives will be vital in enabling Wirral to take advantage of the opportunities presented whilst non-collection of Business rates presents an increased risk to the Council.
- 11.5 Looking further ahead is the introduction of Universal Credit which is one of the key benefit changes introduced by the Welfare Reform Act 2012. This will see residents receiving a single benefit payment compared to the up to six different forms of benefit they presently receive. Once implemented the Council will no longer be responsible for housing benefit and the Council will seek to support those affected by the changes through the various Customer Services outlets and through working with partner agencies.
- 11.6 The Medium Term Financial Strategy is reviewed annually and updated as information becomes available. This includes evolving Government proposals as well as emerging actions by the Council to address any gap between the projected spend and likely resources.



- 11.7 Based upon the information presently available the Council's Projected Budget for 2014/16 shows a gap between the planned spend and likely resources of around £30 million. The Council has reduced budgets by over £100 million between 2011/14 but there will be further difficult decisions around the provision of services and the priorities of the Council over the coming years.
- 11.8 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. This includes reviewing IT and accommodation and the potential for joint working and shared services with neighbouring authorities and to explore alternative commissioning options.

## 12 CONCLUSIONS

- 12.1 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.
- 12.2 The Council has undergone significant changes throughout the last year and, whilst further change is inevitable and the pace of change increasing the Council is now in a position with the arrangements in place, and those being developed, to meet the challenges which lie ahead.

James Molloy  
Director of Resources (Interim)  
30 September 2013

## **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 Director of Resources who is named as the Chief Finance Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

### **The Chief Finance Officer's Responsibilities**

The Chief Finance 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).

In preparing this Statement of Accounts the Chief Finance 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 of practice.

The Chief Finance 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.

The Statement of Accounts presents a true and fair view of the financial position of Wirral Council at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

James Molloy  
Director Of Resources (Interim)  
30 September 2013

### **Approval of the Accounts**

The Statement of Accounts are to be considered by the Audit and Risk Management Committee on 18 September 2013.

Councillor Jim Crabtree  
Chair of The Audit & Risk  
Management Committee

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL COUNCIL****Opinion on the Authority financial statements**

We have audited the financial statements of Wirral Council for the year ended 31 March 2013 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, the 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 2012/13.

This report is made solely to the members of Wirral 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Director of Resources (Interim) and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Resources (Interim) 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. Our 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 us 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 Director of Resources (Interim); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

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

**Opinion on other matters**

In our 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 we report by exception**

We report to you if:

- in our 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we 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
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We are currently considering a matter raised by local electors and will be unable to formally conclude the audit and issue an audit certificate until this matter has been concluded.

**Conclusion on the 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 seeking to satisfy ourselves that the Council has made proper arrangements for securing financial resilience, we have considered the following matters:

- There were weaknesses in leadership and financial governance during the year that diverted action from delivering improvement; for part of the year there were significant capacity issues at senior officer level, the s151 officer did not sit on the management team and there were three different chief finance officers/s151 officers between the start of April and mid-October.
- The Corporate Plan was subject to significant review and change, impacting adversely on the Authority's ability to plan and prioritise over the medium to longer term. The plan was not underpinned by a robust medium term financial plan that clearly set out how the Council would address the projected shortfall of around £100 million for the period 2012–2015 or the £17m potential overspend identified at month three.
- The Authority acknowledged that there had been under budgeting issues for a number of years and savings plans were not robust, resulting in substantial year end overspends mainly funded by one off non-recurring income or savings. There has been regular use of reserves to fund recurrent expenditure as well as weaknesses in forecasting capital expenditure and an expenditure freeze was implemented to secure balance by the end of the year.
- The 2012/13 budget planning assumptions, scenario planning and risk management were not robust and this has had a significant impact on financial plans going forward.

In seeking to satisfy ourselves that the Council has made proper arrangements for challenging how it secures economy, efficiency and effectiveness, we have considered the following matters:

- For much of the year there was a lack of clarity about the Council's strategic priorities resulting in a lack of a strategic approach to challenging spend and considering how spending matches the priorities of the Authority.
- Performance management and risk management arrangements were reviewed by Internal Audit during the year and given 'limited assurance'.
- The strategic change programme was not linked to the wider savings programme and neither were delivered as planned. In the early part of the year there was a lack of impetus on decision-making and as a result the Authority was unable to demonstrate that there was an increase in productivity and better output from more limited resources.

These issues are acknowledged in the Authority's Improvement Plan and Annual Governance Statement.

**Adverse conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, the matters reported in the basis for adverse conclusion paragraph above prevent us from being satisfied that in all significant respects Wirral Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

**Report by exception**

The Audit Commission's guidance also requires us to report by exception on any other significant additional matters that come to our attention and which we consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such matters have come to our 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 Council has yet to fully 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 there is a high incidence of non-compliance with procedures. We continue to receive a number of questions and concerns raised by members of the public.

Without good governance, risk increases and priorities may not be achieved.

There were weaknesses in corporate arrangements for risk management, compliance with policies, procedures and internal control. Arrangements for the assurance of the systems of internal control were not adequate or effective and this was reflected in the Internal Audit annual report and the Council's Annual Governance Statement.

Without sound arrangements risks cannot be managed to a reasonable level and resources may not be used effectively to deliver value for money.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have:

- completed our consideration of matters brought to our attention by local authority electors; and
- completed our work on the Council's Whole of Government Accounts.

We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Michael Thomas  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Royal Liver Building, Liverpool, L3 1PS  
30 September 2013

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL COUNCIL****Opinion on the pension fund financial statements**

We have audited the pension fund financial statements of Merseyside Pension Fund for the year ended 31 March 2013 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 2012/13.

This report is made solely to the members of Wirral 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Director of Resources (Interim) and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Resources (Interim) 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. Our 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 us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the pension fund 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 Director of Resources (Interim); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on other matters**

In our 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.

**Opinion on the pension fund financial statements**

In our 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 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, 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 2012/13.

Michael Thomas  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Royal Liver Building, Liverpool, L3 1PS  
30 September 2013

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

## ANNUAL GOVERNANCE STATEMENT 2012/13

### 1. Scope of Responsibility

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, 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.

In discharging this overall responsibility including as accountable body for the Merseyside Pension Fund, 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 activities for the management of risk.

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'. A copy of the code is available on our website at [www.wirral.gov.uk](http://www.wirral.gov.uk). This statement explains how Wirral Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations Act 2011 in relation to consideration of the findings of a review of the system of internal control and approval and publication of an annual governance statement.

### 2. The Purpose of the Governance Framework

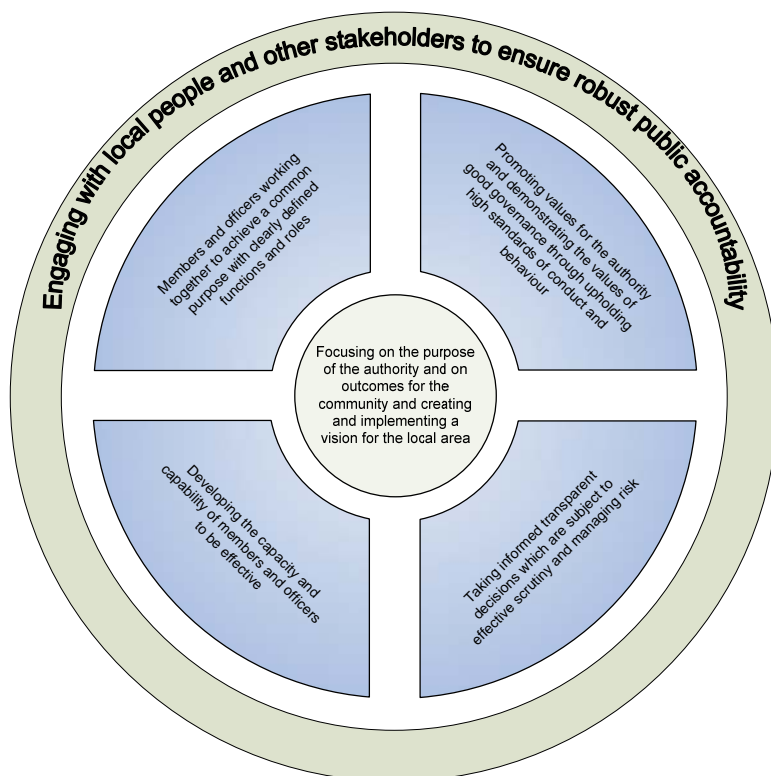
The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled, together with the activities through which it accounts to, engages with and, where appropriate, leads the community. It enables the Authority to monitor the achievement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

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 failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Wirral Council's 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.

The governance framework has been in place at Wirral Council for the year ended 31 March 2013 and up to the date of approval of the annual statement of accounts.

### 3. The Governance Framework

The CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' identifies six key principles of governance best practice:



Wirral Council's governance environment is consistent with these six core principles. Key areas of assurance of the systems and processes which comprise the Council's governance arrangements are as follows:

***Principle 1: Focussing on the purpose of the Authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.***

The Council can demonstrate that it is focusing on outcomes for the community and on a longer-term vision for the area. The authority has:

- Put in place a new Corporate Plan which has been independently commended through an LGA peer challenge;
- Developed a budget strategy aligned to the Corporate Plan which places the Council in a stronger position to meet future financial challenges;
- Reinvigorated strategic partnership working to ensure that the Council's vision for Wirral is shared by, and collectively delivered with, the wider public sector (see Principle 6).
- Agreed an approach to neighbourhood working which will place communities, citizens and service users at the heart of service design and delivery (see Principle 6).



The views of citizens and service users have been critical to the Council in developing its Corporate Plan that was approved at Budget Council in March 2013. The 'What Really Matters' consultation commenced in September 2012 and captured the views and aspirations of local residents and stakeholders and directly informed the Council's vision:

*"We will ensure this Council is in the future focussed upon serving and protecting local people and in particular those who are most vulnerable and in need. We will do this through the engagement and empowerment of individuals and communities in both the design and delivery of local services, and by working together with partners in the public, private and the community, voluntary and faith and independent sectors."*

Wirral Council Corporate Plan 2013-16

This vision is underpinned by the following priorities, which were identified by local residents and stakeholders as being 'what really matters' to Wirral:

- Protect the vulnerable in our borough
- Tackle health inequalities
- Drive growth in our economy

Whilst putting in place a forward-looking vision for Wirral, the Council focused on the need to make budget savings and address the most challenging financial position the local authority has ever faced. The 'what really matters' consultation also emphasised the need to identify the budget savings necessary for 2013-14 and demonstrated the highest level of engagement in the UK when compared with similar exercises. The broad consultation was complemented by a range of specific consultations to involve residents in service redesign linked to budget savings.

The budget savings programme for 2013-14 is now being delivered, with a longer-term plan outlined in the Council's Medium-Term Financial Strategy. The timetable for setting the Council's budget for 2014-15 in line with its longer term financial strategy has now been agreed.

***Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.***

The Council's Corporate Plan and budget strategy have been collectively developed by Elected Members and officers and provide a clear framework for working together to achieve a common purpose.

The Council currently has stable political leadership which facilitates timely and robust decision-making in reviewing and addressing governance issues. Briefings for the political leadership are working effectively and dedicated planning sessions involving the Chief Executive's Senior Management Team and Cabinet are regularly taking place to develop the Council's future direction and identify the key transformational projects that will be delivered over the next three years.

Ensuring greater long-term stability in organisational leadership along with a clear and a sustained focus on the vision for the area and on delivering the Council's budget strategy, the Chief Executive's position has now been designated as permanent as approved by Council in January 2013. The Council has also significantly increased its capacity to deliver its purpose and vision through the appointment of three strategic directors as part of a senior management restructure approved in December 2012. The Strategic Director posts oversee the following programme areas and drive forward service transformation:

- Transformation and Resources
- Families and Wellbeing
- Regeneration and Environment

Delivery of the Corporate Plan is also underway across these programme areas, with Directorate Plans being developed and performance management arrangements being refined to ensure that the implementation is effectively monitored and remedial action taken where necessary.

Cabinet in May 2013 endorsed an ambitious programme of transformation to deliver further savings which includes the following projects:

- Review of Asset Management
- Technical Functions
- Neighbourhood Working
- Transforming Business Support
- Strategic Review of Leisure Services
- Strategic Commissioning
- Transforming Children's and Adults' Services

At this stage each project is being implemented to consider the different ways that the services can be delivered in the future.

The Leader put in place a Leaders' Board in September 2012 to engage on an ongoing basis with political group leaders about the Council's strategy and future plans.

An important factor in the Council's leadership developing a shared collective vision and working together to achieve it has been the role of the LGA Improvement Board. The Improvement Board is a partnership between Wirral Council and the Local Government Association. The Board was established in February 2012 to support the authority to address the serious weaknesses identified in a series of external reports. Through the development and implementation of a coherent improvement plan, the Council has been able to report on progress and identify that it is learning from previous governance issues and working more transparently and openly.

During recent organisational change, including senior management and service restructuring and changes to staff conditions of service, recognised trade unions have been engaged and consulted with extensively to ensure the most equitable outcomes for staff and the organisation. Negotiations with unions have been decisive in finalising revised staff terms and conditions.

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***Principle 3: Promoting the values of the Authority and demonstrating the values of good governance through behaviour.***

As highlighted in respect of principle 2, the Improvement Board has been important in developing good governance through its advisory role providing oversight, support and challenge to the Council's improvement and transformation journey. At its first meeting the Board agreed that the authority needed a single, integrated and overarching improvement plan to focus and drive the improvement of both its corporate governance and key services. The Improvement Plan developed in response was endorsed by the Board in July 2012 and approved by Cabinet in September 2012. There are clear mechanisms in place for the Council to report progress on the Improvement Plan and receive feedback from the external members of the Board. Discussions undertaken by the Board are transparent, with key messages from those discussions published. The Board has regular public question and answer sessions which allow the public to ask questions and raise specific concerns.

Following the latest update on overall progress of the plan, the Board agreed that the Council needs to complete the actions in the existing plan, as well as develop some outcome measures that will provide assurance that the improvements are becoming embedded. This will be monitored closely by the Council's Chief Executive and Senior Management Team.

The Council can demonstrate that it is promoting the values of good governance through behaviour, not least in welcoming external review and challenge and in its transparency in relation to the serious budget challenges faced by the authority.

Significant headway has been made to identify savings and identify and eliminate overspend. As a result the Council's finances are beginning to stabilise and there is an increasing emphasis on robust financial management and monitoring. The progress that has been made places the Council in a better position to face the major challenges ahead and to manage the substantial risks associated with identifying further significant budget savings.

External expertise is utilised as appropriate, such as the internal investigation that was commissioned to establish the Council's position on bad debts, which emerged as a significant governance issue due to the income/debt recovery processes within the Department of Adult Social Services. The internal investigation has been reported to Cabinet and an action plan is in place to address these findings.

Internal audit work has been completed on the Council's procedures for gifts, hospitality and conflicts of interest following a critical Audit Commission review of this area. A number of key risks were identified with high priority recommendations which have contributed to new policy documents being approved.

The Council invited a Peer Challenge facilitated by the LGA in October 2012 and a follow up in May 2013, providing an external and critical assessment to complement and add value to the Council's own performance and improvement. Both reviews indicated that the organisation was making progress on improvement, highlighting:

- The organisation feels more confident and decisive about the issues it faces
- External recognition of improvement and greater role in city region
- Significant headway has been made to identify savings and begin to stabilise finances
- Key changes to governance are being implemented and/or proposed
- Learning and challenge has been sought from others
- New corporate plan with clear priorities

Areas for continued focus, including financial risk management, organisational development, transformation, governance and decision-making, were also identified and are being addressed as part of the Council's improvement programme.

As indicated in respect of Principle 2, the Improvement Board has been important in developing good governance through its role as an advisory and supporting body and 'critical friend' underpinned by clear mechanisms for the Council to report progress and receive feedback. Discussions undertaken by the Improvement Board are transparent, with every third meeting held in public.

An additional Adult Social Care Peer Review in June 2012 concluded that the peer review team found clear evidence of improvement and a change of culture within the department moving towards greater openness and transparency. It was stated that overall the direction of travel is positive and there are some examples of good practice.

Communication within the organisation is timely and planned; with weekly, monthly and quarterly messages being disseminated to all staff to keep everyone informed throughout current and future organisational change. A robust internal communications and marketing strategy has been developed, including regular communications from the Chief Executive through the intranet and weekly emails that update staff on organisational change and important decisions being taken, as well as promoting the achievements and positive work carried out within the organisation. A staff survey is planned to take place in September 2013 and a programme of changing organisational culture will be launched in autumn.

The Council updated its policies on whistleblowing and grievance. Further work is now underway to ensure that the updated policies are fully communicated to make all staff aware of the policies and provide consistent operation.

The Council's Code of Corporate Governance will be reviewed on an ongoing basis to ensure it is fit for purpose and fully communicated to staff.

The Equality Duty 2010 came into force on the 1 April 2011 with the aims of eliminating any unlawful discrimination, harassment or victimisation, advancing equality of opportunity and fostering good relations between different groups of people. The Duty places a legal requirement on the Council to publish an equality plan, at least every 4 years. The Council will be developing a new 3-year Corporate Equality Plan during 2013/2014.

***Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.***

The Corporate Risk Register has recently been reviewed by the Chief Executive Strategy Group and agreed by Cabinet to ensure that there is consideration and ownership of the register at the most senior level of the organisation. Appropriate controls have been put in place to address the identified risks, and these will be the subject of regular monitoring by the Chief Executive Strategy Group on a quarterly basis at a dedicated meeting to consider audit, risk and performance issues.

The integration of Public Health into the Council from 1<sup>st</sup> April 2013 provides additional capacity and expertise to strengthen the Council's approach to performance management, business intelligence and commissioning.

Directorate plans are being developed to ensure that the priorities outlined within the Corporate Plan are delivered. The plans also identify the related risks associated with delivering the Council's key objectives.

Further work is taking place to establish a new process for performance management which ensures the hierarchy of organisational targets are integrated, and logical, and are directly aligned to our resources, systems and strategic objectives. The new system also promotes ownership and accountability of targets and performance – as well as fostering a culture of corporate challenge.

The model is built around a cycle of analyse, plan, do and review. Effective performance management is also designed to ensure that accurate, timely, consistent, reliable and relevant information guides all decision making within the Council.

The Council has a clear procedure established for dealing with complaints, with timescales and departmental responsibilities established and complaints being recorded even if immediately resolved at point of contact.

In December 2012, the Information Commissioner's Office announced that Wirral would be monitored for three months after concerns emerged regarding the timeliness of responses to freedom of information requests. The Council has also put in place robust processes to respond to freedom of information requests which are regularly reviewed by the Chief Executive's Strategy Group to ensure that a timely response is provided. These improved processes are having a significant impact on the Council's response to freedom of information requests.

The Audit Commission published a Public Interest Report into the Highways and Engineering Services Contract Management and Award in June 2012, detailing significant corporate failings surrounding the contract award in 2008. Cabinet acknowledged and accepted the findings and recommendations set out in the report and approved an action plan to address all 21 recommendations. Many of the actions have been completed; however there is still work to do in implementing a robust risk management framework across the Council and improved liaison between Legal and Members Services and the Procurement Unit regarding the completion and signing of contracts. These areas are being

closely monitored by the Chief Executive's Strategy Group as well as being supported by the re-invigorated Corporate Procurement Board. The board has recently been re-established with new terms of reference and will be chaired by the Strategic Director for Transformation and Resources to ensure that there is clear strategic direction at the most senior level of the organisation.

***Principle 5: Developing the capacity and capability of members to be effective and ensuring that officers- including statutory officers- also have the capability to deliver effectively.***

The Authority provides newly elected Members with an induction and an opportunity to attend a specifically organised event to introduce them to the Council and its departments. An individual training plan is also put in place from a programme of 'Skills for Wirral Councillors' training events, covering the following themes: basic skills; organisational excellence; personal development; community leadership and leadership.

Councillors have also recently been invited to take part in a number of visioning events intended to raise awareness of the challenges facing local government, develop a long term vision for Wirral in 2030, inform the Council's three year corporate plan, enable the Council to understand the opportunities to deliver services differently and plan ahead to respond effectively to future challenges.

A 'Skills for Wirral' training and development programme is also available for managers and employees with regular sessions held every month covering organisational policies, management skills, personal development, professional development and health & safety. During recent organisational change, dedicated training and support has been available to all staff developing skills in resilience, stress management and career development. Further work is required to ensure that mandatory training is being carried out throughout the organisation.

The Council's absence rate for staff is higher when compared to other local authorities and additional short term resources have been put in place to enable Human Resources to work with managers and ensure that cases are managed in accordance with the Council's policy. The Council also provides a 24 hour employee assistance programme.

Council services and individual staff regularly achieve awards and recognition from national and local bodies and achievements are regularly publicised through the Chief Executive's weekly emails and the Council's quarterly staff magazine.

The recent organisational restructure, including the creation of the three strategic directorates through departmental and management streamlining and rationalisation, aims to provide the most effective service delivery possible. Ensuring that staff and managers have the appropriate capacity and support has been a key consideration in service redesign.

The restructure at the Chief Officer and Head of Service level has achieved approximately £800,000 net savings and reduced the senior management structure by 11 posts. The next level of restructuring is almost complete, which will deliver further savings of £4.2 million and a further reduction of approximately

one third of management posts, which will facilitate a more effective and focussed level of service transformation and delivery across the authority.

The Council has been required to use short term measures to ensure that there is adequate capacity in key areas of the Council through the use of short term and agency contracts. These arrangements will be regularly reviewed to ensure that adequate controls are in place for the use of external capacity. In addition a savings target has been set to ensure that expenditure is effectively controlled.

***Principle 6: Engaging with local people and other stakeholders to ensure robust local public accountability.***

As set out in the new Corporate Plan, the Council is committed to “the engagement and empowerment of individuals and communities in both the design and delivery of local services”. The Council’s major consultation initiative ‘What Really Matters’ provided the opportunity to ask local residents, staff and stakeholders for their views on the Council’s future priorities and proposals for where the Council could deliver the savings.

The Council has developed and accessed a wide variety of channels and forums in order to engage with the local community. Existing organisations such as the Older People’s Parliament, various youth forums and the Youth Parliament and user groups across all services are supported and engaged with the organisation. The Council also delivers extremely effective public consultation exercises, with the highest levels of citizen engagement in the UK, to ensure participation and involvement from our residents in all aspects of service design, budget setting and Council business.

The Council is also in the process of implementing a Neighbourhood Working approach, which will help to develop a closer relationship between the Council and residents, promote improved partnership working across the public sector and ensure future service delivery reflects an improved understanding of residents’ views through consultation and participation.

This arrangement potentially offers a more cost-effective approach to the future delivery of services by joining up frontline delivery and tackling issues at their source, changing ways of working for all public, private and social sector providers to deliver improvements for neighbourhoods.

Public sector partners in Wirral are committed to working with the Council through the Public Service Board, established in November 2012, as new arrangements for neighbourhood working are implemented. This includes redefining operational management to be co-terminus with constituency areas to provide a more consistent footprint where possible and aligning services and engagement activities.

Constituency Committees will be responsible for producing Constituency Plans that will outline priorities for each area. It is proposed that each Committee would consist of local Councillors and Voluntary and Community and Faith Sector Representatives. Consideration will also be given to the local MP being invited to participate. Underpinning robust governance arrangements being put in place are the principles of enhancing civic life, deepening democratic participation,

strengthening community voice and strengthening the Council's responsiveness to residents.

Alongside an increased focus on public accountability through the Constituency Committees, the Council has begun to explore the implications of the Audit Bill which will formally abolish the Audit Commission and replace it with a new local audit framework and improve 'direct democracy' over Council Tax.

The Council proactively seeks to work with others and recognises the added value that working in partnership can bring to projects, services and initiatives. The drive to work in partnership has never been greater than in the current financial climate.

The Council's key mechanism for pursuing this agenda is Wirral's Public Service Board which brings together key partners to develop approaches to integrating services and maximising the use of public sector resources. The recent Corporate Peer Challenge highlighted that the Council needs to undertake further work to clearly identify the linkages of the Public Service Board with other strategic partnerships, and an up to date partnership register is also required.

The Council also works strategically with partners through leading and supporting a range of other forums and partnerships. This activity is currently being reviewed to ensure that the role of individual partnerships is clearly understood. The Council is also renewing arrangements for its Local Strategic Partnership to put in place an overarching partnership executive which takes responsibility for shaping Wirral as a place and championing a long-term vision for the borough and hold to account the Public Service Board and other key partnerships. A Wirral conference is being planned for September to take forward the development of the long-term vision.

Examples of this approach to partnership working include joint responses to the changes that have resulted from the Welfare Reform Act 2012, including the introduction of Universal Credit, and the changes to service delivery through the neighbourhood working approach.

In working with the Council's partners to drive economic growth and increase investment in Wirral, the Council has developed a strong private/ public sector Investment Strategy Board. Members hold significant experience and expertise to provide oversight and guidance of Wirral's economic strategy.

The Council also holds a strong position in the Liverpool City Region. The Leader of the Council is taking the lead in developing a new EU Structural Funds Programme for the period 2014-2020. Wirral is also the lead local authority in the Liverpool City Region for sustainable energy, shared services and youth unemployment at both Elected Member and officer level. The Leader reports to Council on matters relating to the City Region and Elected Members are provided the opportunity to question the Leader on the report.

The Council's website and other customer access channels are currently being developed and better coordinated to ensure that residents and other stakeholders are able to find information, access services and contact the authority as simply as possible.



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

Wirral Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

##### **Corporate Management Assurance**

The Council's Chief Executive Strategy Group has managed the development of the Annual Governance Statement to ensure a high level of corporate engagement and ownership. A quarterly review of performance management, audit and risk takes place to review and consider emerging governance issues and ensure that appropriate action is in place.

The Chief Executive's Strategy Group is supported by a number of sub groups including:

- Information Governance Group
- Corporate Procurement Board
- Strategic Budget Group / Budget Steering Group
- Capital Working Group
- Transformational Programme Board

The Council complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010 and the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations 2010. The Council has taken immediate action when required to ensure that there are continuous arrangements in place with regards to statutory officer posts to enable the Council to fully comply with its statutory obligations.

##### **Council**

The Council's Constitution has been reviewed and a revised version agreed and adopted by the Council in April 2013, ensuring that it remains lawful and fit for purpose and introduces a new scheme of delegation and member/officer protocols that clarify the boundaries between Member and Officer roles and responsibilities. The Council's Constitution sets out a Code of Conduct for Members and Officers to ensure there is clear accountability and clarity.

The procedure for Council meetings has been changed to focus on reports from the leader and Cabinet Members and the Chairs of the new Policy and Performance Committees. All Elected Members will have the opportunity to ask questions on the reports with the aim to focus on issues for which the Council has responsibility.

An annual Policy Council meeting will take place with the first scheduled for November 2013 in order to discuss, debate and further shape the future purpose of the organisation and its response to key national and local drivers. Policy Council will play a direct role in informing the annual review of the Corporate Plan and future savings for the Council, as well as contributing to the development of a longer-term vision for the borough in 2030 in partnership with other key

stakeholders. A state of the borough report is being prepared as the foundation for developing this long term vision.

### **Cabinet**

Cabinet has a leading role in ensuring good governance arrangements are in place to drive forward transformation and improvements across the Council.

There has been a review of the Council's portfolio areas to ensure they reflect organisational changes and priorities and assistant portfolio holders have been appointed. Regular Cabinet briefing and development sessions take place which are supported by individual portfolio holder briefing meetings.

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

The Council's Audit and Risk Management Committee provides independent assurance and scrutiny of the Council's financial and non-financial performance, including an assessment of the adequacy of the Council's risk management arrangements.

Recent constitutional amendments to the terms of reference for the Audit and Risk Management Committee give additional responsibilities to the Committee to oversee and agree appropriate robust arrangements for Financial Regulations and Contract Procedure Rules.

### **Policy and Performance Committees**

The new constitution sets out new arrangements for scrutiny which will allow for the pre-scrutiny of decisions and policy development and facilitate collective debate about the best outcomes for local people.

Three Policy and Performance Committees have been established, aligned with the three strategic directorates, and supported by a team of dedicated Scrutiny officers. The Committees will have clear responsibilities to inform policy development and to enable pre-scrutiny of decisions within the remit of the strategic directorate. A Co-ordinating Committee is now responsible for overseeing arrangements and allocating cross cutting activities. Nominated senior officers will be assigned to support scrutiny proposals on a cross-departmental basis.

### **Standards Committee**

The Standards and Constitutional Oversight Committee is responsible for keeping the Council's constitutional arrangements under review and making recommendations to the Council for ways in which the Constitution should be amended in order to better achieve its purposes. The Committee also oversees and agrees minor changes to the Council's constitutional arrangements as recommended by the Monitoring Officer.

### **Merseyside Pension Fund**

Wirral Council is also the administering authority for the Merseyside Pension Fund which publishes its own statement of accounts on an annual basis and

includes a "Governance Compliance Statement". The statement outlines compliance to industry specific governance principles.

### **Internal Audit**

There have been improvements to the Council's Internal Audit function including a review of resources and a newly developed three year audit plan.

The review of effectiveness is informed by: the work of Internal Audit and the Chief Internal Auditor's Annual Report; findings and reports issued by the external auditors and other review agencies and inspectorates; and feedback and comments provided by Chief Officers and managers within the Authority who have responsibility for the development and maintenance of the governance environment.

On the basis of the programme of work undertaken, the Chief Internal Auditor has concluded that the Council's internal control environment, taken as a whole for the year has provided less than adequate assurance although improving.

## **5. Significant Governance Issues**

The Council has identified the following areas as significant governance issues that emerged during 2012/13 and which be the subject of regular monitoring by the Council's Chief Executive's Strategy Group and Audit and Risk Management Committee.

An action plan will be developed to outline the actions that are being taken to respond to these issues and to assign a lead senior officer.

- The Council's position regarding £31m accumulated bad debts over the years, as well as the financial situation regarding income/debt recovery within the Department of Adult Social Services, has been identified and was subject to an independent investigation which has been reported to Cabinet. A plan and initial actions are in place to prevent future occurrence.
- The Council must conclude the work of the Improvement Board and ensure completion/implementation of the associated actions.
- Corporate and Departmental plans have lacked clear linkages and consistency, the aim being that the integration with Public Health will assist in improvements in timetabling, approvals, content and reporting. Steps must be taken to implement a robust performance management framework across the Council that is adhered to in practice.
- There must be continued emphasis on the importance of corporate and departmental risk management throughout the Council. Risk management must be seen as an integral part of policy and performance processes. Steps must be taken to implement a robust risk management framework across the Council and which is adhered to in practice.
- There has been no evidence of an up to date partnership register within the Council. This is important given the emphasis on partnership working within the developing commissioning processes and across the Council. As a minimum, partners that the Council works with on specific initiatives, as

opposed to commercial partners, should be identified in a central reference source.

- It is essential for the Council to implement processes and procedures to ensure proper governance and management of its information assets.
- In December 2012, the Information Commissioner's Office (ICO) announced that Wirral was included in a list of four public authorities that were to be monitored for three months in the new year over concerns about the timeliness of their responses to Freedom of Information requests. Focus must be maintained in monitoring response times and take corrective action as necessary.
- It has been identified that the Council's policies on whistleblowing and grievances require improved communication across the organisation with clear responsibilities and consistent operation. It is important that employees are clearly made aware of how to raise a whistleblowing issue, and this should be publicised on a regular basis.
- Improved liaison and responsibilities must be clearly established between Legal and Member Services and the Corporate Procurement Unit regarding the completion of contracts and the required signing. There are clear financial and reputational risks in the event of a problem with the service delivery if the Council has not formalised contracts. It is noted that this issue is covered in the draft new Contract Procedure Rules with reference to disciplinary action if these rules are breached and the exceptions process in operation here.
- The Corporate Procurement Board has not met since November 2012. This has been acknowledged as a significant issue by senior management and the aim is to re-establish this board with the first meeting taking place in May 2013 with a new terms of reference in place.
- Absence monitoring statistics have revealed a calculated year end figure of 10.28 days against a target of 9.5 days. This remains a high position in comparison with other Councils and additional short term resources have been added within Human Resources to review all long-term cases and to work with managers to ensure there is an action plan in place and that cases are managed appropriately in accordance with policy.
- It must be ensured there is adequate control of workforce costs (including short-term contracts; agency costs; and control of establishments). The use of consultants should be subject to the same controls.
- Mandatory training across the Council has proved difficult to monitor and control. It is important that any training requirements deemed to be mandatory, such as Equalities and Diversity, should be communicated to and undertaken by all employees, including officers who do not have computer access.
- Asset Management was in a position of constant change of policy and priorities during the 2012/2013 year. It is important in order to obtain maximum benefit from its property assets that the Council focuses on a clear policy and strategy, fees and charges are regularly reviewed, updated and

income monitored, and a clear separation of duties and evidence trail exists regarding valuations. This is currently the focus of a transformational project for 2013/14.

## 6. Conclusion

We are aware of the implications of the review of the effectiveness of the adequacy governance framework and are absolutely committed to addressing the identified weaknesses and ensuring continuous improvement of the system is in place.

We are pleased that considerable progress has been made to address the significant governance issues identified and this is acknowledged by the Council's recent Corporate Peer Challenge. However, it is also recognised that a number of the developments that are being put in place have recently been agreed and require implementation and robust review.

We will take prompt actions over the coming year to ensure that all of the above matters are addressed as appropriate to enhance our governance arrangements further. Many improvement actions represent work already in progress and we are committed to increasing the pace of these actions. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Chief Executive

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Leader of the Council

**Significant Governance Issues: Action Plan**

Source	Governance Issue	Lead Officer	Actions Planned/ In Progress	Timescale	Internal Audit Planned Work
Significant Governance Issue AGS 2012/13	The Council must conclude the work of the Improvement Board and ensure completion/ implementation of the associated actions.	Head of Policy & Performance/ Director of Public Health	A further report was submitted to Improvement Board (22/07/2013) and Cabinet (19/09/2013) that sets out three key outcomes that will evidence the Council's improvement and inform further debate at Board meetings.	Improvement Plan hoped to be completed by November 2013	Improvement Plan Delivery
Significant Governance Issue AGS 2012/13  Peer Challenge	There has been no evidence of an up to date partnership register within the Council. This is important given the emphasis on partnership working within the developing commissioning processes and across the Council. As a minimum, partners that the Council works with on specific initiatives, as opposed to commercial partners, should be identified in a central reference source.  Peer Challenge states: 'The Public Service Board is another new development since the peer challenge. It looks like it will work well. You are building some clear linkages to the Constituency Committees, but we encourage you to think through how it relates to your ambitions for the Health and Well Being Board and how the various other strategic partnerships such as Community Safety and Children and Young Persons all fit together.'	Head of Legal/ Member Services	Presentation provided to Local Public Service Board (LPSB) (09/07/2013) – essentially setting out the scope for a review of partnerships. This was agreed, with Fiona Johnstone, Head of Policy & Performance/ Director of Public Health, leading the review and the policy team undertaking the desktop analysis. An update will be provided to LPSB (29/10/2013). A meeting of Surjit Tour, Head of Legal/ Member Services, and Fiona Johnstone has taken place to discuss linkages (19/08/2013).	October 2013	Annual Governance Statement Review
Significant Governance Issue AGS 2012/13	It is essential for the Council to implement processes and procedures to ensure proper governance and management of its information assets.	Strategic Director-Regeneration & Environment	An Information Governance Board has been established (which first met on 16 July 2013) and is being chaired by Kevin Adderley, Strategic Director-Regeneration & Environment. The Council's progress will be evaluated by the review scheduled for 15 August 2013. Surjit Tour is preparing guidance for Managers and Heads of Service on information handling. Information Asset Owners are being identified and established across the Council. The	October 2013	Information Assurance

Source	Governance Issue	Lead Officer	Actions Planned/ In Progress	Timescale	Internal Audit Planned Work
			Director of Resources had been confirmed as the Senior Information Risk Owner.		
Significant Governance Issue AGS 2012/13	In December 2012, the Information Commissioner's Office (ICO) announced that Wirral was included in a list of four public authorities that were to be monitored for three months in the new year over concerns about the timeliness of their responses to Freedom of Information requests. Focus must be maintained in monitoring response times and take corrective action as necessary.	Strategic Director- Transformation & Resources	The ICO set a target of 85% of requests to be completed within 20 days during the period of June-September 2013. Significant progress has been made and this target has been exceeded in June and predicted to be so in July. The Council's infrastructure needs to be improved so that this improvement is sustainable in the long term.	October 2013	Freedom of Information
Significant Governance Issue AGS 2012/13	Improved liaison and responsibilities must be clearly established between Legal and Member Services and the Corporate Procurement Unit regarding the completion of contracts and the required signing. There are clear financial and reputational risks in the event of a problem with the service delivery if the Council has not formalised contracts. It is noted that this issue is covered in the draft new Contract Procedure Rules with reference to disciplinary action if these rules are breached and the exceptions process in operation here.	Assistant Chief Executive/ Head of Universal & Infrastructure Services	The revised Contract Procedure Rules will be considered for approval by Audit & Risk Management Committee on 18 <sup>th</sup> September 2013 and include a rule that contracts must be signed before they are mobilised. This will require the Procurement Board to be utilised to remind officers of this.	Final rules submitted for approval Audit and Risk Management Committee September 2013 - to be implemented as soon as possible thereafter	Procurement
Significant Governance Issue AGS 2012/13	The Corporate Procurement Board has not met since November 2012. This has been acknowledged as a significant issue by senior management and the aim is to re-establish this board with the first meeting taking place in May 2013 with new terms of reference in place. Once the Board reconvenes, its effectiveness should be reviewed. Without an effective body to steer and co-ordinate procurement across the Council, there is a risk that procurement efficiency will suffer and corporate targets in this area may not be met.	Strategic Director- Transformation & Resources	New Terms of Reference for the Corporate Procurement Board were established in April 2013. The Board then met in May 2013. The next meeting of the Procurement Board in September will focus on corporate ownership of procurement to overcome any directorate silos, developing a cultural evolution to procurement and ensuring we provide the right level of scrutiny to our funding/contractual arrangements. The	Completed  November 2013	Procurement

Source	Governance Issue	Lead Officer	Actions Planned/ In Progress	Timescale	Internal Audit Planned Work
			intention is to merge this with our emerging commissioning arrangements to eventually have a single commissioning/procurement board.		
Significant Governance Issue AGS 2012/13	Absence monitoring statistics have revealed a calculated year end figure of 10.28 days against a target of 9.5 days. This remains a high position in comparison with other Councils and additional short term resources have been added within Human Resources to review all long-term cases and to work with managers to ensure there is an action plan in place and that cases are managed appropriately in accordance with policy.	Head of Human Resources & OD	<p>It was highlighted within the Internal Audit Report (on Absence Management) dated February 2013 that this issue had been reported to Employments and Appointments Committee on 15 November 2012. Within this report it was highlighted that a "number of initiatives have been taken forward to drive performance improvement across the authority".</p> <p>The absence figures for 2013/14 are now showing a significant improvement.</p> <p>The following actions have been put in place:</p> <p>All Heads of Service are required to sign off absence returns on a weekly basis, providing improved governance.</p> <p>Follow up of mandatory training by December 2013.</p> <p>Re-allocation of resources has ensured a dedicated HR Absence team to support managers through case conferences with Occupational Health.</p> <p>Improved absence reporting</p> <p>Introduction of Self serve</p> <p>New Occupational Health provider in place with improved support.</p>	<p>All actions in place, with self serve live by December 2013.</p> <p>Improvement in monthly absence figures.</p> <p>Improved OH service in place through new contract</p>	HR Policies and Procedures
Significant Governance Issue AGS 2012/13	It must be ensured there is adequate control of workforce costs (including short-term contracts; agency costs; and control of establishments). The use of consultants should be subject to the same	Head of Human Resources & OD	A full set of people management information costs is now being sent on a monthly basis to Heads of Service to enable them to understand better their	September 2013	Annual Governance Statement Review



Source	Governance Issue	Lead Officer	Actions Planned/ In Progress	Timescale	Internal Audit Planned Work
Peer challenge	<p>controls.</p> <p>Peer Challenge states: 'We think now is the time to strengthen the corporate support functions. You have rightly sought interim capacity and expertise to help tackle the most pressing and acute challenges and implement the immediate changes required. This approach has served you well. We highlighted in our last report that you need to strengthen your HR capacity and we still think this is the case. We suggest you now need to do some 'long term strengthening' rather than 'short term patching', shifting the emphasis from repairing the current organisation with interim expertise to building the future one with permanent capacity. In doing this you will need to consider the style of some of the support functions the council of the future requires. Undoubtedly this will be less about 'regulating and ensuring' compliance and more about 'enabling and facilitating' new ways of working.'</p>		<p>costs. Alongside this the Finance Department is providing enhanced support for Heads of Service to better understand their budget.</p> <p>The Council expects to have made anticipated savings of £9.5m in employee pay costs since 2012.</p> <p>In September the HR Self serve will go live with on-time people management reporting. This will be tested firstly in Transformation and Resources with a view to full roll-out by the end of the calendar year.</p> <p>As the Council considers shared services, particularly in the transactional areas, that will give more capacity to consider strategic HR management.</p>		
Significant Governance Issue AGS 2012/13	<p>Asset Management was in a position of constant change of policy and priorities during the 2012/2013 year. It is important in order to obtain maximum benefit from its property assets that the Council focuses on a clear policy and strategy, fees and charges are regularly reviewed, updated and income monitored, and a clear separation of duties and evidence trail exists regarding valuations. This is currently the focus of a transformational project for 2013/14.</p>	Assistant Chief Executive/ Head of Universal & Infrastructure Services	<p>An Internal Audit Report was issued to the then Head of Asset Management, Ian Brand, on 31 January 2013. All actions were agreed.</p> <p>Responsibility for this area has now moved following changes to the senior management structure.</p> <p>The re-structure is now complete and within the context of an overall reduction in staff, steps have been taken to allocate a post specifically to Asset Strategy and Policy to address issues raised in the audit and work is in progress on key areas identified in the report re office accommodation disposals and joint area reviews of property. The re-structure is also intended to support as much separation as possible in a small team</p>	First report to Cabinet in October 2013 to be followed by further reports as matters are reviewed/ addressed.	Asset Management

Source	Governance Issue	Lead Officer	Actions Planned/ In Progress	Timescale	Internal Audit Planned Work
			between strategic and operational matters. Issues raised in respect of the Asset Register and Volunteers are being addressed.		
Significant Governance Issue AGS 2012/13 and Chief Internal Auditor's Annual Report 2012/13	The Council's position regarding £31m accumulated bad debts over the years, as well as the financial situation regarding income/debt recovery within the Department of Adult Social Services, has been identified and was subject to an independent investigation which has been reported to Cabinet. A plan and initial actions are in place to prevent future occurrence.	Director of Resources	External collection and recovery arrangements piloted July 2013, New assessment team in place August 2013, detailed project plan agreed by Cabinet May 2013.	End of September 2013	Debt Management DASS
Significant Governance Issue AGS 2012/13 and Chief Internal Auditor's Annual Report 2012/13  Peer challenge	Corporate and Departmental plans have lacked clear linkages and consistency, the aim being that the integration with Public Health will assist in improvements in timetabling, approvals, content and reporting. Steps must be taken to implement a robust performance management framework across the Council that is adhered to in practice.  Peer Challenge states: '[Strengthening corporate support], along with a fresh approach to performance management, will we think support a new organisational culture we know you are keen to develop and embed. You appreciate that good performance management is a basic strength of a well-functioning organisation, and have started to develop a new approach that shifts the emphasis from 'performance measurement' to 'performance culture'. We encourage you to continue with this work at pace so that a new approach can be implemented.'	Head of Policy & Performance/ Director of Public Health	A project plan has been put in place to address issues identified as part of the performance management framework which is anticipated to encompass Corporate and Directorate Plans. It is envisaged this will be in place for the start of the business planning process for 2014/15 which will likely begin in October/November 2013.	By start of 2014/15	Corporate Plan Directorate Planning
Significant Governance Issue AGS 2012/13 and Chief Internal Auditor's Annual	There must be continued emphasis on the importance of corporate and departmental risk management throughout the Council. Risk management must be seen as an integral part of policy and performance processes. Steps must be taken to implement a robust risk management	Strategic Director- Transformation & Resources	The latest Internal Audit Report was issued 4 July 2013. All actions have been agreed by Joe Blott, Strategic Director- Transformation & Resources, and Mike Lane, Risk & Insurance Officer, with a view to	By start of 2014/15	Risk Management

Source	Governance Issue	Lead Officer	Actions Planned/ In Progress	Timescale	Internal Audit Planned Work
Report 2012/13	framework across the Council and which is adhered to in practice.		implementation by start of 14/15 (n.b. some recommendations can be and have been agreed to be implemented immediately or during 13/14). Revised corporate risk management policy and strategy documents are being developed and drafts are to be put to CESG for consideration by the end of September 2013.		
Significant Governance Issue AGS 2012/13 and Chief Internal Auditor's Annual Report 2012/13	It has been identified that the Council's policies on whistleblowing and grievances require improved communication across the organisation with clear responsibilities and consistent operation. It is important that employees are clearly made aware of how to raise a whistleblowing issue, and this should be publicised on a regular basis.	Head of Legal/ Member Services	Internal Audit Reports were issued regarding Confidential Reporting (Whistleblowing) and Grievances in June 2012. Report on Confidential Reporting issued July 2013. Recommendations relating to review of the policy, training and staff reminders have been agreed to, with the latest target implementation date being end of October 2013.	End of October 2013	Whistleblowing (Follow up)
Significant Governance Issue AGS 2012/13 and Chief Internal Auditor's Annual Report 2012/13	Mandatory training across the Council has proved difficult to monitor and control. It is important that any training requirements deemed to be mandatory, such as Equalities and Diversity, should be communicated to and undertaken by all employees, including officers who do not have computer access.	Head of Human Resources & OD	The Council, through its management re-structure, has in place a clear and consistent management hierarchy identified on the HR system. This allows improved targeting and follow-up of training. The Chief Executive's Strategy Group has identified mandatory management training, the uptake of which will be reported regularly. Delivery is from Sept 2013 to August 2014. (This programme includes the Equality and Diversity modules). A risk register for all statutory and mandatory training will be completed by 30 September 2013. The OD function has completed the last stage of bringing together staff and is now	Programme launched September 2013	Annual Governance Statement Review

Source	Governance Issue	Lead Officer	Actions Planned/ In Progress	Timescale	Internal Audit Planned Work
			<p>working with one training system which has improved the organisational ability to monitor across all Directorates, therefore improving accountability.</p> <p>The re-launch and increased uptake of Performance Appraisal also increases the level of accountability for ensuring that mandatory training is completed and that the responsibility lies with line managers to ensure this is the case. Deadline for 2013 returns is 30 September 2013.</p>		
Chief Internal Auditor's Annual Report 2012/13	A number of external reviews conducted have identified some significant weaknesses in the governance arrangements currently in operation across the Council and have clearly indicated the need for significant change and improvement in many areas of the Council's activities.	Strategic Director-Transformation & Resources	The progress report summarises the actions taken to address the weaknesses identified in external reviews. A refreshed Code of Corporate Governance is being compiled, reflecting how governance structures are in place to guard against recurrence of significant weaknesses.	October 2013	External Assurances

# Core 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 Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £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	(73,978)	-	-	-	(73,978)	-	(73,978)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(50,022)	(50,022)
<b>Total Comprehensive Income and Expenditure</b>	<b>(73,978)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(73,978)</b>	<b>(50,022)</b>	<b>(124,000)</b>
Adjustments between accounting basis and funding basis under regulations (Note 8)	75,742	-	965	541	77,248	(77,248)	-
<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>

	General Fund Balance £000	Ear- marked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<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>
<b>Movement in reserves during 2012/13</b>							
Surplus or (deficit) on the provision of services	(20,272)	-	-	-	(20,272)	-	(20,272)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(62,043)	(62,043)
<b>Total Comprehensive Income and Expenditure</b>	<b>(20,272)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20,272)</b>	<b>(62,043)</b>	<b>(82,315)</b>
Adjustments between accounting basis and funding basis under regulations (Note 8)	5,394	-	(1,214)	(10,037)	(5,857)	5,857	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(14,878)</b>	<b>-</b>	<b>(1,214)</b>	<b>(10,037)</b>	<b>(26,129)</b>	<b>(56,186)</b>	<b>(82,315)</b>
Transfers to/from Earmarked Reserves (Note 9)	21,472	(21,472)	-	-	-	-	-
<b>Increase/ Decrease in 2012/13</b>	<b>6,594</b>	<b>(21,472)</b>	<b>(1,214)</b>	<b>(10,037)</b>	<b>(26,129)</b>	<b>(56,186)</b>	<b>(82,315)</b>
<b>Balance at 31 March 2013</b>	<b>27,411</b>	<b>64,776</b>	<b>8,023</b>	<b>21,348</b>	<b>121,558</b>	<b>(120,265)</b>	<b>1,293</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.

2011/12 Restated				2012/13		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
43,396	33,412	9,984	Central services to the public	39,461	33,453	6,008
44,595	12,566	32,029	Cultural and related services	38,222	10,805	27,417
15,565	10,516	5,049	Planning services	12,896	5,178	7,718
28,256	5,451	22,805	Environmental and regulatory services	28,122	6,954	21,168
372,419	289,323	83,096	Education and children's services	320,655	250,244	70,411
19,897	6,406	13,491	Highways and transport services	20,175	3,719	16,456
153,571	138,998	14,573	Other housing services	160,918	144,656	16,262
118,480	38,786	79,694	Adult social care	124,599	40,449	84,150
5,559	1	5,558	Corporate and democratic core	5,664	43	5,621
(2,395)	-	(2,395)	Non distributed costs	(5,224)	-	(5,224)
<b>799,343</b>	<b>535,459</b>	<b>263,884</b>	<b>Cost of Services</b>	<b>745,488</b>	<b>495,501</b>	<b>249,987</b>
106,863	-	106,863	Other operating expenditure (Note 10)	53,205	-	53,205
71,788	48,518	23,270	Financing and investment income and expenditure (Note 11)	67,881	46,665	21,216
-	320,039	(320,039)	Taxation and non specific grant income (Note 12)	-	304,136	(304,136)
<b>977,994</b>	<b>904,016</b>	<b>73,978</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>866,574</b>	<b>846,302</b>	<b>20,272</b>
		(14,838)	Surplus or deficit on revaluation of Property, Plant and Equipment assets			(22,167)
		24	Surplus on revaluation of PFI liability			(185)
		472	Surplus or deficit on revaluation of available for sale financial assets			(7)
		-	Transfer of Cash Managed Schools to Academy status			565
		64,364	Actuarial gains/losses on pension assets / liabilities			83,837
		<b>50,022</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>62,043</b>
		<b>124,000</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>82,315</b>

2011/12 comparatives have been restated to reflect adjustments that have been made to the Revaluation Reserve. Please see note 24 (Unusable Reserves – Revaluation Reserve)



## BALANCE SHEET

This 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>31 March 2012 £000</b>		<b>Notes</b>	<b>31 March 2013 £000</b>
619,657	Property, Plant & Equipment	13	629,562
12,689	Heritage Assets	14	12,686
13,550	Investment Property	15	16,288
598	Intangible Assets	16	351
30,327	Long Term Investments	17	14,153
62,974	Long Term Debtors	42	58,961
<b>739,795</b>	<b>Long Term Assets</b>		<b>732,001</b>
37,969	Short Term Investments	17	43,597
1,348	Assets Held for Sale	20	589
371	Inventories		277
53,642	Short Term Debtors	18	43,731
37,779	Cash and Cash Equivalents	19	18,935
<b>131,109</b>	<b>Current Assets</b>		<b>107,129</b>
20,242	Short Term Borrowing	17	32,914
52,494	Short Term Creditors	21	46,204
8,585	Provisions	22	8,135
<b>81,321</b>	<b>Current Liabilities</b>		<b>87,253</b>
5,038	Provisions	22	5,240
244,133	Long Term Borrowing	17	214,229
453,990	Other Long Term Liabilities	43	528,240
2,814	Capital Grants Receipts in Advance	36	2,875
<b>705,975</b>	<b>Long Term Liabilities</b>		<b>750,584</b>
<b>83,608</b>	<b>Net Assets</b>		<b>1,293</b>
147,687	Usable Reserves	23	121,558
(64,079)	Unusable Reserves	24	(120,265)
<b>83,608</b>	<b>Total Reserves</b>		<b>1,293</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>2011/12</b> <b>£000</b>		<b>2012/13</b> <b>£000</b>
73,978	Net (surplus) / deficit on the provision of services	20,272
<b>(91,057)</b>	Adjust net (surplus)/ deficit on the provision of services for non cash movements (Note 25)	<b>(34,543)</b>
22,379	Adjust for items in the net (surplus)/ deficit on the provision of services that are investing or financing activities (Note 25)	14,011
5,300	Net Cash Flow From Operating Activities	<b>(260)</b>
2,066	Net Cash Flows From Investing Activities (Note 26)	<b>(1,029)</b>
13,227	Net Cash Flows From Financing Activities (Note 27)	20,133
20,593	Net increase or decrease in cash and cash equivalents	18,844
<b>(58,372)</b>	Cash and cash equivalents at the beginning of the reporting period	<b>(37,779)</b>
<b>(37,779)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>(18,935)</b>

2011/12 comparatives have been restated to reflect adjustments that have been made to the Revaluation Reserve. Please see note 24 (Unusable Reserves – Revaluation Reserve)

# **Notes to the Core Financial Statements**

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to produce an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the Service Reporting Code of Practice for Local Authorities 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted is principally 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:-

#### Qualitative characteristics of financial information

- Understandability.
- Relevance.
- Reliability.
- Comparability

#### Revenue 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.

#### ACCRUALS OF INCOME AND EXPENDITURE

Income and expenditure is accounted for in the financial year in which goods and services are received or rendered. The amounts included are based on actual invoices

received or raised after the year end and 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 might 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 SCHEME**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This Scheme has completed its introductory phase and the next phase starts in April 2013. The Council is required to purchase allowances retrospectively, on the basis of carbon emissions. As energy is used carbon is emitted a liability and expense are recognised.

The liability is measured as the best estimate of the expenditure required to meet this obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and is included in the cost of service costs shown in the Comprehensive Income and Expenditure Statement being apportioned to services on the basis of energy consumption.

## **CASH AND CASH EQUIVALENTS**

Cash includes all balances, including overdrafts, held by the Council with financial institutions as part of its cash management, including all deposit accounts, which are 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.

## **CONTINGENT ASSETS AND LIABILITIES**

These are not recognised in the Balance Sheet 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. This will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. The note discloses the nature of the asset or liability and an estimate of its financial effect or if this cannot be measured reliably.

## **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 2012/13 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 Private Finance Initiative (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**

Short-term employee benefits (other than termination benefits) are those 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) the Council'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 employment(s) 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 on behalf of the Department for Education (Department for Education). 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 the Comprehensive Income & Expenditure Account charged with the employer's contributions payable to the Teachers' Pensions Scheme 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. This operates as a defined benefit scheme and 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 costs.

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 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 in the Comprehensive Income and Expenditure Statement to the 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 as part of Non Distributed Costs.
- (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.
- (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 require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to, and from, the Pensions Reserve, to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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**

Material events are those after the Balance Sheet date, favourable or unfavourable, which occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Adjusting events provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.



Non-adjusting events are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted but where a category of events would have a material effect then disclosure is made in the notes of the nature of the events and either their estimated financial effect or a statement that such an estimate cannot be made reliably.

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

## **EXCEPTIONAL ITEMS**

Exceptional items are, where appropriate, included in the Comprehensive Income and Expenditure Statement under the cost of services to which they relate in order to improve understanding of the Council's financial performance.

## **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 Council 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 recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. 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 recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. Assets are initially measured at fair value and carried at their amortised costs. Annual credits are made 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 recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. Assets are initially measured at fair value and carried at their amortised costs. Where the asset has a fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. 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 Available for Sale 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 might be required or a 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 (REFCUS).

Specific revenue grants and contributions are credited to the relevant service to match the expenditure to which they relate. General revenue grants are made to finance the general activities of the Council. Grants are credited to the Comprehensive Income and Expenditure Statement in the year receivable. Grants related to the funding of capital expenditure are credited to 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 Unapplied Account.

## **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.

These assets, which include Bidston Windmill, the art and ceramic collections and artefacts as well as civic regalia and are above the de-minimis are recognised in the

Balance Sheet wherever possible at valuation or cost. In some instances this has not been possible. This applies to the art collection assets and the Civic Regalia (for insurance purposes) 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 for the majority of these collections. In these cases, the assets are not included as a value on the Balance Sheet but detailed in notes to the Statement of Accounts.

There is no depreciation charged on the heritage assets. The Council considers that 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.

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.

The balance is amortised to the relevant service revenue line in the Comprehensive Income and Expenditure Statement over the economic life of the investment to reflect the pattern of consumption of benefits. Any impairment loss recognised is similarly treated in the Comprehensive Income and Expenditure Statement. Any gain / loss on the disposal of an intangible asset is within the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

When expenditure on intangible assets qualifies under statutory definition as capital expenditure, amortisation, impairment losses and gains / losses on disposal are not permitted to have an impact on the General Fund balance. Gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for receipts over £10,000) to the Capital Receipts Reserve.

## **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 Council 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 and as held at fair value is not depreciated.

Rentals received in relation to investment properties are reported in the Comprehensive Income and Expenditure Statement and result in a gain in the General Fund balance. Revaluation and disposals gains and losses are not permitted by statutory arrangements to impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for sale proceeds over £10,000) to the Capital Receipts Reserve.

## **JOINT ARRANGEMENTS**

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets or resources rather than the establishment of a separate entity because it would not be delivering a service or carrying on a trade or business of its own. The Council recognises on its Balance sheet the assets that it controls and liabilities that it incurs, and the Comprehensive Income and Expenditure Statement includes the expenditure incurred and the share of income earned from the activity.

Jointly controlled assets are items that are controlled by the Council and other ventures with the assets being used to obtain benefits for the venturers and does not involve the establishment of a separate entity. The Council accounts for its share of the jointly controlled assets, the liabilities and expenses it incurs and the income earned in respect of its interest in the venture.

## **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 on the Balance Sheet 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 in the Comprehensive Income and Expenditure Statement as an expense and charged 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. The asset is retained on the Balance Sheet. Income from operating leases is recognised in the Comprehensive income and Expenditure Statement on a straight line basis over the lease term.

## **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.

## **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 accord with the Service Reporting Code of Practice (SeRCOP) 2012/13, charges or apportionments for the costs of support services are made to those who benefit from the supply or service.

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 used include computing costs allocated on the amount of central processing use and Service Level Agreements and Administrative Buildings on the basis of area occupied.

The exceptions under SeRCOP are the costs of the Corporate and Democratic Core (relating to the Council's status as a multi-functional, democratic organisation) and of Non-Distributed Costs (changes in past service costs and impairment losses chargeable on Assets Held for Sale) are accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

## **PRIOR YEAR ADJUSTMENTS**

Prior period adjustments may arise as a result of changes in accounting policies. These are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Material adjustments from the changes in accounting policies or 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.

## **PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS**

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 provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefit or service potential ie repairs and maintenance is charged as an expense when it is incurred. Capital expenditure does, however, include expenditure such as the acquisition of land and buildings, and the construction and enhancement of roads, buildings and other structures.

The Council has a de minimis level of £10,000 applies for capital expenditure.

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 Council, 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.

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 (greater than 10% of the asset value) and a different useful life to the remainder of the asset. Assets over a value of £2 million are componentised. 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 2012/13.

### **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 the Comprehensive Income and Expenditure Statement.

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 categorised as either "Usable" or "Unusable" and 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 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.

Usable reserves are those the Council may use to fund either revenue or capital expenditure. Unusable reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and 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)**

This is expenditure that may be capitalised but does not result in the creation of an asset and has been charged to the Comprehensive Income and Expenditure Statement. These items are normally written-off as expenditure 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.

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

For 2012/13 there are amendments to the following Accounting Standards:

IAS 19 Employment Benefits – new class of components to be recognised in the financial statements, significantly the removal of the expected return on assets to be replaced by the net interest costs. If the amendment had been adopted in 2012/13 the amount recognised in the Comprehensive Income and Expenditure Account would have been £52.6million compared with the £12.7million which has been recognised.

IFRS 7 Financial Instrument Disclosures – Offsetting Financial Assets and Liabilities

IAS 12 Deferred Tax – Recovery of Underlying Assets. This amendment impacts on Group Accounts and there is no impact currently anticipated, as the Council does not currently produce Group Accounts.

The impact of the above amendments will be in the 2013/14 accounts and will require the 2012/13 figures to be restated.

## **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 Council will make a provision where a future event is uncertain but there is a legal or constructive obligation.

## **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 2013 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.	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 £20.307 million. However, the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the net pensions liability had increased by £79.376 million. This increase includes: <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 £25.028 million</li> <li>• employer contributions actually paid of £30.376 million.</li> </ul>
<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 £0.62 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 £3.1 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 £2 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

During 2011/12 three Council schools became Academies. This was 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.

## **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 the 2012/13 Accounts, there is one exceptional item:

The net transfer from Earmarked Reserves of £21.4 million. To improve the Councils financial standing and fund budgetary pressures in the year, the decision was taken to release a number of Earmarked Reserves which were no longer required or could be reduced.

Please see note 9 – Transfers to/from Earmarked Reserves.

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

There have been no events since 31 March 2013, up to the date when these accounts were authorised by the Director of Resources (Interim) on 30 September 2013, that require any adjustment to these accounts.

## 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.

2011/12	Usable Reserves			Movement in Usable Reserves £000	Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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	20,821	-	-	20,821	(20,821)
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	65,685	-	-	65,685	(65,685)
<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 £000	Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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	-	-	-
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>75,742</b>	<b>965</b>	<b>541</b>	<b>77,248</b>	<b>(77,248)</b>



2012/13	Usable Reserves			Movement in Usable Reserves £000	Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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	17,888	-	-	17,888	(17,888)
Impairment and revaluation losses of non current assets	8,315	-	-	8,315	(8,315)
Movement in market value of investment property	(3,486)	-	-	(3,486)	3,486
Amortisation of intangible assets	247	-	-	247	(247)
Capital grant and contributions applied	(5,293)	-	-	(5,293)	5,293
Revenue Expenditure Funded from Capital under Statute (REFCUS)	10,291	-	-	10,291	(10,291)
Application of grants to fund REFCUS	(2,917)	-	-	(2,917)	2,917
Reserves applied to fund REFCUS	(73)	-	-	(73)	73
Income in relation to donated assets credited to the Comprehensive Income and Expenditure Statement (CIES)	-	-	-	-	-
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	10,252	-	-	10,252	(10,252)
<b>Insertion of items not debited or credited to the CIES</b>					
Statutory Provision for the repayment of debt - (Minimum revenue provision)	(10,372)	-	-	(10,372)	10,372
Statutory Repayment of Debt (Finance Lease Liabilities)	(1,081)	-	-	(1,081)	1,081
Statutory Repayment of Debt (PFI)	(2,051)	-	-	(2,051)	2,051
Capital expenditure charged against the General Fund	(342)	-	-	(342)	342
<b>Adjustments primarily involving the Capital Grants Unapplied Account</b>					
Capital grants unapplied credited to CIES	(7,367)	-	7,367	-	-
Application of grants through the Capital Adjustment Account.	-	-	(11,138)	(11,138)	11,138
Application of previous year's grants to fund REFCUS	-	-	(6,266)	(6,266)	6,266
<b>Adjustments primarily involving the Capital Receipts Reserve</b>					

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2012/13	Usable Reserves			Movement in Usable Reserves £000	Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000		
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and expenditure Statement	(1,351)	1,351	-	-	-
Use of the Capital Receipts Reserve to finance capital expenditure	-	(2,547)	-	(2,547)	2,547
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipt pool	18	(18)	-	-	-
<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	(38)	-	-	(38)	38
<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	26,560	-	-	26,560	(26,560)
Employers pension contributions and direct payments to pensioners in the year	(33,432)	-	-	(33,432)	33,432
<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	1,586	-	-	1,586	(1,586)
<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	(1,960)	-	-	(1,960)	1,960
<b>Total adjustments</b>	<b>5,395</b>	<b>(1,214)</b>	<b>(10,037)</b>	<b>(5,856)</b>	<b>5,856</b>

2011/12 comparatives have been restated to reflect adjustments that have been made to the Revaluation Reserve. Please see note 24 (Unusable Reserves – Revaluation Reserve)

## 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 2013/14 budget setting process. The following describes each earmarked reserve where the balance is in excess of £0.25 million on either 31 March 2012 or 31 March 2013.

Earmarked Reserves	Balance at 31 March 2011 £000	Movement 2011/12 £000	Balance at 31 March 2012 £000	Movement 2012/13 £000	Balance at 31 March 2013 £000
Schools Balances	11,733	34	11,767	169	11,936
Housing Benefit	12,155	(1,000)	11,155	(1,000)	10,155
Insurance Fund	9,537	98	9,635	(1,814)	7,821
Budget Support	-	-	-	4,200	4,200
Intranet Development	2,383	778	3,161	-	3,161
Local Pay Review	2,758	(117)	2,641	(345)	2,296
Community Fund Asset Transfer	3,721	(420)	3,301	(1,155)	2,146
Efficiency Investment Rolling Fund	-	-	-	2,000	2,000
One Stop Shop/Libraries IT Networks	1,785	334	2,119	(241)	1,878
Supporting People Programme	1,551	(46)	1,505	(400)	1,105
Worklessness	-	-	-	1,085	1,085
Severance Pay	-	-	-	1,026	1,026
Stay, Work, Learn Wise	-	908	908	-	908
Intensive Family Intervention Project	-	-	-	871	871
Working Neighbourhood Fund	10,302	(2,343)	7,959	(7,199)	760
School Harmonisation	5,882	(4,641)	1,241	(573)	668
Schools Capital Schemes	1,055	(278)	777	(196)	581
Childrens Workforce Development Council	-	399	399	159	558
Apprentice Programmes 2 & 3	-	-	-	546	546
Home Adaptations	566	(29)	537	(19)	518
Dedicated Schools Grant Carry Forward	165	-	165	307	472
Planned Preventative Maintenance	-	483	483	(20)	463
ERDF Match Funding	-	500	500	(56)	444
Schools Automatic Meter Readers	415	-	415	-	415
Schools Contingency	370	-	370	-	370
Strategic Asset Review	807	(312)	495	(129)	366
Child Poverty	-	-	-	350	350
Business Improvement Grant	-	342	342	-	342
Local Area Agreement Reward	330	(8)	322	-	322
Schools Service IT	294	-	294	-	294
Homeless Prevention	276	(5)	271	-	271
West Wirral Schemes	332	198	530	(300)	230
Cosyhomes Insulation	531	713	1,244	(1,094)	150
Primary Care Trust Physical Activities	300	-	300	(196)	104
Heritage Fund	420	-	420	(324)	96
20 MPH Zones	-	550	550	(520)	30
Debt Restructuring & funding	7,941	-	7,941	(7,941)	-
Minimum Revenue Provision	4,400	-	4,400	(4,400)	-
Matching Fund	476	82	558	(558)	-
Merseyside Information Service Termination Costs	500	-	500	(500)	-
Schools Summer Term	280	-	280	(280)	-
Other Reserves	8,972	(209)	8,763	(2,925)	5,838
	90,237	(3,989)	86,248	(21,472)	64,776

\*See note 6 for further information on the movement for 2012/13.

### Schools Balances

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

	<b>£000</b>
Schools underspending	12,075
Schools overspending	(139)
Net Schools balances	11,936

### 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.

### Budget Support

In preparation for the level of savings required in Local Government over the next few years, this reserve has been set up to fund service changes and projects which are essential to assist with the redesign of our services.

### 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.

### 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.

### Efficiency Investment Rolling Fund

This Fund was established to facilitate investments in efficient practices by "loaning" pump-priming funding at the start of a revenue saving project which would repay the loan out of savings in later years.

### 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.

### **Worklessness**

Funding was provided in 2012/13 for a continuation of the worklessness programme, which also incorporated the existing ILM programme. A 12 month contract for the worklessness extension was commissioned in September 2012, and recruitment to the ILM programme, again for a 12 month period commenced during the autumn of 2012. This reserve is to fund the remainder of these inter-related programmes as they complete their final delivery in 2013/14

### **Severance Pay**

To fund reorganisation costs that may be incurred in 2013/14.

### **Stay, Work, Learn Wise**

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

### **Intensive Family Intervention Project**

Funding was allocated from the Department for Communities and Local Government for the Intensive Families Intervention Programme which is a 3 year programme. Implementation of the programme commenced in 2012/13 and the programme and funding was re-profiled

### **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 with £7million transferred to General Fund balances in 2012/13.

### **Schools Harmonisation**

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

### **Schools Capital Schemes**

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

### **Children's Workforce Development Council**

Income received in 2011/12 and 2012/13 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).

### **Apprentice Programmes 2 & 3**

Funding for the final tranche of the apprenticeship programme was provided in 2012/13. The programme was to fund apprentices for a 12 month training programme, and recruitment commenced in summer 2012 and continued for a further 4 months. As at 31 March 2013, all participants were at approximately the mid-point of their training period. This reserve is to fund the balance of their training period, which will be finalised by December 2013.

**Home Adaptations**

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

**Dedicated Schools Grant Carry Forward**

Department for Education regulations require that any unspent Dedicated Schools Grant balances are either redistributed to schools or carried forward to future years. The Schools Forum have agreed that any balances arising following the final DSG announcement in June (or at the year end) are carried forward until the end of the funding period. After this time, balances are to be redistributed.

**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.

**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.

**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.

**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.

**Strategic Asset Review**

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

**Child Poverty**

This reserve was set up to pay for the Schools Readiness Project within Surestart.

**Business Improvement Grant**

Grants are awarded by a Business Support panel and are funded from a revenue budget. As at the 31 March 2013 grant awards totalling £342,010 were outstanding pending valid claims from the grantee. Such claims will be submitted and financially settled in the 2013/14 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.

**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.

**Homeless Prevention**

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

**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.

**Cosyhomes Insulation**

To facilitate a programme of insulation in homes throughout Wirral.

**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.

**Heritage Fund**

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

**20MPH Zones**

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

**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. The reserve was no longer deemed required and returned to General Fund balances in 2012/13.

**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. The reserve was no longer deemed required and returned to General Fund balances in 2012/13.

**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. The reserve was no longer deemed required and returned to General Fund balances in 2012/13.

**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. The reserve was no longer deemed required and returned to General Fund balances in 2012/13.

**Schools Summer Term**

To cover the cost of advisory teachers in the summer term in the event of schools not deciding to purchase services. This reserve has been used in 2012/13.

**10. OTHER OPERATING EXPENDITURE**

<b>2011/12 £000</b>		<b>2012/13 £000</b>
45,132	Levies	44,074
12	Payments to the Government Housing Capital Receipts Pool	18
61,719	Gains / losses on the disposal of non-current assets	9,113
<b>106,863</b>	<b>Total</b>	<b>53,205</b>

The comparative for 2011/12 has been adjusted to include the Flood Defence levy.

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

<b>2011/12 £000</b>		<b>2012/13 £000</b>
14,359	Interest payable and similar charges	14,038
10,917	Pensions interest cost and expected return on pensions assets	12,656
(2,247)	Interest receivable and similar income	(1,484)
477	Income and expenditure in relation to investment properties and changes in their fair value	(4,046)
(236)	Gains and losses on trading accounts	52
<b>23,270</b>	<b>Total</b>	<b>21,216</b>

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

<b>2011/12 £000</b>		<b>2012/13 £000</b>
132,528	Council tax income	132,780
121,312	Non domestic rates	145,208
47,750	Non-ringfenced government grants	13,488
18,449	Capital grants and contributions	12,660
<b>320,039</b>	<b>Total</b>	<b>304,136</b>



**13. PROPERTY, PLANT AND EQUIPMENT****Movements on Balances****Movements in 2012/13:**

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equip- ment £000	Infra- structure Assets £000	Comm- unity Assets £000	Surplus Assets £000	Assets Under Con- struction £000	Total Property, Plant and Equipment £000
Cost or Valuation							
At 1 April 2012	494,999	20,203	131,372	26,914	2,733	32,004	708,225
additions	6,890	1,068	6,299	516	337	7,747	22,857
revaluation increases/ (decreases) recognised in the Revaluation Reserve	(16,962)	-	-	(205)	(24)	-	(17,191)
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,805)	-	-	(465)	838	-	(6,432)
derecognition - disposals	(4,130)	(158)	-	-	(279)	(5,474)	(10,041)
assets reclassified (to)/from Held for Sale	-	-	-	-	(3,388)	(499)	(3,887)
other movements in cost or valuation	2,308	-	-	657	3,099	(5,588)	476
<b>At 31 March 2013</b>	<b>476,300</b>	<b>21,113</b>	<b>137,671</b>	<b>27,417</b>	<b>3,316</b>	<b>28,190</b>	<b>694,007</b>
<b>Accumulated Depreciation and Impairment</b>							
At 1 April 2012	48,675	12,781	27,102	-	10	-	88,568
depreciation charge	12,239	2,198	3,433	-	19	-	17,889
depreciation written out to the Revaluation Reserve	(38,738)	-	-	(101)	(519)	-	(39,358)
impairment losses /(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-

*(Table continues on following page)*

*(Table continued from previous page)*

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equip- ment £000	Infra- structure Assets £000	Comm- unity Assets £000	Surplus Assets £000	Assets Under Con- struction £000	Total Property, Plant and Equipment £000
impairment losses (/reversals) recognised in the Surplus/Deficit on the Provision of Services	(1,747)	-	-	-	(35)	-	(1,782)
derecognition - disposals	(723)	(149)	-	-	-	-	(872)
other movements in depreciation and impairment	(648)	-	-	101	547	-	-
<b>At 31 March 2013</b>	<b>19,058</b>	<b>14,830</b>	<b>30,535</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>64,445</b>
<b>Net Book Value</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>
<b>at 31 March 2013</b>	<b>457,242</b>	<b>6,283</b>	<b>107,136</b>	<b>27,417</b>	<b>3,294</b>	<b>28,190</b>	<b>629,562</b>

**Comparative Movements in 2011/12:**

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equip- ment £000	Infra- structure Assets £000	Comm- unity Assets £000	Surplus Assets £000	Assets Under Con- struction £000	Total Property, Plant and Equipment £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 increases/ (decreases) recognised in the Revaluation Reserve	4,510	2,161	-	-	236	-	6,907
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(33,067)	-	-	(5)	(325)	(89)	(33,486)
derecognition - disposals	(68,767)	(636)	-	-	(40)	(2,704)	(72,147)
assets reclassified (to)/from Held for Sale	(665)	-	-	-	446	421	202
other movements in 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 Depreciation and 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 out to the Revaluation Reserve	(4,042)	1,161	-	-	(2)	-	(2,883)
impairment losses (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-

*(Table continues on following page)*

*(Table continued from previous page)*

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
impairment losses /(reversals) recognised in the Surplus/Deficit on the Provision of Services	(12,696)	-	-	-	(2)	-	(12,698)
derecognition - disposals	(6,143)	(535)	-	-	-	-	(6,678)
other movements in depreciation and 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>							
at 31 March 2011	523,187	7,764	98,543	26,140	2,484	26,283	684,401
at 31 March 2012	446,324	7,422	104,270	26,914	2,723	32,004	619,657

2011/12 comparatives have been restated to reflect adjustments that have been made to the Revaluation Reserve. Please see note 24 (Unusable Reserves – Revaluation Reserve).

### 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 2013 are:

	£000
Pensby Primary School	1,675

Similar commitments at 31 March 2012 were £11.9 million

During 2012-13 the Council's capital programme was subject to a review, in light of the overall financial position and to reduce the demands of the programme. This review, combined with a spending freeze during the second half of the year, has led to a large

reduction in the Council's Capital commitments when compared to the previous financial year.

## 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. In 2012/13 in respect of Other Land and Buildings the rolling programme included all schools and leisure centres that had not been revalued in the previous 5 years. These are generally higher value assets and between them accounted for £187m of the 2012/13 valuation.

	<b>Other Land and Buildings £000</b>	<b>Surplus Assets £000</b>	<b>Total £000</b>
Carried at historical cost			
valued at fair value as at:			
31 March 2013	244,894	922	245,816
31 March 2012	55,700	514	56,214
31 March 2011	34,747	80	34,827
31 March 2010	34,145	-	34,145
31 March 2009	97,161	794	97,955
<b>Total Cost or Valuation</b>	<b>466,647</b>	<b>2,310</b>	<b>468,957</b>

**14. HERITAGE ASSETS**

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

	<b>Decorative Art and Other Collections £000</b>	<b>Buildings £000</b>	<b>Civic Regalia £000</b>	<b>Transport £000</b>	<b>Fine Art £000</b>	<b>Total Assets £000</b>
<b>Cost or Valuation</b>						
1 April 2011	3,130	937	256	427	7,740	12,490
Additions	-	-	-	-	35	35
Enhancements	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Revaluations	-	-	268	62	-	330
Impairment Losses / (reversals) recognised in the Revaluation Reserve	-	-	(116)	(10)	-	(126)
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	(40)	-	(40)
Surplus or Deficit on the Provision of Services	-	-	-	-	-	-
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>
<b>Cost or Valuation</b>						
1 April 2012	3,130	937	408	439	7,775	12,689
Additions	-	-	-	-	-	-
Enhancements	-	-	-	-	-	-
Disposals	-	-	-	(3)	-	(3)
Revaluations	-	-	-	-	-	-
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
<b>31 March 2013</b>	<b>3,130</b>	<b>937</b>	<b>408</b>	<b>436</b>	<b>7,775</b>	<b>12,686</b>

## Heritage Assets: Five-Year Summary of Transactions

	2010/11 £000	2011/12 £000	2012/13 £000
<b>Cost of Acquisitions</b>	-	-	-
<b>Value Acquired by Donation</b>			
Fine Art	-	35	-
<b>Disposals</b>			
Transport	-	-	(3)
<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 onwards.

### 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 form 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 Museums Association 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 2011/12 and during 2012/13 an Olympian bus was disposed of.

### **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 Curator of Museums.

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) ).

Valuations have been undertaken by the Council's own valuers and are based on their fair value. Valuations were undertaken between January 2008 and March 2012.

### **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.

	2011/12 £000	2012/13 £000
Rental income from investment property	658	642
Direct operating expenses arising from investment property	(79)	(82)
Net gain	579	560

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:

	2011/12 £000	2012/13 £000
Balance at start of the year	14,105	13,550
Additions:	15	1
Disposals	(16)	(272)
Net gains / (losses) from fair value adjustments	(1,056)	3,486
Transfers:		
To / (from) Property, Plant and Equipment	(698)	(477)
From Assets Held for Sale	1,200	-
Balance at end of the year	13,550	16,288

## 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 £247,000 charged to revenue in 2012/13 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>2011/12 £000</b>	<b>2012/13 £000</b>
Balance at 1 April	813	598
Purchases	107	-
Amortisation for the year	(322)	(247)
<b>Balance at 31 March</b>	<b>598</b>	<b>351</b>

## 17. FINANCIAL INSTRUMENTS

### FINANCIAL INSTRUMENTS BALANCES

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

<b>Long Term 31 Mar 2012 £000</b>	<b>Short Term 31 Mar 2012 £000</b>		<b>Long Term 31 Mar 2013 £000</b>	<b>Short Term 31 Mar 2013 £000</b>
		<b>Financial Liabilities</b>		
244,133	20,242	Borrowings	214,229	32,914
57,616	1,827	PFI Liability	55,138	2,101
1,088	1,072	Finance Lease Liability	540	635
<b>302,837</b>	<b>23,141</b>	<b>Total Financial Liabilities</b>	<b>269,907</b>	<b>35,650</b>
		<b>Financial Assets</b>		
22,827	36,964	Loans and Receivables	14,153	35,084
7,500	1,005	Available for Sale	-	8,513
<b>30,327</b>	<b>37,969</b>	<b>Total Financial Assets</b>	<b>14,153</b>	<b>43,597</b>

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

Long Term	Short Term		Long Term	Short Term
31 Mar 2012	31 Mar 2012		31 Mar 2013	31 Mar 2013
£000	£000		£000	£000
		<b>Borrowings</b>		
247,180	17,129	Nominal Amount	217,162	30,018
-	3,113	Accrued Interest	-	2,910
(3,047)	-	EIR Adjustments	(2,933)	(14)
<b>244,133</b>	<b>20,242</b>	<b>Total Amortised cost</b>	<b>214,229</b>	<b>32,914</b>

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

Long Term	Short Term		Long Term	Short Term
31 Mar 2012	31 Mar 2012		31 Mar 2013	31 Mar 2013
£000	£000		£000	£000
		<b>Loans and Receivables</b>		
22,768	36,601	Nominal Amount	14,246	34,626
(412)	363	Accrued Interest	(567)	458
471	-	Impairment/ Revaluation	474	-
<b>22,827</b>	<b>36,964</b>	<b>Total Amortised Cost</b>	<b>14,153</b>	<b>35,084</b>
		<b>Available for Sale</b>		
7,500	1,000	Nominal Amount	-	8,500
-	5	Impairment/ Revaluation	-	13
<b>7,500</b>	<b>1,005</b>	<b>Total Fair Value</b>	<b>-</b>	<b>8,513</b>
<b>30,327</b>	<b>37,969</b>	<b>TOTAL INVESTMENTS</b>	<b>14,153</b>	<b>43,597</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:

2012/13	Financial Liabilities	Financial Assets		Total £000
	Liabilities Measured at amortised cost £000	Loans and Receivables £000	Available for sale assets £000	
Interest expense	(14,034)			
Impairment losses		(4)		
<b>Interest payable and similar charges</b>	<b>(14,034)</b>	<b>(4)</b>	-	<b>(14,038)</b>
Interest Income		939	200	
Gains on derecognition		-	-	
<b>Total Interest and Investment Income</b>	-	<b>939</b>	<b>200</b>	<b>1,139</b>
Gains on revaluation			6	
<b>Surplus arising on revaluation of financial assets</b>			<b>6</b>	
<b>Net gain/ (loss) for the year</b>	<b>(14,034)</b>	<b>935</b>	<b>206</b>	

This compares with the gains and losses recognised in the Income and Expenditure Account in relation to financial instruments in 2011/12:

2011/12	Financial Liabilities	Financial Assets		Total £000
	Liabilities Measured at amortised cost £000	Loans and Receivables £000	Available for sale assets £000	
Interest expense	(14,420)	-	-	
Impairment losses		61	-	
<b>Interest payable and similar charges</b>	<b>(14,420)</b>	<b>61</b>	-	<b>(14,359)</b>
Interest Income		1,407	370	
Gains on derecognition		-	470	
<b>Total Interest and Investment Income</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>	

## 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 2013 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 2013. 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 2013.

The Council's investment portfolio at the Balance Sheet date consisted almost entirely of term deposits with Banks, call account deposits, Money Market Fund investment and a European Investment Bank (EIB) bond. The Money Market Fund investment 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 authority deems the carrying amount to be a reasonable approximation of the fair value.

Carrying Amount as at 31 Mar 2012	Fair value as at 31 Mar 2012		Carrying Amount as at 31 Mar 2013	Fair value as at 31 Mar 2013
£000	£000		£000	£000
		<b>Financial Liabilities:</b>		
264,375	349,466	Borrowings	247,144	359,793
22,990	22,990	Trade Payables	21,024	21,024
<b>287,365</b>	<b>372,456</b>	<b>Total Financial Liabilities</b>	<b>268,168</b>	<b>380,817</b>
		<b>Financial Assets:</b>		
59,791	59,878	Loans and Receivables	49,237	49,266
14,186	14,186	Trade Receivables	9,236	9,236
<b>73,977</b>	<b>74,064</b>	<b>Total Financial Assets</b>	<b>58,473</b>	<b>58,502</b>

The fair value of financial liabilities is higher than the carrying amount because the authority'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 2012 £000</b>	<b>31 March 2013 £000</b>
Central government bodies	8,793	3,370
Other local authorities	4,210	6,550
NHS bodies	341	5,717
Collection Fund	4,044	4,117
Public corporations and trading funds	-	-
Other entities and individuals	36,254	23,977
<b>Total</b>	<b>53,642</b>	<b>43,731</b>

During re-analysis of 2011/12 debtors, it was identified that £3.8million included within 'Other entities and individuals' had been incorrectly categorised, with £3.4million relating to other Local Authorities. Although the total debtors figure at 31 March 2012 remains the same, the amounts for the individual categories have been restated.

## 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 2012 £000</b>	<b>31 March 2013 £000</b>
Cash held by Authority	3,049	5,395
Call accounts (same day access funds)	15,000	13,540
Money Market Funds	19,730	-
<b>Total Cash and Cash Equivalents</b>	<b>37,779</b>	<b>18,935</b>



**20. ASSETS HELD FOR SALE**

	Current	
	2011/12 £000	2012/13 £000
<b>Balance outstanding at start of year</b>	2,957	1,348
Assets newly classified as held for sale	589	4,015
Revaluation gains	130	-
Impairment losses	(9)	(3,665)
Assets declassified as held for sale:	(2,121)	(90)
Disposals	(198)	(1,019)
<b>Balance outstanding at year-end</b>	<b>1,348</b>	<b>589</b>

**21. CREDITORS**

	31 March 2012 £000	31 March 2013 £000
Central government bodies	8,096	7,429
Other local authorities	3,428	1,185
NHS bodies	278	546
Public corporations and trading funds	1	69
Other entities and individuals	40,691	36,975
<b>Total</b>	<b>52,494</b>	<b>46,204</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.

	Balance at 1 April 2012 £000	Movement in 2012/13 £000	Balance at 31 March 2013 £000
Council Tax	7,303	195	7,498
Housing Benefit	6,542	475	7,017
Sundry Debtors	7,622	3,278	10,900
Summons Costs	635	(145)	490
	<b>22,102</b>	<b>3,803</b>	<b>25,905</b>

**Others**

The provisions figure shown in the Balance Sheet comprises:-

	<b>Balance at 1 April 2012 £000</b>	<b>Movement in 2012/13 £000</b>	<b>Balance at 31 March 2013 £000</b>
<b>Short Term</b>			
Severance Pay	186	4,288	4,474
Insurance Fund	1,200	350	1,550
Other	1,452	(878)	574
Supported Living Accommodation	-	493	493
Carbon Reduction Commitment	488	-	488
You Decide	306	-	306
Land Charges	250	-	250
Council Tax Reimbursement	3,990	(3,990)	-
Working Neighbourhood Fund	713	(713)	-
	<b>8,585</b>	<b>(450)</b>	<b>8,135</b>
<b>Long Term</b>			
Insurance Fund	4,900	318	5,218
Other	138	(116)	22
	<b>5,038</b>	<b>202</b>	<b>5,240</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.

### Severance Pay

The reorganisation of a number of the Councils departments commenced in autumn 2012. The Council is required to identify funding for staff changes that will result in the 2012/13 Accounts. The severance costs anticipated to be incurred in 2013/14 are £4.474 million which are required to be included in the 2012/13 accounts and a provision has been established to cover these payments.

### Supported Living Accommodation

This provision is to fund payments to individuals within the Councils in-house supported living accommodation who had been overcharged for their care. A provision is required as repayment of these charges will be made in 2013/14.

### Carbon Reduction Commitment

To fund the purchase of allowances from the Government in 2013/14 which relate to 2012/13 and therefore have to be included within the 2012/13 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.

**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 was used to fund the reimbursement in 2012/13

**Working Neighbourhood Fund**

For a number of contractual commitments this provision was used in 2012/13 for the delivery of schemes to reduce worklessness, increase apprenticeships and award grants.

**Other Provisions**

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

**23. USABLE RESERVES**

<b>Usable Reserve</b>	<b>Balance at 1 April 2012 £000</b>	<b>Movement £000</b>	<b>Balance 31 March 2013 £000</b>	<b>Purpose of Reserve</b>
General Fund	20,817	6,594	27,411	Resources available to meet future running costs for services.
Earmarked General Fund Reserves	86,248	(21,472)	64,776	See note 9 for further details.
Capital Receipts Reserve	9,237	(1,214)	8,023	Contains the proceeds of fixed asset sales that are available to meet future capital investment.
Capital Grants Unapplied	31,385	(10,037)	21,348	Government Grants and contributions received in year for projects.
<b>Total</b>	<b>147,687</b>	<b>(26,129)</b>	<b>121,558</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**

<b>2011/12</b> <b>£000</b>		<b>2012/13</b> <b>£000</b>
145,828	Revaluation Reserve	162,378
4	Available for Sale Financial Instruments Reserve	11
188,908	Capital Adjustment Account	192,721
2,678	Deferred Capital Receipts	2,677
(3,759)	Financial Instruments Adjustment Account	(3,723)
(395,078)	Pensions Reserve	(472,043)
1,971	Collection Fund Adjustment Account	385
(4,631)	Accumulated Absences Account	(2,671)
<b>(64,079)</b>	<b>Total Unusable Reserves</b>	<b>(120,265)</b>

2011/12 comparatives have been restated to reflect adjustments that have been made to the Revaluation Reserve. Please see note 24 (Unusable Reserves – Revaluation Reserve)

**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.

2011/12		2012/13	
£000		£000	£000
146,470	<b>Balance at 1 April</b>		<b>145,828</b>
16,483	Upward revaluation of assets	53,707	
(6,506)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of services	(31,540)	
9,977	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		<b>22,167</b>
(4,790)	Difference between fair value depreciation and historical cost depreciation	(3,925)	
(5,829)	Accumulated gains on assets sold or scrapped	(1,692)	
-	Amounts written off to the Capital Adjustment Account resulting from IFRS restatement	-	
(10,619)	<b>Total amount written off to the capital Adjustment Account</b>		<b>(5,617)</b>
145,828	<b>Balance at 31 March</b>		<b>162,378</b>

### Revaluation Reserve Adjustments

When an asset is revalued downwards (impaired) and there has been a previous upward revaluation which has created a revaluation reserve, the impairment is charged to the revaluation reserve until it is depleted; thereafter it is charged to service revenue accounts.

In 2011-12, in respect of a number of assets in this situation, the impairment was charged to revenue rather than to the revaluation reserve. The total value of the impairment was £1,303,389.42. The accounts for 2011-12 have been restated by crediting revenue by this amount and debiting the revaluation reserve by the same. In accordance with accounting practice, any impact on Council Tax has been removed by debiting the Movement in Reserves Statement and crediting the Capital Adjustment Account

When an asset that has been revalued is depreciated, the associated revaluation reserve is written off at the same rate. In this situation the revaluation reserve is debited and the capital adjustment account is credited. If an asset is deemed to have a residual value, depreciation stops when the residual value has been reached. Writing off of the revaluation reserve stops at the same time.

In 2011-12, in respect of a number of vehicles with residual values, the residual value was reached and depreciation stopped. However, write off the revaluation reserve continued. The excess amount of revaluation reserve written off was £297,870.25. The accounts for 2011-12 have been restated by debiting the Revaluation Reserve by £297,870.25 and crediting the Capital Adjustment Account by the same amount.

A review of historic movements on the Revaluation Reserve showed that there were 18 assets where the revaluation reserve in the Council's fixed asset accounting system

differed from the values entered in the Council's Accounts in financial year 2010-11. The total difference was £3,482,748.04. This has been corrected in the Council's accounts by debiting the Revaluation Reserve and crediting the Capital Adjustment Account by this amount.

### Available for Sale Financial Instrument Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority 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.

<b>31 March 2012</b> <b>£000</b>		<b>31 March 2013</b> <b>£000</b>
<b>476</b>	<b>Balance at 1 April</b>	<b>4</b>
5	Upward revaluation of investments not charged to the Surplus/ Deficit on the Provision of Services	7
(477)	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
<b>4</b>	<b>Balance at 31 March</b>	<b>11</b>

### 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.

Please see note regarding the Revaluation reserve adjustments which have affected the 2011/12 comparatives for the Capital Adjustment Account.

2011/12		2012/13	
£000		£000	£000
259,161	<b>Balance at 1 April</b>		<b>188,908</b>
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
(40,697)	Charges for depreciation, revaluation losses and impairment of non-current assets	(26,204)	
4,790	Historic cost adjustment on Revaluation losses on Property, Plant and Equipment	3,925	
(322)	Amortisation of intangible assets	(247)	
(17,557)	Revenue expenditure funded from capital under statute	(10,291)	
(59,858)	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	(8,559)	
<b>(113,644)</b>			<b>(41,376)</b>
	<b>Capital financing applied in the year:</b>		
3,000	Use of the Capital Receipts Reserve to finance new capital expenditure	2,547	
24,364	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	25,065	
13,204	Statutory provision for the financing of capital investment charged against the General Fund	13,689	
1,660	Capital expenditure charged against the General Fund and other balances	402	
<b>42,228</b>			<b>41,703</b>
(1,056)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	3,486	
35	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	-	
2,184	Asset Under Construction previously omitted from asset register	-	
<b>1,163</b>			<b>3,486</b>
<b>188,908</b>	<b>Balance at 31 March</b>		<b>192,721</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 Authority 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.

<b>31 March 2012</b> <b>£000</b>		<b>31 March 2013</b> <b>£000</b>
<b>(3,794)</b>	<b>Balance at 1 April</b>	<b>(3,760)</b>
35	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	37
<b>(3,759)</b>	<b>Balance at 31 March</b>	<b>(3,723)</b>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of 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.



2011/12 £000		2012/13 £000
(334,820)	<b>Balance at 1 April</b>	(395,078)
(64,364)	Actuarial gains or losses on pensions assets and liabilities	(83,837)
(30,049)	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	(26,560)
34,155	Employer's pensions contributions and direct payments to pensioners payable in the year	33,432
<b>(395,078)</b>	<b>Balance at 31 March</b>	<b>(472,043)</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.

2011/12 £000		2012/13 £000
876	<b>Balance at 1 April</b>	1,971
1,095	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	(1,586)
<b>1,971</b>	<b>Balance at 31 March</b>	<b>385</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.

2011/12		2012/13	
£000		£000	£000
(5,178)	<b>Balance at 1 April</b>		(4,631)
1,034	Settlement or cancellation of accrual made at the end of the preceding year	(487)	
(487)	Amounts accrued at the end of the current year	2,447	
<b>547</b>	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		<b>1,960</b>
<b>(4,631)</b>	<b>Balance at 31 March</b>		<b>(2,671)</b>

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

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
(6,148)	Interest received	(5,823)
19,456	Interest paid	18,743
	<b><i>Adjust net (surplus)/ deficit on the provision of services for non cash movements:</i></b>	
(19,876)	Depreciation	(17,888)
(22,125)	Impairment	(8,315)
(322)	Amortisations of intangible assets	(247)
(2,529)	Movement in provision for bad debt	(3,803)
8,530	(Increase) / decrease in long & short term creditors	5,579
(6,950)	Increase / (decrease) in long & short term debtors	(14,421)
25	Increase / (decrease) in stock / WIP	(94)
(30,049)	Charges for retirement benefits in accordance with IAS 19	(26,560)
34,155	Actual amount paid to pension fund - charge against Council Tax for pension in year	33,432
(65,674)	Non cash items relating to the disposal of fixed assets	(10,252)
35	Non cash items relating to the disposal of investments	-
11,691	Movement in other provisions (additions) / utilised	248
(1,056)	Movement in the value of investment properties	3,486
35	Donated Assets	-
1,642	Collection Fund and Accumulated Absences	4,230
107	Other misc non cash movements	62
(92,361)		(34,543)
	<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	-
3,965	Proceeds from the sale of property, plant and equip., investment property and intangible assets	1,351
18,414	Grants applied to the financing of capital expenditure	12,660
	Any other items for which the cash effects are investing or financing cash flows.	
22,379	<b><i>Net cash flow from operating activities</i></b>	14,011

2011/12 comparatives have been restated to reflect adjustments that have been made to the Revaluation Reserve. Please see note 24 (Unusable Reserves – Revaluation Reserve).

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

<b>2011/12 £000</b>		<b>2012/13 £000</b>
29,805	Purchase of property, plant and equipment, investment property and intangible assets.	23,766
107,100	Purchase of short-term and long-term investments	45,090
	Other payments for investing activities	
<b>(3,965)</b>	Proceeds from sale of property, plant and equipment, investment property and intangible assets	<b>(1,351)</b>
<b>(112,375)</b>	Proceeds from short-term and long-term investments	<b>(55,587)</b>
<b>(18,499)</b>	Other receipts from investing activities	<b>(12,947)</b>
<b>2,066</b>	<b>Net cash flows from investing activities</b>	<b>(1,029)</b>

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

<b>2011/12 £000</b>		<b>2012/13 £000</b>
<b>(5,000)</b>	Cash receipts of short- and long-term borrowing	-
182	Other receipts from financing activities	<b>(127)</b>
3,295	Cash payments for the reduction of outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	3,132
14,750	Repayment of short- and long-term borrowing	17,128
-	Other payments for financing activities	-
<b>13,227</b>	<b>Net cash flows from financing activities</b>	<b>20,133</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 2012/13 is as follows:

Departmental Income and Expenditure 2012/13	Adult Social Services £000	Children and Young People £000	Regeneration, Housing and Planning £000	Finance £000	Law, HR and Asset Management £000	Technical Services £000	Mersey-travel £000	Total £000
Fees, charges and other service income	(44,123)	(60,380)	(7,540)	(28,737)	(34,112)	(25,392)	-	(200,284)
Government grants	(6,955)	(217,250)	(1,217)	(170,907)	(93)	(6)	-	(396,428)
<b>Total Income</b>	<b>(51,078)</b>	<b>(277,630)</b>	<b>(8,757)</b>	<b>(199,644)</b>	<b>(34,205)</b>	<b>(25,398)</b>	<b>-</b>	<b>(596,712)</b>
Employee expenses	23,773	207,170	9,072	29,238	16,063	22,054	-	307,370
Other service expenses	92,911	124,999	17,565	161,965	24,896	48,991	29,060	500,386
Support service recharges	14,955	27,605	5,847	11,775	10,684	16,700	-	87,567
<b>Total Expenditure</b>	<b>131,639</b>	<b>359,774</b>	<b>32,484</b>	<b>202,978</b>	<b>51,643</b>	<b>87,745</b>	<b>29,060</b>	<b>895,323</b>
<b>Net Expenditure</b>	<b>80,561</b>	<b>82,144</b>	<b>23,727</b>	<b>3,334</b>	<b>17,438</b>	<b>62,347</b>	<b>29,060</b>	<b>298,611</b>

The income and expenditure by the Council department recorded in the budget reports for the year 2011/12 is as follows:

Departmental Income and Expenditure 2011/12	Adult Social Services £000	Children and Young People £000	Regeneration, Housing and Planning £000	Finance £000	Law, HR and Asset Management £000	Technical Services £000	Mersey-travel £000	Total £000
Fees, charges and other service income	(47,765)	(79,167)	(9,399)	(41,311)	(39,043)	(27,484)	-	(244,169)
Government 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>(13,042)</b>	<b>(207,589)</b>	<b>(39,107)</b>	<b>(27,484)</b>	<b>-</b>	<b>(662,341)</b>
Employee expenses	25,923	224,522	8,744	29,659	14,548	21,716	-	325,112
Other service expenses	93,129	150,341	22,673	160,489	30,623	54,644	28,817	540,716
Support service recharges	12,434	32,440	5,131	13,269	10,020	19,895	-	93,189
<b>Total Expenditure</b>	<b>131,486</b>	<b>407,303</b>	<b>36,548</b>	<b>203,417</b>	<b>55,191</b>	<b>96,255</b>	<b>28,817</b>	<b>959,017</b>
<b>Net Expenditure</b>	<b>75,879</b>	<b>87,791</b>	<b>23,506</b>	<b>(4,172)</b>	<b>16,084</b>	<b>68,771</b>	<b>28,817</b>	<b>296,676</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.

	<b>2011/12</b> <b>£000</b>	<b>2012/13</b> <b>£000</b>
Net expenditure in the Departmental Analysis	296,676	298,611
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	(11,562)	(16,187)
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(21,230)	(32,437)
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>263,884</b>	<b>249,987</b>

2012/13	Depart- mental Analysis  £000	Services and Support Services not in Analysis  £000	Amounts not reported to manage- ment for decision making £000	Amounts not included in I&E  £000	Allocation of Recharges  £000	Cost of Services  £000	Corporate Amounts  £000	Total  £000
Fees, charges & other service income	(200,285)	-	826	-	-	(199,459)	-	(199,459)
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	92,606	1,139	-	93,745	(45,495)	48,250
Income from council tax	-	-	-	-	-	-	(132,780)	(132,780)
Government grants and contributions	(396,428)	-	-	5,471	-	(390,957)	(171,356)	(562,313)
<b>Total Income</b>	<b>(596,713)</b>	<b>-</b>	<b>93,432</b>	<b>6,610</b>	<b>-</b>	<b>(496,671)</b>	<b>(349,631)</b>	<b>(846,302)</b>
								-
Employee expenses	307,370		(110,098)		-	197,272	-	197,272
Other service expenses	500,386		480	(39,047)	-	461,819	52,672	514,491
Support Service recharges	87,568	-	-	-	-	87,568	-	87,568
Depreciation, amortisation and impairment	-	-	-	-	-	-	-	-
Interest Payments	-	-	-	-	-	-	14,038	14,038
Precepts & Levies	-	-	-	-	-	-	44,074	44,074
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	18	18
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	9,113	9,113
<b>Total expenditure</b>	<b>895,324</b>	<b>-</b>	<b>(109,618)</b>	<b>(39,047)</b>	<b>-</b>	<b>746,659</b>	<b>119,915</b>	<b>866,574</b>
<b>Surplus or (deficit) on the provision of services</b>	<b>298,611</b>	<b>-</b>	<b>(16,186)</b>	<b>(32,437)</b>	<b>-</b>	<b>249,988</b>	<b>(229,716)</b>	<b>20,272</b>



2011/12	Depart- mental Analysis	Services and Support Services not in Analysis	Amounts not reported to manage- ment 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	(244,170)	-	(69)	-	-	(244,239)	-	(244,239)
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>(662,341)</b>	<b>-</b>	<b>(69)</b>	<b>9,632</b>	<b>-</b>	<b>(652,778)</b>	<b>(311,128)</b>	<b>(963,906)</b>
								-
Employee expenses	325,112		(14,220)	2,019	-	312,911	-	312,911
Other service expenses	540,716		2,727	(32,881)	-	510,562	-	510,562
Support Service recharges	93,189	-	-	-	-	93,189	-	93,189
Depreciation, amortisation and impairment	-	-	-	-	-	-	-	-
Interest Payments	-	-	-	-	-	-	14,359	14,359
Precepts & Levies	-	-	-	-	-	-	45,132	45,132
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>959,017</b>	<b>-</b>	<b>(11,493)</b>	<b>(30,862)</b>	<b>-</b>	<b>916,662</b>	<b>121,222</b>	<b>1,037,884</b>
<b>Surplus or (deficit) on the provision of services</b>	<b>296,676</b>	<b>-</b>	<b>(11,562)</b>	<b>(21,230)</b>	<b>-</b>	<b>263,884</b>	<b>(189,906)</b>	<b>73,978</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:-

		2011/12		2012/13	
		£000	£000	£000	£000
<b>(1) Vehicle Maintenance Unit</b> The Vehicle Maintenance Unit won the contract under open competition and still operates along the lines of the former CCT DSO.	Turnover	464		284	
	Expenditure	(323)		(371)	
	Surplus/(Deficit)		141		(87)
<b>(2) Building Cleaning</b> The Council manages a Building Cleaning operation on the basis of an agreement between the service provider and other departments.	Turnover	839		804	
	Expenditure	(744)		(769)	
	Surplus/(Deficit)		95		35
<b>(3) Grounds Maintenance Services</b> 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	-		-	
	Expenditure	-		-	
	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 Authority services and vice versa.

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

Wirral Council's contribution for 2012/13 is £560,000 (2011/12 £726,000) out of total expenditure of £2.16 million (2011/12 £2.27m).

### 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 2012/13 the Fund received £3.1 million of income from savings relating to refurbishment programme VAT arrangements and from interest earned on the Fund balances.

The fund incurred Expenditure of £0.75 million in the year. Wirral Council received grants of £0.75 million which related to spend in 2012/13 (£0.75 in 2011/12). Wirral Partnership Homes received no grant in 2012/13 (£9.0 million in 2011/12). The Your Wirral Grant scheme also received £0.75 million (£0.25 million in 2011/12) to fund community initiatives.

<b>Community Fund Statement</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April 2012	7,323	
Adjustment to Opening Balance: Accrued VAT	-	7,323
<b>Movement 2012/13</b>		
Income		
- Contributions arising from VAT savings	3,060	
- Property Sale	-	
- Interest received	38	3,098
Expenditure		
Grant Payments to Wirral Council	(750)	
Grant Payments to Wirral Partnership Homes	-	
Your Wirral Grant Scheme	-	(750)
<b>Balance at 31 March 2013</b>		<b>9,671</b>

After earmarking funds for any potential warranty liabilities, as at 31 March 2013 the Fund held £7.171 million for distribution. Of this sum, £1.5 million was to support Council initiatives in 2012/13 for which payment was to be made in 2013/14.

### 32. MEMBERS' ALLOWANCES

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

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Salaries	12	12
Allowances	761	748
Expenses	10	10
<b>Total</b>	<b>783</b>	<b>770</b>

**33. OFFICERS' REMUNERATION**

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

	Employment Period	Notes	Salary £	Allowances £	Compensation for loss of Office £	Pension Contributions £	Total inc Pension Contributions £
<b>Financial Year 2011/12</b>							
Chief Executive	16/04/12-07/06/12		29,873	-	-	112,323	142,196
Acting Chief Executive & Director of Finance	01/04/12-15/05/12		14,648	229	-	1,730	16,607
Acting Chief Executive	14/05/12-05/10/12	(a)	49,395	773	-	88,363	138,531
Acting Chief Executive	28/06/12-02/09/12		20,589	207	-	2,474	23,270
Chief Executive	03/09/12-31/03/13		78,234	36	-	-	78,270
Acting Director Childres Services / Acting Deputy Chief Executive	01/04/12-28/06/12		27,111	310	-	3,190	30,611
Acting Chief Finance Officer	14/05/12-31/03/13	(b)	74,666	-	-	8,960	83,626
Acting Director of Finance	16/07/12-13/08/12	(c)	10,971	-	-	1,330	12,301
Director of Technical Services	01/04/12-31/03/13	(d), (e)	114,261	1,364	-	13,542	129,167
Director of Adult Social Services	04/04/12-31/03/13		104,388	708	-	12,442	117,538
Acting Director of Childrens Services	16/07/12-31/03/13		95,903	-	-	11,505	107,408
Director of Law, HR & Asset Management	01/04/12-12/10/12	(f)	100,065	-	101,416	7,208	208,689
Acting Director of Law, HR & Asset Management	16/07/12-31/03/13		94,480	232	-	-	94,712
Director of Regeneration, Housing & Planning	01/04/12-18/11/12		68,138	-	-	8,005	76,143
Strategic Director: Families & Wellbeing	18/03/13-31/03/13	(g)	4,584	-	-	449	5,033
Strategic Director: Regeneration & Environment	19/11/12-31/03/13	(g)	42,188	-	-	5,234	47,422
			<b>929,494</b>	<b>3,859</b>	<b>101,416</b>	<b>276,755</b>	<b>1,311,524</b>

**Notes:**

- (a) Suspended from 28/06/12; EVR taken on 05/10/12
- (b) Suspended from 28/06/12
- (c) Interim Director of Finance appointed from 13/08/12
- (d) Suspended from 26/03/12
- (e) Interim Director of Technical Services appointed
- (f) Suspended from 28/06/12; left through redundancy on 12/10/12
- (g) 3 Strategic Director posts created. Strategic Director: Transformation & Resources appointed 01/04/13

	<b>Salary</b>	<b>Allow-</b>	<b>Comp-</b>	<b>Pension</b>	<b>Total inc</b>
	<b>£</b>	<b>ances</b>	<b>ensation for</b>	<b>Contrib-</b>	<b>Pension</b>
		<b>£</b>	<b>loss of</b>	<b>utions</b>	<b>Contrib-</b>
			<b>Office</b>	<b>£</b>	<b>utions</b>
			<b>£</b>		<b>£</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>

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	2011/12 Number of Employees			2012/13 Number of Employees		
	General	Teaching	Total	General	Teaching	Total
£50,000 - £54,999	36	73	109	26	47	73
£55,000 - £59,999	16	65	81	16	43	59
£60,000 - £64,999	16	33	49	6	31	37
£65,000 - £69,999	8	22	30	10	13	23
£70,000 - £74,999	14	9	23	9	10	19
£75,000 - £79,999	1	3	4	2	4	6
£80,000 - £84,999	5	5	10	3	1	4
£85,000 - £89,999	3	3	6	-	3	3
£90,000 - £94,999	1	3	4	3	2	5
£95,000 - £99,999	2	2	4	1	2	3
£100,000 - £104,999	1	1	2	1	-	1
£105,000 - £109,999	3	-	3	-	-	-
£110,000 - £114,999	1	1	2	2	-	2
£115,000 - £119,999	2	-	2	2	1	3
£120,000 - £124,999	-	-	-	-	-	-
£125,000 - £129,999	1	-	1	-	-	-
£135,000 - £139,999	-	1	1	-	-	-
£165,000 - £169,999	1	-	1	-	-	-
£175,000 - £179,999	1	-	1	-	-	-
£200,000 - £204,999	-	-	-	1	-	1
	<b>112</b>	<b>221</b>	<b>333</b>	<b>82</b>	<b>157</b>	<b>239</b>

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) Exit Package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band		(b) Total cost of exit packages in each band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
							£000	£000
£ 0 - £ 20,000	-	-	26	133	26	133	359	916
£ 20,001 - £ 40,000	-	-	29	37	29	37	857	1082
£ 40,001 - £ 60,000	-	-	5	9	5	9	241	404
£ 60,001 - £ 80,000	-	-	1	5	1	5	64	352
£ 80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	2	7	2	7	221	205
	-	-	<b>63</b>	<b>191</b>	<b>63</b>	<b>191</b>	<b>1,742</b>	<b>2,959</b>

**34. EXTERNAL AUDIT COSTS**

In 2012-13 the following fees were paid relating to external audit and inspection:

	<b>2011/12</b> <b>£000</b>	<b>2012/13</b> <b>£000</b>
Fees payable to The Audit Commission with regard to external audit services carried out by the appointed auditor	424	0
Fees payable to The Audit Commission for the certification of grant claims and returns	69	0
Fees payable to The Audit Commission in respect of other services provided by the appointed auditor	75	0
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	0	212
Fees payable to Grant Thornton for the certification of grant claims and returns	21	43
Fees payable to Grant Thornton in respect of other services provided by the appointed auditor	0	50
<b>Total</b>	<b>589</b>	<b>305</b>

Note: A rebate of £27,144 was received from the Audit Commission in respect of the 2011/12 Audit Fees but this is not included in the figures above.

**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). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011.

The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2011/12 (prior to Academy Recoupment)			229,425
Academy figure recouped for 2011/12			(23,298)
Final DSG for 2011/12			206,127
Brought forward from 2010/11			2,859
Carry forward to 2012/13 agreed in advance			(580)
Agreed initial budgeted distribution 2011/12	21,097	187,309	208,406
Final budgeted distribution for 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			<b>580</b>
<b>Total carried forward to 2012/13</b>	<b>1,676</b>	<b>-</b>	<b>2,256</b>

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2012/13 (prior to Academy Recoupment)			227,017
Academy figure recouped for 2012/13			(46,697)
Final DSG for 2012/13			180,320
Brought forward from 2011/12			2,256
Carry forward to 2013/14 agreed in advance			(1,528)
Agreed initial budgeted distribution 2012/13	18,232	162,816	181,048
Final budgeted distribution for 2012/13	18,232	162,816	181,048
less: Actual central expenditure	(17,760)		(17,760)
less: Actual ISB deployed to schools		(162,816)	(162,816)
<b>Authority contribution for 2012/13</b>	<b>-</b>	<b>-</b>	<b>-</b>
Carry forward to 2013/14 agreed in advance			<b>1,528</b>
<b>Total carried forward to 2013/14</b>	<b>472</b>	<b>-</b>	<b>2,000</b>



### 36. GRANT INCOME

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

<b>Credited to Taxation and Non Specific Grant Income:</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>
<b>Revenue Grants :</b>		
National Non Domestic Rates	121,312	145,208
Schools Private Finance Initiative	5,471	5,471
Council Tax Freeze Grant	3,286	3,323
Revenue Support Grant	37,498	2,963
New Homes Bonus Grant	-	919
Local Services Support Grant	1,495	812
<b>Total Revenue Grants</b>	<b>169,062</b>	<b>158,696</b>
<b>Capital Grants :</b>		
Standards Fund	8,163	6,416
Transport Supplementary Grant	4,443	4,118
Community Capacity	941	956
LTSF Key Components	-	461
Housing Market Renewal Initiative	2,699	-
Town Link Viaduct	870	-
Challenge Fund	659	-
Other Capital Grants (less than 250k)	674	709
<b>Total Capital Grants</b>	<b>18,449</b>	<b>12,660</b>
<b>Total Credited to Taxation and Non Specific Grant Income</b>	<b>187,511</b>	<b>171,356</b>

Grants credited to Taxation and Non-specific Grants saw a reduction of £16 million from 2011/12. The main reasons for this include the ending of the Housing Market Renewal Initiative (£3 million), a reduction in the Standards Fund Grant (£2 million), an increase in National Non Domestic Rates (£24 million) and a reduction in Revenue Support Grant (£35 million). The Revenue Support Grant has reduced since 2011/12 but the National Non Domestic Rate Grant has increased following the local government finance settlement, giving a net reduction of 11 million. This is calculated by using the original Formula Grant allocation and was subject to a reduction that was damped to reduce the impact of the changes.

	2011/12 £000	2012/13 £000
<b>Credited to Services:</b>		
Dedicated Schools Grant	206,127	180,320
Housing Benefits	165,929	170,345
Early Intervention Grant	15,500	15,720
16-19 Further Education YPLA	17,419	10,527
Pupil Premium	5,394	7,412
Learning Disabilities & Health Reform Grant	6,709	6,901
Disabled Facilities Grant	-	2,194
Worklessness Grant	641	1,204
Intensive Family Intervention Fund	-	934
Music Grant	635	848
Youth Justice Board	882	838
Adult Safeguarded Learning	853	838
Step Up to Social Work	1,157	797
Public Health Innovation Fund	-	656
Framework Academies	-	570
Rates Relief	347	428
Local Sustainable Transport Fund	-	408
Apprentice	460	351
Health Contribution to DAAT	-	304
Big Lottery	237	32
Future Job Fund	1,359	-
Winter Maintenance	626	-
Intensive Start Up Support	376	-
Social Work Improvement Fund	340	-
Complementary Strand Grant	226	-
ERDF	150	-
Other	1,028	1,193
<b>Total Credited to Services</b>	<b>426,395</b>	<b>402,820</b>

Grants credited to Services has reduced by £23 million in 2012/13. The main reason for this is because of the reduction in DSG due to schools transferring to academies.

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:

	31 March 2012 £000	31 March 2013 £000
<b>Grants Receipts in Advance</b>		
Local Area Agreement Reward Grant	1,811	1,811
Aiming higher - disabled children	203	490
Mulberry Properties	275	275
Other	525	299
<b>Total Grant Receipts in Advance</b>	<b>2,814</b>	<b>2,875</b>

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

## **37. RELATED PARTY TRANSACTIONS**

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 2013 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 2012/13 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 (BBCCHA). Members have declared interests, where required, in items associated with these organisations. During the year the Council made payments of £3.3 million (£3.0 million in 2011/12) to WPH. No payments were made to BBCCHA (No payments in 2011/12). In addition as part of the development agreement WPH paid £1.78 million (£0.75 million in 2011/12) 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 £0.2 million (£0.7 million in 2011/12).

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

	Number of Representative(s)	Precept/Levy 2011/12 £000	Precept/Levy 2012/13 £000
Merseyside Police Authority	3	15,336	15,974
Merseyside Fire and Rescue Service	4	6,793	7,144
Merseyside Recycling & Waste Authority	2	15,988	14,687
Merseyside Port Health	7	128	88
Merseytravel	4	28,817	29,060

The Council has a pooled budget arrangement with Wirral Community NHS 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 (2011/12 £3.8 million) for administration and investment management costs.

### 38. CAPITAL EXPENDITURE AND CAPITAL FINANCING

Summary of Capital Expenditure and Financing	2011/12 £000	2012/13 £000
<b>Capital Investment</b>		
Property, Plant & Equipment	28,446	22,518
Intangible Assets	107	-
Investment Properties	15	1
Asset Held for Sale	-	38
Revenue Expenditure Funded from Capital under Statute	17,557	10,292
Long Term Debtors	487	479
	<b>46,612</b>	<b>33,328</b>
<b>Sources of Finance</b>		
Borrowing supported by Government financial assistance	-	-
Borrowing unsupported by Government financial assistance	(17,585)	(5,633)
Capital Receipts	(3,000)	(2,547)
Government Grants and Other Contributions	(24,364)	(24,853)
Revenue Provision	(1,663)	(295)
	<b>(46,612)</b>	<b>(33,328)</b>
<b>Opening Capital Financing Requirement</b>	<b>379,385</b>	<b>379,568</b>
<b>Closing Capital Financing Requirement</b>	<b>379,568</b>	<b>367,196</b>

The closing Capital Financing Requirement for 2011/12 disclosed in the 2011/12 Statement of Accounts was £377,922,000. This has been restated to account for actual borrowing that occurred, compared to the estimated figure used in 2011/12.

### 39. LEASES

#### Finance Leases

##### Council as Lessee

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

	<b>31 March 2012 £000</b>	<b>31 March 2013 £000</b>
Vehicles, Plant and Equipment	3,039	2,010
	<b>3,039</b>	<b>2,010</b>

The Council is committed to make minimum payments under these leases comprising settlement of long-term liability for the interest in the property acquired by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	<b>31 March 2012 £000</b>	<b>31 March 2013 £000</b>
Finance lease liabilities (net present value of minimum lease payments):		
• current	1,072	636
• non-current	1,088	540
Finance costs payable in future years	286	141
<b>Minimum lease payments</b>	<b>2,446</b>	<b>1,317</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 2012 £000</b>	<b>31 March 2013 £000</b>	<b>31 March 2012 £000</b>	<b>31 March 2013 £000</b>
Not later than one year	1,222	634	1,072	636
Later than one year and not later than five years	1,225	682	1,088	540
Later than five years	-	-	-	-
	<b>2,447</b>	<b>1,316</b>	<b>2,160</b>	<b>1,176</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 2012 £000</b>	<b>31 March 2013 £000</b>
Minimum lease payments	21	35
Contingent Rents	-	-
Sub-lease Payments Receivable	(21)	(35)
	-	-

## Operating Leases

### Council as lessee

There are currently no such leases in existence.

### 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	115 years
Wirral Country Park Caravan Site (Touring)	The Caravan Club Ltd	16 years
Wirral Country Park Caravan Site (Static)	Thurstaston Caravan Owners Association	36 years
New Brighton Marine Point	Neptune Developments	249 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 2012 £000</b>	<b>31 March 2013 £000</b>
Finance lease debtor (net present value of minimum lease payments):		
• current	3	3
• non-current	2,675	2,672
Unearned finance income	26,967	26,682
Unguaranteed residual value of property	-	-
Gross investment in the lease	29,645	29,357

The comparative for 2011/12 has been adjusted to reflect a review of finance leases where the council is lessor.

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

	<b>Investment in the Lease 31 March 2012 £000</b>	<b>Lease Payments 31 March 2012 £000</b>	<b>Investment in the Lease 31 March 2013 £000</b>	<b>Lease Payments 31 March 2013 £000</b>
Not later than one year	287	89	287	95
Later than one year and not later than five years	1,146	304	1,146	324
Later than five years	28,212	1,176	27,924	1,179
	<b>29,645</b>	<b>1,569</b>	<b>29,357</b>	<b>1,598</b>

The comparative for 2011/12 has been adjusted to reflect a review of finance leases where the council is lessor

## 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 2012 £000</b>	<b>31 March 2013 £000</b>
Not later than one year	586	640
Later than one year and not later than five years	848	679
Later than five years	148	156
	<b>1,582</b>	<b>1,475</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:



	<b>Leasowe Primary £000</b>	<b>Wallasey High £000</b>	<b>Total £000</b>
<b>Movement in 2012/13</b>			
<b>Valuation</b>			
Valuation at 1 April 2012	3,044	9,550	12,594
Additions	21	-	21
Accumulative Depreciation at 1 April 2012	(320)	(1,004)	(1,324)
Depreciation 2012/13	(76)	(238)	(314)
Accumulative Depreciation at 31 March 2013	(396)	(1,242)	(1,638)
<b>Net Book Value</b>			
at 31 March 2013	2,669	8,308	10,977
at 31 March 2012	2,724	8,546	11,270
<b>Comparative Movement in 2011/12</b>			
Valuation at 1 April 2011	3,044	9,550	12,594
Accumulative Depreciation at 1 April 2011	(244)	(766)	(1,010)
Depreciation 2011/12	(76)	(238)	(314)
Accumulative Depreciation at 31 March 2012	(320)	(1,004)	(1,324)

## Payments

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

	<b>Services £000</b>	<b>Lease Liability £000</b>	<b>Interest £000</b>	<b>Life cycle costs £000</b>	<b>Total £000</b>
Payable in 2013/14	3,097	2,101	1,943	754	7,895
Payable within 2 - 5 years	11,737	9,560	7,013	3,273	31,583
Payable within 6 - 10 years	14,521	14,259	6,712	3,987	39,479
Payable within 11 - 15 years	14,716	17,707	4,073	2,982	39,478
Payable within 16 - 20 years	10,077	13,612	855	807	25,351
<b>Total</b>	<b>54,148</b>	<b>57,239</b>	<b>20,596</b>	<b>11,803</b>	<b>143,786</b>

The unitary payment in 2012/13 is £10,625,990 allocated as follows

	<b>2011/12 £000</b>	<b>2012/13 £000</b>
Service costs	4,038	4,159
Interest and similar charges	3,379	3,420
Lease liability	2,233	2,051
Life cycle costs	534	996
	<b>10,184</b>	<b>10,626</b>

The value of the outstanding lease liability which reflects both the short and long term is::

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Balance outstanding at start of year	61,653	59,443
Lease payments during the year	(2,233)	(2,051)
Other movements	23	(153)
	59,443	57,239

The comparative for 2011/12 has been adjusted to reflect only the PFI scheme and now excludes other finance leases.

In calculating the future unitary payments to the end of the contract from 2013/14 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 2012 by £153,000. The annual unitary payment is increased by the Retail Price Index less 10%. For 2014/15 onward the RPI has been estimated using the most up to date information as opposed to the estimates in the operator's financial model.

## 41. TERMINATION BENEFITS

In September 2012 the Council commenced a major restructuring of its departmental operations. This has seen a review and a restructuring of its operational arrangements at director, head of service and senior manager level. In addition to this, the requirement to make budget reductions in 2013/14 has also seen a further review and restructuring of a number of Council services.

As a consequence of these changes to the Councils internal organisation Wirral has incurred termination payments and liabilities of £5.3 million in 2012/13 (£1.7million in 2011/12). This covers the costs of staff severance packages where the detailed restructuring of a service area has either occurred in 2012/13 or is demonstrably committed to take place in 2013/14. An Earmarked Reserve for £1.0 million has also been established in 2013/14 to cover any potential costs arising from further services reorganisations that are yet to be determined.

Note 33 provides details of the number of exit packages and total cost per band where the Council has agreed packages with specific employees i.e. those packages for which the Council is demonstrably committed. The sums shown at note 33 are included in the £5.3 million disclosed above.

## 42. LONG TERM DEBTORS

	Repay- ment of former MCC Debt £000	Regen- eration Property Loans £000	Repay- ment of Council Mortgages £000	Leases £000	Total £000
<b>Balance 1.4.2011</b>	<b>62,560</b>	<b>1,655</b>	<b>81</b>	<b>-</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>
<b>Balance 1.4.2012</b>	<b>58,091</b>	<b>2,142</b>	<b>66</b>	<b>2,675</b>	<b>62,974</b>
Advances	-	480	-	-	480
Repaid/reclassified	(4,469)	-	(24)	-	(4,493)
<b>Balances 31.3.2013</b>	<b>53,622</b>	<b>2,622</b>	<b>42</b>	<b>2,675</b>	<b>58,961</b>

**43. OTHER LONG TERM LIABILITIES**

	Right to Buy / mortgage £000	PFI Long term liability £000	Other lease liability £000	Pensions liability £000	Total £000
<b>Balance 1.4.2011</b>	<b>81</b>	<b>59,572</b>	<b>1,546</b>	<b>334,820</b>	<b>396,019</b>
Advances	142	-	-	-	142
Repayments	(15)	(1,956)	(458)	-	(2,429)
Deficit funding	-	-	-	60,258	60,258
<b>Balance 31.3.2012</b>	<b>208</b>	<b>57,616</b>	<b>1,088</b>	<b>395,078</b>	<b>453,990</b>
<b>Balance 1.4.2012</b>	<b>208</b>	<b>57,616</b>	<b>1,088</b>	<b>395,078</b>	<b>453,990</b>
Advances	336	-	-	-	336
Repayments	(24)	(2,478)	(549)	-	(3,051)
Deficit funding	-	-	-	76,965	76,965
<b>Balance 31.3.2013</b>	<b>520</b>	<b>55,138</b>	<b>539</b>	<b>472,043</b>	<b>528,240</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 2012/13, the Council paid £9.94 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £12.2 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 2012/13 the Council paid £3.1 million by way of enhanced pensions, with the equivalent figure in 2011/12 being £3.7 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	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Comprehensive Income and Expenditure Statement						
<i>Cost of Services:</i>						
• current service cost	21,957	21,938	-	-	-	-
• past service Costs	-	-	-	-	-	-
• settlements and curtailments	(2,999)	(8,034)	-	-	174	-
<i>Financing and Investment Income and Expenditure</i>						
• interest cost	51,411	49,283	2,021	1,806	1,794	1,532
• expected return on scheme assets	(44,309)	(39,965)	-	-	-	-
<i>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</i>	<b>26,060</b>	<b>23,222</b>	<b>2,021</b>	<b>1,806</b>	<b>1,968</b>	<b>1,532</b>

(Table continues on following page)

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	Local Government Pension Scheme		Discretionary Benefits Arrangements		Unfunded Teachers Scheme	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>						
• actuarial gains and losses	62,348	76,433	857	2,943	1,159	4,461
<i>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>	88,408	99,655	2,878	4,749	3,127	5,993
<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	(26,060)	(23,222)	(2,021)	(1,806)	(1,968)	(1,532)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>						
• employers' contributions payable to scheme	28,411	27,562			3,023	3,056
• retirement benefits payable to pensioners			2,721	2,814		

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £83,837,000.

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

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits		Unfunded Teachers Scheme	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Opening balance at 1 April	945,813	1,014,332	38,108	38,265	34,731	34,835
Current service cost	21,957	21,938	-	-	-	-
Interest cost	51,411	49,283	2,021	1,806	1,794	1,532
Contributions by scheme participants	8,362	7,761	-	-	-	-
Actuarial (gains) and losses	34,044	126,846	857	2,943	1,159	4,461
Benefits paid	(41,331)	(34,863)	(2,721)	(2,814)	(3,023)	(3,056)
Past service costs/ (gain)	-	-	-	-	-	-
Curtailments	3,934	702	-	-	174	-
Settlements	(9,858)	(11,643)	-	-	-	-
Closing balance at 31 March	1,014,332	1,174,356	38,265	40,200	34,835	37,772

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

	Local Government Pension Scheme		Unfunded liabilities Discretionary Benefits	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Opening balance at 1 April	683,832	692,354	-	-
Expected rate of return	44,309	39,965	-	-
Actuarial gains & (losses)	(28,304)	50,413	-	-
Employer contributions	28,411	27,562	2,721	2,814
Contributions by scheme participants	8,362	7,761	-	-
Benefits paid	(41,331)	(34,863)	(2,721)	(2,814)
Entity combinations	-	-	-	-
Settlements	(2,925)	(2,907)	-	-
Closing balance at 31 March	692,354	780,285	-	-

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 £90,377,000 (2011/12: £16,005,000).



<b>Scheme History</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	715,668	997,404	945,813	1,014,332	1,174,356
Discretionary Benefits	36,044	43,061	38,108	38,265	40,200
Teachers pension scheme	31,022	36,022	34,731	34,835	37,772
	<b>782,734</b>	<b>1,076,487</b>	<b>1,018,652</b>	<b>1,087,432</b>	<b>1,252,328</b>
<b>Fair value of assets:</b>					
Local Government Pension Scheme	485,456	652,616	683,832	692,354	780,285
<b>Surplus/(deficit):</b>					
Local Government Pension Scheme	(230,212)	(344,788)	(261,981)	(321,978)	(394,071)
Discretionary Benefits	(36,044)	(43,061)	(38,108)	(38,265)	(40,200)
Teachers pension scheme	(31,022)	(36,022)	(34,731)	(34,835)	(37,772)
<b>Total</b>	<b>(297,278)</b>	<b>(423,871)</b>	<b>(334,820)</b>	<b>(395,078)</b>	<b>(472,043)</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 £472 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £1.293 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 2014 is £25.1 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £2.8 million. Expected contributions to unfunded teachers pensions in the year to 31 March 2014 are £3.1 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:

	<b>Local Government Pension Scheme</b>	
	<b>2011/12</b>	<b>2012/13</b>
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.0%	7.0%
Government Bonds	3.1%	2.8%
Other Bonds	4.1%	3.9%
Property	6.0%	5.7%
Cash / Liquidity	0.5%	0.5%
Other	7.0%	7.0%
Mortality assumptions:		
Longevity at 65 for current pensioners in years:		
• Men	21.5	21.8
• Women	24.2	24.7
Longevity at 65 for future pensioners in years:		
• Men	22.8	23.7
• Women	25.8	26.6
Rate of CPI inflation	2.5%	2.4%
Rate of increase in salaries	4.0%	3.9%
Rate of increase in pensions	2.5%	2.4%
Rate for discounting scheme liabilities	4.9%	4.2%
Take-up of option to convert annual pension into retirement lump sum	50%	50%

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:

	<b>2011/12</b>	<b>2012/13</b>
	<b>%</b>	<b>%</b>
Equity investments	59.1	60.6
Government bonds	15.7	15.7
Other bonds	4.0	3.6
Property	9.3	8.3
Cash/liquidity	2.2	2.3
Other	9.7	9.5
	100.0	100.0

### History of Experience Gains and Losses

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

	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
Differences between the expected and actual return on assets	(29.56)	(20.35)	1.49	(4.09)	6.46
Experience gains and losses on liabilities	-	-	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 £	Stitt Scholarship £	RJ Russell Prize £	Criminal Injuries £	Other £	Total £
<b>Balance 31 March 2011</b>	<b>372,822</b>	<b>36,662</b>	<b>86,090</b>	<b>2,332</b>	<b>114,403</b>	<b>612,309</b>
Income	-	183	430	12	3,901	4,526
Expenditure	-	-	-	-	(8,225)	(8,225)
<b>Balance 31 March 2012</b>	<b>372,822</b>	<b>36,845</b>	<b>86,520</b>	<b>2,344</b>	<b>110,079</b>	<b>608,610</b>
Income	-	184	433	12	4,219	4,848
Expenditure	-	-	-	-	(12,304)	(12,304)
<b>Balance 31 March 2013</b>	<b>372,822</b>	<b>37,029</b>	<b>86,953</b>	<b>2,356</b>	<b>101,994</b>	<b>601,154</b>

Fund assets are as follows:

	<b>Balance 31 March 2011 £</b>	<b>Balance 31 March 2012 £</b>	<b>Balance 31 March 2013 £</b>
Property	372,822	372,822	372,822
Investments			
Internal	214,127	213,813	215,963
Equities	6,922	6,922	6,922
Cash	18,438	15,053	5,447
	<b>612,309</b>	<b>608,610</b>	<b>601,154</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.

### Grant Funding including Intensive Start-up Support

The Council has received grant funding to implement a number of projects and initiatives. These grants have been awarded to the Council by a variety of bodies over a number of years. The Council has a potential liability to repay any grant should the grant issuing body require us to do so due to the outcome of a future event such as an unsuccessful project. The Council's potential liability will be reviewed on an annual basis and new information assessed to determine if a provision or repayment of grant funding is required. The Council has a potential liability with regard to Intensive Start-up Support. The liability is currently uncertain and is dependent on the outcome of an investigation.

## 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 to 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 only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, and other local authorities without credit ratings. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A limit of £15m is placed on the amount of money that can be invested with a single counterparty. The Council also sets a total group investment limit for institutions that are part of the same banking group. No more than £30m in total can be invested for a period longer than one year.

The Council's maximum exposure to credit risk in relation to its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise.

The table below summarises the nominal value of the Council's investment portfolio as at 31 March 2013 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 31.03.13
	Long Term Rating	Cash Equivalent	0-3 Months	3-6 Months	6-12 Months	Over 12 Months	
		£000	£000	£000	£000	£000	£000
<b>Loans &amp; Receivables</b>							
Banks							
UK Banks	A	10,150	7,000	2,000	-	-	19,150
UK Banks	A-	3,390	4,000	-	-	-	7,390
Other Local Authorities	n/a	-	11,500	-	10,000	14,000	35,500
<b>Total Loans &amp; Receivables</b>		<b>13,540</b>	<b>22,500</b>	<b>2,000</b>	<b>10,000</b>	<b>14,000</b>	<b>62,040</b>
<b>Available for sale financial assets</b>							
Gilts	AAA	-	-	-	7,500	-	7,500
Other Externally Managed Funds	AAA	-	1,000	-	-	-	1,000
<b>Total Available for sale financial assets</b>		<b>-</b>	<b>1,000</b>	<b>-</b>	<b>7,500</b>	<b>-</b>	<b>8,500</b>
<b>Total Financial Instruments</b>		<b>13,540</b>	<b>23,500</b>	<b>2,000</b>	<b>17,500</b>	<b>14,000</b>	<b>70,540</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 £2million 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 Authority has, therefore, decided to recognise an impairment based on it recovering 90p in the £.

## Trade Debtors

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>2011/12</b>	<b>Trade Debtors</b>	<b>2012/13</b>
<b>£000</b>		<b>£000</b>
21,808	Gross Debtors	20,136
(7,622)	Bad Debt Provision	(10,900)
<b>14,186</b>	<b>Net Trade Debtors</b>	<b>9,236</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 2013 was as follows

<b>Maturity of Borrowing (Years)</b>	<b>31-Mar-13</b>	
	<b>£000</b>	<b>%</b>
<b>Short Term Borrowing</b>		
Less than 1 year	30,018	12.14
<b>Total Short Term Borrowing</b>	<b>30,018</b>	<b>12.14</b>
<b>Long Term Borrowing:-</b>		
Over 1 year under 2 years	13,025	5.27
Over 2 years under 3 years	7,525	3.04
Over 3 years under 4 years	8,025	3.25
Over 4 years under 5 years	8,525	3.45
Over 5 years under 10 years	30,334	12.27
Over 10 years under 20 years	18,729	7.58
Over 20 years under 40 years	33,000	13.35
Over 40 years under 60 years	79,500	32.16
Over 60 years under 70 years	18,500	7.48
<b>Total Long Term Borrowing</b>	<b>217,163</b>	<b>87.86</b>
<b>Total Borrowing</b>	<b>247,180</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 Authority 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 2013 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

£1,262,000. 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.



# **Additional Financial Statements**

**COLLECTION FUND****INCOME AND EXPENDITURE ACCOUNT**

	2011/12		2012/13	
	£000	£000	£000	£000
<b>Income</b>				
Council Tax (Note 2)	124,642		124,352	
Transfers from General Fund				
- Council Tax Benefits	31,217		31,153	
- Pensioner Discounts	815		1,300	
Income Collectable from Business Rate Payers (Note 3)	61,502		64,913	
Contribution from Preceptors to previous years estimated deficit (Note 6)	-		-	
		218,176		221,718
<b>Expenditure</b>				
Precepts				
- Wirral Council	131,434		132,911	
- Police & Crime Commissioner for Merseyside	15,336		15,975	
- Merseyside Fire & Rescue Service	6,793		7,144	
Business Rate				
- Payment to National Pool (Note 3)	61,162		64,573	
- Costs of Collection	340		340	
Bad and Doubtful Debts				
- Provisions (Note 5)	1,829		929	
Contribution to Preceptors from previous years estimated surplus	-		1,700	
		216,894		223,572
<b>Movement on Collection Fund Balance</b>		<b>1,282</b>		<b>(1,854)</b>

**COLLECTION FUND BALANCE**

	2011/12 £000	2012/13 £000
Fund Balance b/f 1 April	1,024	2,306
Movement in Year	1,282	(1,854)
Fund Balance c/f 31 March	<b>2,306</b>	<b>452</b>

In accordance with revised accounting practice the Collection Fund balance has been allocated in 2012/13 to individual preceptors, which includes Wirral Council.

## NOTES TO THE COLLECTION FUND

### COLLECTION FUND

#### 1. GENERAL

The Council has a statutory requirement to operate a distinct Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund is to isolate the income and expenditure relating to Council Tax and National Non-Domestic Business Rates (NNDR).

#### 2. INCOME FROM COUNCIL TAX

The Council set a Council Tax in 2012/13 for each band of dwelling as shown below:

Band	£	Band	£	Band	£	Band	£
A	980.79	B	1,144.25	C	1,307.72	D	1,471.18
E	1,798.11	F	2,125.04	G	2,451.97	H	2,942.36

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:

Band	No. of Properties	Less Discounts	Effective Properties	Band Ratio	Band D Equivalent
A	58,777.00	10,027.00	48,750.00	6/9	32,500.00
B	31,207.00	3,750.25	27,456.75	7/9	21,355.30
C	27,225.00	2,686.25	24,538.75	8/9	21,812.20
D	13,039.00	1,133.75	11,905.25	1	11,905.30
E	8,043.00	627.00	7,416.00	11/9	9,064.00
F	4,276.00	296.50	3,979.50	13/9	5,748.20
G	3,093.00	229.50	2,863.50	15/9	4,772.50
H	269.00	38.50	230.50	18/9	461.00
	145,929.00	18,788.75	127,140.25		107,618.50
Add Band A Disabled Relief Band D					54.20
Total					107,672.70
Estimated Collection Rate					x 98.5%
Adjusted Council Tax Base					<b>106,058</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 2012/13, the total rateable value was £178,135,613, of this, £147,920,576 related to general, charged at £0.458. Total small business was £30,215,037, charged at £0.450. This gave an opening charge of £81.35 million.

The total amount less certain relief and costs of collection 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 2013 was £181,374,913.

### 4. PRECEPTS

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

	2011/12 £000	2012/13 £000
Wirral Council	131,434	132,911
Police & Crime Commissioner for Merseyside	15,336	15,974
Merseyside Fire & Rescue Service	6,793	7,144
	<b>153,563</b>	<b>156,029</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 2012/13. The bad debt provision is assessed annually and amounts set aside adjusted on an age profile of outstanding debt. In 2012/13 an additional £0.638 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.

The Authority is required to notify the precepting Authorities of the Fund within 7 days of 15 January in order for the estimated surplus or deficit to be taken into account by the precepting bodies in setting their Budget and likely precept requirements on the Collection Fund for the following year. The estimate notified was that the Collection Fund balance, for the year ending 31 March 2013, would be nil and that Wirral Council would neither receive any additional distribution nor pay an additional contribution.

As at 31 March 2013 there was a surplus of £0.452 million which has been allocated amongst the precept authorities on the basis of the 2013/14 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 & Rescue Service and Merseyside Police Authority

## 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 balance that was reported in January 2013 (for 2012/13 the estimated position was a nil balance) is apportioned using the 2012/13 precept votes, whereas the additional surplus resulting from the final position as at 31 March 2013, is apportioned using the 2013/14 precept votes.

Payable to:	Estimate 15 Jan 13	Surplus 31 Mar 13	Total Allocation
Wirral Council	0	385	385
Police & Crime Commissioner for Merseyside	0	46	46
Merseyside Fire and Rescue Service	0	21	21
	<b>0</b>	<b>452</b>	<b>452</b>

The share of any Collection Fund surplus or deficit is reflected within the precepting organisation's 2012/13 accounts. Wirral Council's element is included within the Taxation and Non-Specific Grant Income line within the Comprehensive Income and Expenditure Statement.

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

<b>FUND ACCOUNT</b>	<b>Note</b>	<b>2011/12</b>	<b>2012/13</b>
<b>For the year ended 31 March 2013</b>		<b>£000</b>	<b>£000</b>
<b>Contributions and Benefits:</b>			
Contributions receivable	6	243,213	231,160
Transfers in	7	11,024	9,495
Administration Income		199	243
		<b>254,436</b>	<b>240,898</b>
Benefits payable	8	267,053	259,065
Payments to and on account of leavers	9	13,119	11,848
Administration expenses	10	4,107	4,244
		<b>284,279</b>	<b>275,157</b>
<b>Net additions/(withdrawals) from dealing with members</b>		<b>(29,843)</b>	<b>(34,259)</b>
<b>Return on Investments:</b>			
Investment Income	11	91,070	89,185
Profit and losses on disposal of investments and change in market value of investments	13	35,962	578,835
Taxes on income	11	(1,453)	(3,068)
Investment management expenses	12	(11,225)	(12,175)
<b>Net return on Investments</b>		<b>114,354</b>	<b>652,777</b>
Net increase/(decrease) in the Fund during the year		84,511	618,518
Net Assets of the Fund start of the year		5,115,872	5,200,383
<b>Net Assets of the Fund end of the year</b>		<b>5,200,383</b>	<b>5,818,901</b>

<b>NET ASSETS STATEMENT</b>	<b>Note</b>	<b>2011/12</b>	<b>2012/13</b>
<b>For the year ended 31 March 2013</b>		<b>£000</b>	<b>£000</b>
<b>Investment Assets</b>	13		
Equities		1,514,762	1,759,476
Pooled Investment Vehicles		3,216,404	3,614,051
Derivative Contracts		6,669	1,823
Direct Property		290,965	283,615
Short Term Cash Deposits		56,271	62,329
Other Investment Balances		75,895	50,734
		<b>5,160,966</b>	<b>5,772,028</b>
<b>Investment Liabilities</b>	16	<b>(15,338)</b>	<b>(7,156)</b>
		<b>5,145,628</b>	<b>5,764,872</b>
Long term assets	17	30,864	12,743
Current Assets	18	36,330	55,170
Current Liabilities	18	(12,439)	(13,884)
<b>Net Assets of the Fund as at 31 March</b>		<b>5,200,383</b>	<b>5,818,901</b>

## NOTES TO THE 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 2012/13 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.

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.

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.

Following overwhelming support from the Local Government Association and the local government trade unions on proposals for a reformed scheme design the Department for Communities and Local Government moved to statutory consultation during this financial year to deliver the revised 2014 scheme to enable the actuary to take account of the changes in the triennial valuation.

The main provisions of the reformed LGPS 2014 are as follows:

A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).

The accrual rate will be 1/49th (the current scheme is 1/60th).

There will be no normal scheme pension age, instead each member's Normal Pension Age (NPA) will be their State Pension Age (the current scheme has an NPA of 65).

Average member contributions to the scheme will be 6.5% (same as the current scheme) with the rate determined on actual pay (the current scheme determines part-time contribution rates on full time equivalent pay).

While there will be no change to average member contributions, the lowest paid will pay the same or less and the highest paid will pay higher contributions on a more progressive scale after tax relief.

Members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (the current scheme has no such flexible option).

For current scheme members, benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA.

## **2. BASIS OF PREPARATION**

The Statement of Accounts summarises the Fund's transactions for the 2012/13 financial year and its position at year end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 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.

## **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.

**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 private equity 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.

**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.

**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 2013.

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 and death grants

- 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.

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 JUDGMENTS 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 2013 was £1,123 million (£1,021 million at 31 March 2012).

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**5. EVENTS AFTER THE BALANCE SHEET DATE**

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

**6. CONTRIBUTIONS RECEIVABLE**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
<b>Employers</b>		
Normal	100,690	96,738
Augmentation	145	311
Pension Strain	19,501	10,369
Deficit Funding	67,673	70,703
<b>Employees</b>		
Normal	55,204	53,039
	<b>243,213</b>	<b>231,160</b>
<b>Relating to:</b>		
Administering Authority	37,271	32,574
Statutory Bodies	171,379	166,715
Admission Bodies	34,563	31,871
	<b>243,213</b>	<b>231,160</b>

Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The last such valuation was at 31 March 2010. The 2010 actuarial valuation calculated the average employer contribution of 18%.

"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" includes payments by employers for past service deficit and additional payments by employers to reduce a deficit.

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2012/13 no such charges were levied.

**7. TRANSFERS IN**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Group transfers	169	-
Individual transfers	10,855	9,495
	<b>11,024</b>	<b>9,495</b>

**8. BENEFITS PAYABLE**

	<b>2011/12</b> <b>£000</b>	<b>2012/13</b> <b>£000</b>
Pensions	199,812	214,886
Lump sum retiring allowances	62,277	39,552
Lump sum death benefits	4,964	4,627
	<b>267,053</b>	<b>259,065</b>
<b>Relating to:</b>		
Administering Authority	40,995	35,083
Statutory Bodies	188,629	187,856
Admission Bodies	37,429	36,126
	<b>267,053</b>	<b>259,065</b>

**9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

	<b>2011/12</b> <b>£000</b>	<b>2012/13</b> <b>£000</b>
Refunds to members leaving service	7	6
Payment for members joining State scheme	3	2
Income for members from State scheme	(5)	(4)
Group transfers to other schemes	-	-
Individual transfers to other schemes	13,114	11,844
	<b>13,119</b>	<b>11,848</b>

**10. ADMINISTRATION EXPENSES**

	<b>2011/12</b> <b>£000</b>	<b>2012/13</b> <b>£000</b>
Administration and processing	3,717	3,907
Actuarial fees	283	255
External audit fees	81	38
Internal audit fees	26	44
	<b>4,107</b>	<b>4,244</b>

External audit fees for 2011/12 includes fees for 2010/11.

**11. INVESTMENT INCOME**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Dividends from Equities	55,447	56,083
Income from Pooled Investment Vehicles	15,448	15,931
Net Rents from Properties	15,960	14,071
Interest on Short Term Cash Deposits	369	539
Income from Private Equity	2,682	1,528
Income from Derivatives	349	188
Other	815	845
	<b>91,070</b>	<b>89,185</b>
Irrecoverable withholding tax	<b>(1,453)</b>	<b>(3,068)</b>
	<b>89,617</b>	<b>86,117</b>
<b>Rents from Properties</b>		
Rental Income	21,773	18,541
Direct operating expenses	<b>(5,813)</b>	<b>(4,470)</b>
Net Rent from properties	<b>15,960</b>	<b>14,071</b>

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £1.1 million (2011/12 £1.8 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 2012/13 £120,932 (2011/12 £68,344).

As at 31 March 2013, £116.4 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £129.4 million, giving a margin of 11.2%. Collateral is marked to market, and adjusted daily. Income from stock lending amounted to £810,787 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**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
External management fees	10,277	11,125
External services	638	678
Internal management costs	310	372
	<b>11,225</b>	<b>12,175</b>

**13. INVESTMENTS**

	<b>Market Value 31.3.2012 £000</b>	<b>Purchases at cost &amp; Derivative Payments £000</b>	<b>Sale Proceeds &amp; Derivative Receipts £000</b>	<b>Change in Market Value * £000</b>	<b>Market Value 31.3.2013 £000</b>
Equities	1,514,762	662,469	(657,885)	240,130	1,759,476
Pooled Investment Vehicles	3,216,404	1,595,636	(1,552,783)	354,794	3,614,051
Derivative Contracts	6,669	181,075	(175,836)	(10,085)	1,823
Direct Property	290,965	19,540	(14,132)	(12,758)	283,615
	<b>5,028,800</b>	<b>2,458,720</b>	<b>(2,400,636)</b>	<b>572,081</b>	<b>5,658,965</b>
Short term cash deposits	56,271			71	62,329
Other investment balances	75,895			6,683	50,734
	<b>5,160,966</b>			<b>578,835</b>	<b>5,772,028</b>

\*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.

For 2011/12 the Fund had purchases of £1.4 billion and sales of £1.3 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 £1.5 million (2011/12 £1.7 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.

During 2012/13 the Fund changed custodians from State Street to Northern Trust.



**13a Analysis of investments**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
<b>Equities (segregated holdings)</b>		
UK Quoted	678,776	756,993
Overseas Quoted	835,986	1,002,483
	<b>1,514,762</b>	<b>1,759,476</b>
<b>Pooled Investment Vehicles</b>		
<b>UK Managed Funds:</b>		
Property	24,208	25,250
Equities	193,450	206,701
Private Equity	161,631	169,256
Hedge Funds	56,939	58,662
Corporate Bonds	186,523	205,616
Infrastructure	47,966	49,300
Opportunities	129,629	142,318
<b>Overseas Managed Funds:</b>		
Equities	267,703	362,834
Private Equity	104,008	132,413
Hedge Funds	173,771	193,496
Infrastructure	18,316	39,538
Opportunities	57,750	48,362
<b>UK Unit Trusts:</b>		
Property	84,444	84,237
<b>Overseas Unit Trusts:</b>		
Property	51,315	59,996
<b>Unitised Insurance Policies</b>	1,658,751	1,836,072
	<b>3,216,404</b>	<b>3,614,051</b>
<b>UK properties</b>		
Freehold	249,387	228,715
Leasehold	41,578	54,900
	<b>290,965</b>	<b>283,615</b>
Balance at 1 April	251,935	290,965
Additions	41,447	19,540
Disposals	-	(14,132)
Net gain/loss of fair value	-	(3,363)
Transfers in/out	-	-
Other changes in fair value	(2,417)	(9,395)
<b>Balance at 31 March</b>	<b>290,965</b>	<b>283,615</b>

As at 31 March 2013 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 £509,523 (2011/12 £2.5 million). There were no obligations to purchase new properties.

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
<b>Short term cash deposits</b>		
Sterling	55,316	61,304
Foreign currency	955	1,025
	<b>56,271</b>	<b>62,329</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".

The foreign currency deposit is an ISK deposit held in an escrow account following the distribution by the Glitnir Winding Up Board. Under the applicable currency controls operating in Iceland, the permission of the Central Bank of Iceland is required to release Icelandic Krona payments held within the Icelandic banking system. The deposit is earning market interest rates.

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
<b>Other investment balances</b>		
Amounts due from brokers	349	-
Outstanding trades	7,018	3,257
Outstanding dividends entitlements and recoverable withholding tax	17,081	12,649
Cash deposits	51,447	34,828
	<b>75,895</b>	<b>50,734</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 2013 the Fund had received dividend payments totalling £2 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 was recognised in the Fund Account in 2011/12.

The total amount of accrued interest is £192,319 (2011/12 £183,933).

**13c Analysis of derivatives**

<b>Derivatives as at 31 March 2013</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-13	(480)	(48)
Swiss Market Index Futures	Jun-13	(1)	-
<b>Total Assets</b>			-
<b>Liabilities</b>			
Total Liabilities			(48)
<b>Net futures</b>			<b>(48)</b>
<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>

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 £121,980. DJ Euro STOXX 50 and Swiss Index Futures have a contract multiplier of x10 therefore the notional value underlying the futures contracts is -£0.48 million.

**Forward currency contracts**

The Fund's 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 000	Currency sold 000	Asset £000	Liability £000
Up to one month	GBP 4,777	CHF 6,826	27	-
Up to one month	GBP 11,739	EUR 13,729	124	-
Up to one month	AUD 187	GBP 129	-	(1)
Up to one month	SGD 567	GBP 301	-	-
Up to one month	GBP 326	SGD 615	-	-
Up to three months	GBP 132,767	JPY 18,700,000	1,673	-
			1,824	(1)
Net forward currency contracts at 31 March 2013				<b>1,823</b>
Prior year comparative				
Open forward currency contracts at 31 March 2012			5,640	(5,643)
Net forward currency contracts at 31 March 2012				<b>(3)</b>

### Options

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.

Investment				Market value 31 March 2012 £000	Market value 31 March 2013 £000
Underlying Option Contract	Expires	Put/Call	Notional Holding £000	Notional Holding £000	Notional Holding £000
Etihad Etisalat Co SAR 10.00	October 2012	Call	598	589	-

**13d Summary of Managers' Portfolio Values at 31 March 2013**

	2011/12		2012/13	
	£million	%	£million	%
<b>Externally Managed</b>				
JP Morgan (European equities)	175	3.4	172	3.0
UBS (US equities)	401	7.8	-	-
Nomura (Japan)	204	3.9	272	4.7
Schroders (fixed income)	187	3.6	206	3.6
Legal & General (pooled assets - UK and Emerging Markets equities & index linked)	1,035	20.1	-	-
Legal & General (fixed income)	223	4.3	241	4.2
Unigestion (European equities and pooled Emerging Markets)	141	2.7	224	3.9
M&G (UK equities)	171	3.3	181	3.1
M&G (global emerging markets)	127	2.5	145	2.5
TT International (UK equities)	156	3.0	181	3.1
Blackrock (UK equities)	168	3.2	193	3.3
Blackrock (Pacific Rim)	104	2.0	129	2.2
Newton (UK equities)	138	2.7	168	2.9
Amundi (global emerging markets)	124	2.4	132	2.3
Maple-Brown Abbot (Pacific Rim equities)	101	2.0	132	2.3
State Street Global Advisor (Passive Manager)	-	-	1,595	27.7
	<b>3,455</b>	<b>66.9</b>	<b>3,971</b>	<b>68.8</b>
<b>Internally Managed</b>				
UK equities	270	5.2	272	4.7
European equities	127	2.5	148	2.6
Property (direct)	291	5.6	284	4.9
Property (indirect)	166	3.2	172	3.0
Private equity	266	5.2	302	5.2
Hedge funds	237	4.6	252	4.4
Infrastructure	66	1.3	89	1.5
Opportunities	196	3.8	198	3.4
Short term deposits & other investments	87	1.7	84	1.5
	<b>1,706</b>	<b>33.1</b>	<b>1,801</b>	<b>31.2</b>
	<b>5,161</b>	<b>100.0</b>	<b>5,772</b>	<b>100.0</b>

There has been a change in passive managers in 2012/13 from Legal & General and UBS to State Street Global Advisors (SSGA).

The following holdings each represent more than 5% of the net assets of the Fund:

	2011/12		2012/13	
	£000	%	£000	%
Legal & General pooled UK index linked gilts	575,949	11.2	-	-
UBS USA equity tracker	401,274	7.8	-	-
Legal & General pooled UK equities	410,018	8.0	-	-
SSGA Pooled UK Index Linked Gilts	-	-	635,975	11.1
SSGA USA Equity Tracker	-	-	478,693	8.3
SSGA Pooled UK Equities	-	-	480,059	8.3

## 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 by category and net asset statement heading.

	31 March 2013		
	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss
	£000	£000	£000
<b>Financial Assets</b>			
Equities	-	-	1,759,476
Pooled Investment Vehicles	-	-	3,614,051
Derivatives	-	-	1,823
Cash deposits	62,329	-	
Other investment balances	-	-	50,734
Debtors	67,913	-	
<b>Total financial assets</b>	<b>130,242</b>	<b>-</b>	<b>5,426,084</b>
<b>Financial Liabilities</b>			
Other investment balances	-	-	(7,156)
Creditors	-	(13,884)	-
<b>Total financial liabilities</b>	<b>-</b>	<b>(13,884)</b>	<b>(7,156)</b>
<b>Net</b>	<b>130,242</b>	<b>(13,884)</b>	<b>5,418,928</b>

	31 March 2012		
	Loans and receivables	Financial liabilities at amortised cost	Fair value through 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>

#### 14b Net gains and losses on financial instruments

	2011/12 £000	2012/13 £000
<b>Financial Assets</b>		
Fair Value through profit and loss	38,312	591,522
Loans and receivables	67	71
<b>Total financial assets</b>	<b>38,379</b>	<b>591,593</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>38,379</b>	<b>591,593</b>

**14c Fair value of financial instruments and liabilities**

	2011/12		2012/13	
	Carrying value £000	Fair Value £000	Carrying value £000	Fair Value £000
<b>Financial Assets</b>				
Fair Value through profit and loss	3,961,786	4,813,730	4,455,958	5,426,084
Loans and receivables	123,465	123,465	130,242	130,242
<b>Total financial assets</b>	<b>4,085,251</b>	<b>4,937,195</b>	<b>4,586,200</b>	<b>5,556,326</b>
<b>Financial Liabilities</b>				
Fair Value through profit and loss	15,338	15,338	7,156	7,156
Financial liabilities at amortised cost	12,439	12,439	13,884	13,884
<b>Total financial liabilities</b>	<b>27,777</b>	<b>27,777</b>	<b>21,040</b>	<b>21,040</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**

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 2013</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	4,586,700	47,358	792,026	5,426,084
Loans and receivables	130,242			130,242
<b>Total financial assets</b>	<b>4,716,942</b>	<b>47,358</b>	<b>792,026</b>	<b>5,556,326</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	7,156			7,156
Financial liabilities at amortised cost	13,884			13,884
<b>Total financial liabilities</b>	<b>21,040</b>	<b>-</b>	<b>-</b>	<b>21,040</b>
<b>Net financial assets</b>	<b>4,695,902</b>	<b>47,358</b>	<b>792,026</b>	<b>5,535,286</b>

<b>Values at 31 March 2012</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	4,081,732	32,937	699,061	4,813,730
Loans and receivables	123,465			123,465
<b>Total financial assets</b>	<b>4,205,197</b>	<b>32,937</b>	<b>699,061</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>4,177,420</b>	<b>32,937</b>	<b>699,061</b>	<b>4,909,418</b>

Following a management review of levels 1, 2 and 3 the values at 31 March 2012 have been restated. The significant movements from level 2 to level 1 relate to pooled vehicles in equities and fixed income, which are appropriately designated as level 1 as they comply with requirements over pricing and liquidity.

## 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.

### **15a 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.

	<b>Value March 2013 £million</b>	<b>Potential Variance</b>	<b>Value on increase £million</b>	<b>Value on decrease £million</b>
UK Equities (all equities include pooled vehicles)	1,444	22.4%	1,767	1,121
US Equities	479	24.2%	595	363
European Equities	499	25.7%	627	371
Japan Equities	267	22.5%	327	207
Emerging Markets Equities inc Pac Rim	599	31.8%	789	409
UK Fixed Income Pooled Vehicles	447	7.0%	478	416
UK Index Linked Pooled Vehicles	636	9.9%	699	573
Pooled Property	169	14.3%	193	145
Private Equity	302	31.6%	397	207
Hedge Funds	252	14.5%	289	215
Infrastructure	89	22.0%	109	69
Other Alternative Assets	191	22.4%	234	148
Short term deposits & other investment balances	161	1.1%	163	159
	<b>5,535</b>		<b>6,667</b>	<b>4,403</b>
	<b>Value March 2012 £million</b>	<b>Potential Variance</b>	<b>Value on increase £million</b>	<b>Value on decrease £million</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>5,844</b>	<b>3,974</b>

## 15b 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.

The Fund's cash holding under its treasury management arrangements as at 31 March 2013 was £62.3 million (31 March 2012 £56.2 million). This was held in instant access accounts with the following institutions:

			<b>Rating (S&amp;P)</b>	<b>Balances as at 31 March 2012</b>	<b>Balances as at 31 March 2013</b>
				<b>£000</b>	<b>£000</b>
Royal Bank of Scotland			Long A Short A-1	31,010	19,472
Lloyds TSB			Long A Short A-1	-	41,763
Bank of Scotland			Long A Short A-1	10,000	-
Santander			Long A Short A-1	14,000	-
Heritable (Iceland)				306	69
Iceland escrow account				955	1,025
<b>Total</b>				<b>56,271</b>	<b>62,329</b>

## 15c 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; £62 million is the actual figure at balance sheet date which equates to over 2 months of pensions payments. The Fund also has £4,458 million in assets which could be realised in under 7 days notice, £460 million in assets which could be realised in under 90 days notice and £446 million in assets which could not be realised within a 90 day period.

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 2012/13 in its dealing with Members of £34 million, this is offset by investment income of £89 million.

**16. INVESTMENT LIABILITIES**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Derivative contracts	5,644	48
Amounts due to stockbrokers	9,694	7,108
	<b>15,338</b>	<b>7,156</b>

**17. LONG TERM ASSETS**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Assets due in more than one year	30,864	12,743
	<b>30,864</b>	<b>12,743</b>
<b>Relating to:</b>		
Central Government Bodies	5,535	4,834
Other Local Authorities	23,230	6,928
NHS	-	-
Public Corporations and Trading Funds	285	173
Bodies External to General Government	1,814	808
	<b>30,864</b>	<b>12,743</b>

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 - 7 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 2014/15 onwards.

**18. CURRENT ASSETS AND LIABILITIES**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
<b>Assets</b>		
Contributions due	24,824	23,656
Amounts due from external managers	-	10,138
Accrued and outstanding investment income	3,006	1,184
Sundries	7,957	14,244
Provision for bad debts	(375)	(1,265)
Cash at bank	918	7,213
	<b>36,330</b>	<b>55,170</b>
<b>Relating to:</b>		
Central Government Bodies	1,272	1,327
Other Local Authorities	19,994	19,000
NHS	2	2
Public Corporations and Trading Funds	525	606
Bodies External to General Government	14,537	34,235
	<b>36,330</b>	<b>55,170</b>
<b>Liabilities</b>		
Amounts due to external managers	-	1,491
Retirement grants due	1,775	2,044
Provisions	602	379
Miscellaneous	10,062	9,970
	<b>12,439</b>	<b>13,884</b>
<b>Relating to:</b>		
Central Government Bodies	2,292	2,106
Other Local Authorities	1,380	2,075
NHS	-	-
Public Corporations and Trading Funds	16	4
Bodies External to General Government	8,751	9,699
	<b>12,439</b>	<b>13,884</b>
<b>Total current assets and liabilities</b>	<b>23,891</b>	<b>41,286</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 2013.

The main components of "Miscellaneous Liabilities" are the outstanding charges for investment management fees, payable quarterly in arrears, custodian and actuarial fees, plus income tax due, pre-paid rent and administering authority re-imbusement.

## 19. CONTRACTUAL COMMITMENTS

Commitments for investments amounted to £288.40 million as at 31st March 2013. (2011/12 £285.7 million). These commitments relate to Private Equity £146.23 million, Infrastructure £50.11 million, Opportunities £29.39 million, Indirect Property £62.67 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 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 £3.5 million. (2012 £3.8 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 £14.6 million and creditor £244,297 balances as at 31 March 2013.

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 2013 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 (£1.4 million), F&C (£18.4 million) and Palatine previously called Zeus (£3.3 million), by whom travel expenses and accommodation were paid, plus Key Capital (£6.9 million) Enterprise (£1.8 million) and Capital Dynamics (£101.9 million). New commitments to these funds during 2012/13 were as follows: Capital Dynamics £10 million and F&C £1.2 million approved at Pensions Committee 20 March 2012.

Owen Thorne, Investment Officer acted in an un-remunerated board member capacity at Institutional Investors Group on Climate Change (IIGCC), during 2012/13 to which the Fund pays an annual subscription.

Susannah Friar, Property Manager acts in an un-remunerated board advisory capacity on one investment body in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£1.8 million), by whom travel expenses and accommodation were paid.

Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

### Key management personnel

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

Financial Year 2012/13	Employment Period	Salary £	Allowances £	Pension Contributions £	Total including Pension Contributions £
Head of Pension Fund	01/04/12 - 31/03/13	73,352	-	8,802	82,154
Acting Senior Investment Manager	01/04/12 - 31/03/13	52,361	-	6,283	58,644

Financial Year 2011/12	Employment Period	Salary £	Allowances £	Pension Contributions £	Total including Pension Contributions £
Head of Pension Fund	01/04/11 - 01/04/12	73,352	-	8,802	82,154
Acting Senior Investment Manager	01/04/11 - 01/04/12	51,515	-	6,182	57,697

## 22. ADDITIONAL VOLUNTARY CONTRIBUTION INVESTMENTS

The Committee holds assets invested separately from the main fund. In accordance with regulation 4 (2) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2009, 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>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
The aggregate amount of AVC investments is as follows :		
Equitable Life	2,596	2,543
Standard Life	5,683	6,105
Prudential	4,477	5,088
	<b>12,756</b>	<b>13,736</b>
Changes during the year were as follows:		
Contributions	1,677	2,051
Repayments	2,278	1,854
Change in market values	345	783

## 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 2013, there were 44,707 active members (March 2012 45,521), 44,753 pensioners and dependents (March 2012 44,118), and 34,481 deferred beneficiaries (March 2012 32,912).

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2012/13 included 11 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 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 November 2012, 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 2010</b>	<b>31 March 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 Year of Birth tables + 2 years
Retired members mortality	Continuous Mortality Investigation (CMI) Self-Administered Pension Schemes (SAPS) tables with scheme and member category specific 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 2013****Scheduled Bodies**

Academy of St Francis  
Arena & Convention Centre Liverpool  
Bellerive FCJ Catholic College  
Belvedere Academy  
Billinge Chapel End Parish Council  
Birkdale High School (Academy)  
Birkenhead Sixth Form College  
Blue Coat School (Academy)  
Carmel College  
Chesterfield High School (Academy)  
Childwall Sports and Science Academy  
De la Salle Academy  
Deyes High School (Academy)  
Enterprise South Liverpool Academy  
Formby High School (Academy)  
Greenbank High School (Academy)  
Halewood Parish Council  
Hawthornes Free School  
Hilbre High School (Academy)  
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 Valuation Tribunal  
Merseyside Recycling and Waste Authority  
National Probation Service  
North Liverpool Academy  
Office of the Police and Crime Commissioner for Merseyside (OPCCM)  
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. Francis Xavier's College (Academy)  
St. Helens College

St. Helens M.B.C.  
St John Plessington Catholic College  
St Margaret Church of England Academy  
Sutton Academy  
University Academy of Birkenhead  
University Academy of Liverpool  
Upton Hall School (Academy)  
Weatherhead High School (Academy)  
West Derby 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  
Woodchurch High School (Academy)

### **Admission Bodies**

Addaction Ltd  
Age UK - Liverpool  
Agilisys Limited  
Arriva North West  
arvato Public Sector Services Limited  
Association of Police Authorities  
Balfour Beatty Fire Project  
Balfour Beatty PFI SEN School  
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.  
Graysons Restaurants  
Greater Hornby Homes  
Greater Merseyside Connexions

Hall Cleaning Services  
Helena Partnerships Ltd.  
Hochtief Liverpool Schools  
Hochtief Wirral Schools  
Interserve (Facilities Management) Ltd  
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  
Mellors Catering Services  
Merseyside Lieutenancy  
Merseyside Society for Deaf People  
Merseyside Welfare Rights  
Merseyside Youth Association  
Mouchel (2020 Knowsley Ltd)  
Mouchel (2020 Liverpool/Parkman)  
North Huyton Communities Future  
North Liverpool Citizens Advice Bureau  
Northgate Managed Services  
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

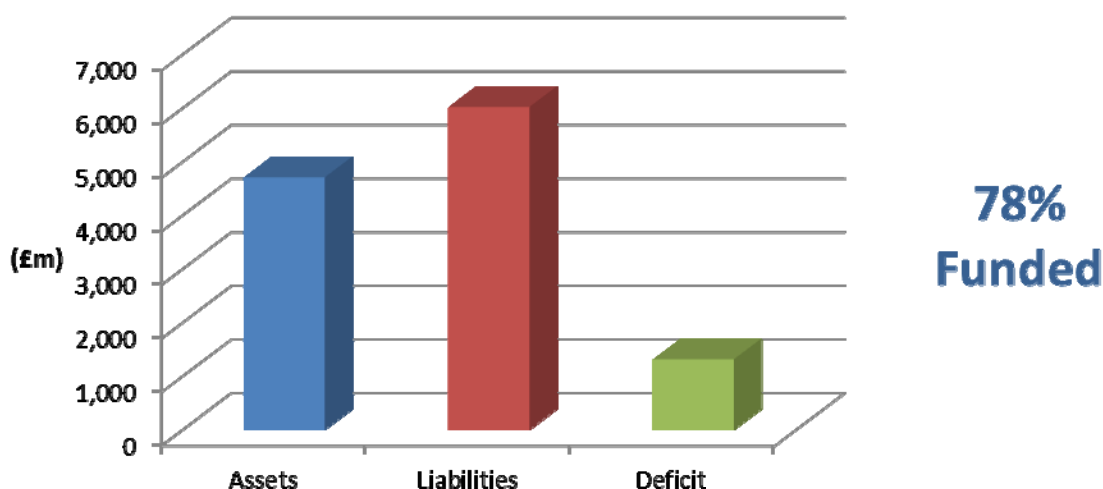
## MERSEYSIDE PENSION FUND

### *Accounts for the year ended 31 March 2013 - 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:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	6.5% per annum	6.75% per annum
- pre retirement	5.5% per annum	6.75% per annum
- post retirement		
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 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 as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.0% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.



During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £7,273 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£921 million. Adding interest over the year increases the liabilities by a further c£355 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£51 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £8,498 million.

**Paul Middleman**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**June 2013**

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# Glossary of Financial Terms

## **GLOSSARY OF FINANCIAL TERMS**

### **ACCRUALS**

Income is recognised when it is earned rather than when it is received. Expenditure is recognised when goods or services are received rather than when the payment is made.

### **ACTUARIAL GAINS AND LOSSES**

Actuaries assess financial and non-financial information provided to project levels of future pension Fund requirements. 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.

### **APPOINTED AUDITORS**

The Audit Commission appoints external auditors to every local authority from one of the major firms of registered auditors. From 2012/13 the external audit function is no longer directly undertaken by the Audit Commission.

### **BALANCES**

The balances are to provide funding for unanticipated expenditure and / or expenditure that is of an unforeseen nature. The level is determined having regard to the strategic, operational and financial risks and uncertainties faced by the Council.

### **BUDGET**

The Budget is a statement of the spending plans for the financial year.

### **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 FINANCING CHARGES**

These are charges to the revenue account in respect of interest and principal repayments for borrowings together with any leasing rentals.

### **CAPITAL RECEIPTS**

Income received from the disposal of land and other capital assets, and from the repayment of grants and loans to the Council.

### **CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)**

This Institute is the leading professional accountancy body for public services and produces the Standards and Code of Practice that must be followed in preparing the Council's financial statements.

### **COLLECTION FUND**

A Fund administered by the Council to record all income collected from local taxpayers and showing how this is passed on to other public authorities. It also includes receipts of non-domestic rates collected on behalf of Central Government.

**COMMUNITY ASSETS**

These are fixed assets which the Council intends to hold in perpetuity which have no determinable finite useful life and may have restrictions on their disposal eg parks.

**COUNCIL TAX**

This is the main source of taxation for the Council. It is levied on households within the area and the proceeds are paid into the Collection Fund for distribution to precepting authorities and for use by the Council's General Fund.

**CREDITORS**

Amounts owed by the Council for works undertaken, goods received or services provided for which payment had not been made at the date of the Balance Sheet.

**CURRENT SERVICE COST (PENSIONS)**

The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period ie the ultimate pension benefits earned by employees in the current year.

**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**

Amounts owed to the Council that had not been received at the date of the Balance Sheet.

**DEFINED BENEFIT SCHEME**

A pension or other retirement benefit scheme other than a defined contribution scheme. The scheme's rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments in the scheme. The scheme may be funded or unfunded.

**DEFINED CONTRIBUTION SCHEME**

A pension or other retirement benefit scheme into which an employer pays regular contributions, as an amount or as a % of pay, and has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**DEPRECIATION**

A charge that represents the extent to which an asset has been worn-out or used or otherwise reduced the useful economic life of a fixed asset 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.

**EXPENDITURE**

Amounts paid by the Council for works undertaken, good received or services provided and this is deemed to have been spent when the works, goods or services have been received.

**EXTERNAL AUDIT**

The independent examination of the activities and accounts to ensure that the accounts have been prepared in accord with legislative requirements and proper practices and to ensure proper arrangements to secure value for money in the use of resources have been made.

**FIXED ASSETS**

Assets that yield benefits to the Council and the services provided for a period of more than one year eg buildings, land and vehicles.

**GENERAL FUND**

The main revenue fund of the Council and includes the net costs of all services financed by local taxpayers and Government grants. It is the day to day spending on services.

**GOVERNMENT GRANTS**

There are two types of grant. Specific grants are for particular services such as Education. The Formula Grant is to fund Local Authority services generally. It is based on complex formulae which provide the Government assessment of how much an authority needs to spend in order to provide a standard level of service.

**GROUP ACCOUNTS**

Group Accounts are required to consolidate the financial results of the Council with those of any subsidiaries and associates.

**HERITAGE ASSETS**

These are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained for the contribution to knowledge and culture. This includes Bidston Windmill, Civic Regalia and the art and other important collections of porcelain and pottery.

**IMPAIRMENT**

A reduction in the value of a fixed asset below the amount brought forward in the Balance Sheet. Reductions include items such as a significant decline in a fixed asset's market value.

**INCOME**

Amounts due to the Council for goods supplied or services provided with the income deemed to have been earned once the goods or services have been supplied.

**INFRASTRUCTURE ASSETS**

These are assets which generally cannot be sold and from which benefit can be obtained only from the continued use of the asset eg highways and bridges.

**INTANGIBLE ASSETS**

These are assets which do not have physical substance but are identifiable and controlled by the Council and include items such as software and licenses.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

The Standards dictate specific accounting treatments. They must be applied to all financial statements in order to provide a true and fair view of the financial position, and a standardised method of comparison with others. The Service Reporting Code of Practice interprets the Standards for local government.

**LEASES**

Leasing costs are the rental for the use of an asset for a specified period of time. There are two different types of lease. Finance leases transfer substantially the risks and rewards of ownership of a fixed asset to the lessee. Operating leases are where the balance of risks and rewards remains with the lessor who retains the asset eg computer equipment.

**MINIMUM REVENUE PROVISION (MRP)**

This is the minimum 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 also Business Rates)**

A levy on business property based on national rate in the £ applied to the rateable value of the premises. The Government determines the national rate and the Rates are collected by the Council and paid to the Government. The proceeds are pooled and then redistributed by Central Government.

**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**

The amount the Council is required to raise from Council Tax on behalf of other authorities namely the Merseyside Recycling & Waste Authority and the Merseyside Integrated Transport Authority (Merseytravel).

**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**

Amounts set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or timing of such costs is uncertain.

**PUBLIC WORKS LOANS BOARD (PWLB)**

A Central Government body which is the main provider of loans to local authorities to fund capital expenditure.

**REPORTING STANDARDS**

The Code of Practice prescribes the accounting treatment and disclosures for all the normal transactions of the Council. It is based upon International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) and UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

**RESERVES**

These are amounts held to meet specific, known or predicted future expenditure.

**REVENUE EXPENDITURE**

This is spending on the day-to-day running costs of providing services and is primarily employee costs, general running expenses and capital financing costs.

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

This represents capitalisable items of expenditure where no asset exists and the cost has been charged as expenditure to the Consolidated Income & Expenditure Statement.

**SCHEME LIABILITIES**

These are the liabilities of the Pension Fund for outgoings in the future and reflect the benefits that the employer is committed to provide for service up to a set date.

**SERVICE REPORTING CODE OF PRACTICE (SeRCOP)**

Prepared and published by CIPFA it is reviewed annually to ensure that it is developed in line with the needs of modern Local Government, Transparency, Best Value and Public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services. In England and Wales it is given legislative support by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

**UNAPPORTIONABLE CENTRAL OVERHEADS**

Overheads for which no user receives any specific benefit and the costs are not apportioned to services.

**UNSUPPORTED (PRUDENTIAL) BORROWING**

This is borrowing for which no support is given by Central Government. The Council is permitted to undertake unsupported borrowing but has to ensure that the costs can be met from the revenue budget.

**USEFUL LIFE**

This is the period over which the Council will derive benefit from the use of an asset.