

# Public Document Pack

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Chief Officer (Governance)  
Prif Swyddog (Llywodraethu)



To: ALL MEMBERS OF THE COUNCIL

CS/NG

18 September 2014

Nicola Gittins on 01352 702345  
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Dear Sir / Madam

A meeting of the **FLINTSHIRE COUNTY COUNCIL** will be held in the **COUNCIL CHAMBER, COUNTY HALL, MOLD CH7 6NA** on **WEDNESDAY, 24TH SEPTEMBER, 2014** at **2.00 PM** to consider the following items.

Yours faithfully

Democracy & Governance Manager

## **AGENDA**

1 **APOLOGIES FOR ABSENCE**

2 **DECLARATIONS OF INTEREST**

To receive any declarations of interests from Members.

3 **CHAIR'S COMMUNICATIONS**

4 **PETITIONS**

5 **PUBLIC QUESTION TIME**

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The Council welcomes correspondence in Welsh or English  
Mae'r Cyngor yn croesawau gohebiaeth yn y Cymraeg neu'r Saesneg

6 **QUESTIONS**

To note the answers to any questions submitted in accordance with County Council Standing Order No. 9.4(A).

7 **NOTICES OF MOTION**

**Councillor C. Carver**

“The Council’s Constitution to have an additional Council Procedure Rule so that when a Member has declared a Personal and Prejudicial interest relating to an agenda item and subsequently leave the Council Chamber or Committee Room for the debate and vote, then when the Member returns to the meeting room, the Chair of that meeting will repeat the decision of that agenda item so that the Member who declared a Personal and Prejudicial interest will be made aware of the decision. There will be no comment or discussion when the Chair repeats the decision”.

**Councillor A. Shotton**

“Flintshire Council’s ability to provide quality local services would be significantly enhanced by increased tax revenues if the government clamped down on tax dodging around the world.

The UK Treasury loses an estimated £12 billion to tax dodging by multinational companies every year. It’s even worse for developing countries, who lose three times more to tax dodging than they receive in aid every year.

The UK must take a lead in creating a fairer tax system. Council is asked to pass the following motion in support of ActionAid’s Towns Against Tax Dodging Campaign:

While many ordinary people face falling household income and rising costs of living, some multinational companies are avoiding billions of pounds of tax from a tax system that fails to make them pay their fair share. Local governments in developing countries and the UK alike would benefit from a fairer tax system, enabling them to provide quality public services. The UK government must listen to the strength of public feeling and act to end the injustice of tax dodging by large multinational companies, in developing countries and the UK”.

8 **ANNUAL GOVERNANCE STATEMENT** (Pages 1 - 6)

Report of Chief Officer (Governance) enclosed

9 **STATEMENT OF ACCOUNTS 2014/15** (Pages 7 - 184)

Report of Corporate Finance Manager enclosed

- 10 **SUPPLEMENTARY FINANCIAL INFORMATION TO STATEMENT OF ACCOUNTS 2013/14** (Pages 185 - 190)  
Report of Chief Officer (People and Resources) enclosed
- 11 **TREASURY MANAGEMENT ANNUAL REPORT 2013/14** (Pages 191 - 206)  
Report of Corporate Finance Manager enclosed

**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 - TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC**

The following item is considered to be exempt by virtue of Paragraph(s) 15 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

It is not good employment practice or in the public interest for matters the subject of consultation with employees effected and other unions to be discussed in public at this stage of the consultation process.

- 12 **ALLOCATION OF ROLE OF MONITORING OFFICER IN THE NEW CORPORATE OPERATING MODEL** (Pages 207 - 212)  
Report of Chief Executive enclosed

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## FLINTSHIRE COUNTY COUNCIL

**REPORT TO:** **FLINTSHIRE COUNTY COUNCIL**  
**DATE:** **WEDNESDAY, 24 SEPTEMBER 2014**  
**REPORT BY:** **HEAD OF LEGAL AND DEMOCRATIC SERVICES**  
**SUBJECT:** **ANNUAL GOVERNANCE STATEMENT**

### **1.00 PURPOSE OF REPORT**

1.01 For the Council to approve the draft Annual Governance Statement (AGS) for 2013/14 (attached to the Statement of Accounts).

### **2.00 BACKGROUND**

2.01 For each financial year the Council is required to produce an AGS as part of its final accounts. The AGS explains how the Council has complied with its Code of Corporate Governance and it also meets the requirements of the Accounts and Audit (Wales) (Amendment) Regulations 2010. The Chartered Institute of Public Finance & Accountancy (CIPFA) have produced a detailed guidance note on the preparation and contents of an AGS.

2.02 From the financial year 2011/12 the AGS has been prepared in a different way to previous years. The preparation of the draft AGS has been coordinated by the Corporate Governance Officer Working Group who have reported to the Chief Executive, the Monitoring Officer and the Section 151 Officer on its work. The core membership of that working group is shown in appendix 1.

2.03 The preparation of the draft AGS has been informed by a corporate governance self-assessment undertaken by each of the Council's then Heads of Service for their service area. A corporate governance questionnaire was prepared by the working group based on the CIPFA guidance note. The responses received to this self assessment were challenged by the Corporate Governance Officer Working Group where, for example, it did not provide adequate supporting information for the assessment given.

2.04 At its meeting on the 18 December 2013 the Audit Committee agreed the process for preparation of the 2013/14 AGS, including for the first time questionnaires being sent to the Chairs of Overview & Scrutiny Committees. All Overview & Scrutiny Chairs completed the questionnaire and their views have been taken into account in preparing the draft AGS. The draft AGS was also considered at a

informal meeting of the Audit Committee on the 25 June 2014 prior to being reported to its meeting on the 16 July 2014 when the draft AGS was approved by the committee. In doing so the committee was satisfied that the significant governance issues were now better aligned to the corporate risk register in the Improvement Plan.

### **3.00 CONSIDERATIONS**

3.01 In accordance with “Delivering Good Governance in Local Government: A Framework” the AGS is divided into five numbered sections, namely:-

1. Scope of responsibility.
2. The purpose of the governance framework.
3. The governance framework.
4. Review of effectiveness.
5. Significant governance issues.

3.02 A lot of detailed work has gone into the production of the AGS and if members believe there are any inaccuracies in it, it would be helpful if this could be raised prior to the meeting itself so that any such queries can be properly researched prior to the Council meeting.

3.03 Members are requested to consider:-

1. Whether the statement accurately reflects the governance framework in place in the authority.
2. Whether they are satisfied with the overall review of effectiveness.
3. Whether they agree that the significant governance issues facing the authority are as described in the statement.
4. Any amendments that should be made.

### **4.00 RECOMMENDATIONS**

4.01 For the Council to amend as appropriate and approve the AGS attached to the Statement of Accounts.

### **5.00 FINANCIAL IMPLICATIONS**

5.01 None as a result of this report.

### **6.00 ANTI POVERTY IMPACT**

6.01 None as a result of this report.

### **7.00 ENVIRONMENTAL IMPACT**

7.01 None as a result of this report.

**8.00 EQUALITIES IMPACT**

8.01 None as a result of this report.

**9.00 PERSONNEL IMPLICATIONS**

9.01 None as a result of this report.

**10.00 CONSULTATION REQUIRED**

10.01 With O&S Chairs and appropriate senior officers.

**11.00 CONSULTATION UNDERTAKEN**

11.01 The preparation of the draft AGS involved all Heads of Service and particularly with the Chief Executive, the Monitoring Officer and the Section 151 Officer. There was also consultation with O&S Chair and an informal briefing for members of the Audit Committee held on the 3 July 2013.

**12.00 APPENDICES**

12.01 Appendix 1 – Core membership of the Corporate Governance Working Group

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985  
BACKGROUND DOCUMENTS**

Delivering Good Governance in Local Government: A Framework published by CIPFA and SOLACE.  
Corporate Governance Self-Assessments undertaken by the Heads of Service.

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**Corporate Governance Working Group Membership**

Peter Evans (Chair)	Democracy & Governance Manager
Vicki Robarts	Performance Team Leader
Karen Armstrong	Policy & Performance Manager
Jonathan Davies	Strategy Accountant
David Webster	Internal Audit Manager

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## FLINTSHIRE COUNTY COUNCIL

**REPORT TO:** **FLINTSHIRE COUNTY COUNCIL**  
**DATE:** **WEDNESDAY, 24 SEPTEMBER 2014**  
**REPORT BY:** **CORPORATE FINANCE MANAGER**  
**SUBJECT:** **STATEMENT OF ACCOUNTS 2013/14**

### **1.00 PURPOSE OF REPORT**

1.01 To seek Members' approval of the final Statement of Accounts for 2013/14.

### **2.00 BACKGROUND**

2.01 The statutory deadline for the approval of the Statement of Accounts is 30<sup>th</sup> September.

### **3.00 CONSIDERATIONS**

3.01 The audit of the 2013/14 accounts has now been substantially completed. The statutory audit completion notice will be reported in the press in due course.

3.02 As part of the final accounts process, Wales Audit Office presented to the Audit Committee on 24<sup>th</sup> September 2014 the ISA 260 reports 'Audit of the Financial Statements - Flintshire County Council' and 'Audit of the Financial Statements - Clwyd Pension Fund', attached (appendices B and C respectively). The ISA (International Standards on Auditing) 260 requires the auditor to communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity.

3.03 During the audit, a number of changes to the draft Statement of Accounts were agreed with Wales Audit Office and these have been incorporated into the final document, as attached (Appendix A).

3.04 If the Audit Committee recommend any changes to the Statement of Accounts or wish to make any specific comments to Council, these will be tabled at the meeting.

3.05 The Letter of Representation - Flintshire County Council, and the Letter of Representation - Clwyd Pension Fund are attached (Appendices D and E respectively). The Letter of Representation requires the Council to confirm the accuracy of the audit. In such

letters, the Council confirms to the WAO that all the information contained within the financial statements is true and accurate and that all information has been disclosed.

- 3.06 If the Audit Committee recommend any changes to the letters or wish to make any specific comments to Council, these will be tabled at the meeting.

**4.00 RECOMMENDATIONS**

- 4.01 Members are requested to approve the final Statement of Accounts for 2013/14.

- 4.02 Members are requested to approve; the Letter of Representation – Flintshire County Council, and the Letter of Representation – Clwyd Pension Fund.

**5.00 FINANCIAL IMPLICATIONS**

- 5.01 None.

**6.00 ANTI POVERTY IMPACT**

- 6.01 None.

**7.00 ENVIRONMENTAL IMPACT**

- 7.01 None.

**8.00 EQUALITIES IMPACT**

- 8.01 None.

**9.00 PERSONNEL IMPLICATIONS**

- 9.01 None.

**10.00 CONSULTATION REQUIRED**

- 10.01 None required.

**11.00 CONSULTATION UNDERTAKEN**

- 11.01 None required.

**12.00 APPENDICES**

- 12.01 Appendix A - Statement of Accounts 2013/14  
Appendix B - WAO report, Audit of the Financial Statements - Flintshire County Council

Appendix C - WAO report, Audit of the Financial Statements – Clwyd Pension Fund  
Appendix D - Letter of Representation - Flintshire County Council  
Appendix E - Letter of Representation - Clwyd Pension Fund

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985**  
**BACKGROUND DOCUMENTS**

Various 2013/14 Final Accounts Working Papers

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# STATEMENT OF ACCOUNTS

2013-14



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## EXPLANATORY FOREWORD

The Statement of Accounts 2013/14 provides details of the Council's financial position for the year ended 31<sup>st</sup> March 2014. The information presented on pages 7 - 82 is in accordance with the requirements of the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) based on International Financial Reporting Standards (IFRSs), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The statements included are :-

- The core financial statements comprising of –
  - **Movement in Reserves Statement** – this statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie 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 authority'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 Council Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory Council Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

Headline figures – Usable reserves £60,212k; unusable reserves £300,618k;

- **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 local 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.

Headline figure – Deficit on the provision of services £30,369k; which is carried into the movement in reserves statement.

- **Balance Sheet** - the Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the authority 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 is those that the authority 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'.

Headline figure – Net worth of the Council £360,830k as at 31<sup>st</sup> March 2014 representing an increase from the balance sheet total of £317,142k as at 31<sup>st</sup> March 2013.

## EXPLANATORY FOREWORD

- **Cash Flow Statement** - the Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.
- The supplementary financial statements comprising of –
  - **The Housing Revenue Account Income and Expenditure Statement** – The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

Headline figure – Decrease in HRA balance of £1,931k to £1,662k
- The pension fund accounts are presented in accordance with required guidance, in pages 83 to 110.

### Medium Term Financial Plan

The Council has a Medium Term Financial Plan (MTFP) which serves to forecast funding levels and resource requirements over the medium term, identify any funding gap, and enable specific actions to be identified to balance the budget and manage resources. The MTFP gathers information from activity across all Council Fund services (but not the Housing Revenue Account), taking account of all costs and efficiency savings anticipated over the medium term for both the revenue budget and the capital programme, including planned future developments in service delivery.

The revenue budget is that which covers the Council's day-to-day expenditure and income on such items as salaries and wages, running costs of services and the financing costs of capital expenditure (and revenue expenditure funded from capital under statute - REFCUS). The capital programme covers expenditure on the acquisition of significant assets which will be of use or benefit to the Council in providing its services beyond the year of account, such as the enhancement or replacement of roads, buildings and other structures.

### REVENUE BUDGET, OUTTURN AND OVERALL FINANCIAL POSITION

The Council Fund budget for 2013/14 was set at £258,285k and approved by Council on 1<sup>st</sup> March 2013. Budget monitoring information was reported to Cabinet on a monthly basis throughout the year, with final outturn reported on 15<sup>th</sup> July 2014.

The 2013/14 budget enabled the Council to reinvest in new, expanded or improved services to meet council priorities whilst protecting 'front line' public services and minimising the effects on communities, all of which was achieved despite the scale of the fiscal challenge and reduced funding to local government, the wider public sector and the ongoing impacts of the economic position.

Total net expenditure for 2013/14 amounted to £257,793k against the budget of £259,752k (adjusted as necessary from when the budget was originally set above).

## EXPLANATORY FOREWORD

	2013/14 Budget £000	2013/14 Actual £000	Variance £000
Corporate Services :			
Chief Executive	2,303	2,168	(135)
Finance	14,225	14,397	172
Legal and Democratic Services	3,142	2,996	(146)
Human Resources and Organisational Development	2,749	2,708	(41)
ICT and Customer Services	5,048	4,933	(115)
	<u>27,467</u>	<u>27,202</u>	<u>(265)</u>
Community Services	60,003	59,447	(556)
Environment	32,107	32,150	43
Lifelong Learning	113,452	113,375	(77)
Net expenditure on services	<u>233,029</u>	<u>232,174</u>	<u>(855)</u>
Central loans and investment account	15,283	14,787	(496)
Central and Corporate Finance	11,737	11,129	(608)
Total net expenditure	<u>260,049</u>	<u>258,090</u>	<u>(1,959)</u>
Contribution from reserves	(297)	(297)	0
<b>Budget requirement</b>	<u>259,752</u>	<u>257,793</u>	<u>(1,959)</u>
<b>Financed by</b>			
Council tax (net of community council precepts expenditure)	57,810	59,240	(1,430)
General grants	155,070	155,068	2
Non-domestic rates redistribution	46,872	46,872	0
<b>Total resources</b>	<u>259,752</u>	<u>261,180</u>	<u>(1,428)</u>
Net variance - (underspend)	<u>0</u>	<u>(3,387)</u>	<u>(3,387)</u>

The £3,387k has served with other agreed funding transfers to produce a year-end Council fund revenue reserves total of £52,115k, which includes the unearmarked Council fund balance of £11,161k.

	2014 £000	Net Underspend £000	Other £000	2013 £000
Council fund (unearmarked) balance	11,161	3,387	(1,496)	9,270
Earmarked council fund reserves	37,693	0	(3,745)	41,438
Locally managed schools	3,261	0	164	3,097
<b>Total council fund revenue reserves</b>	<u>52,115</u>	<u>3,387</u>	<u>(5,077)</u>	<u>53,805</u>

## EXPLANATORY FOREWORD

### SOURCES OF CAPITAL FINANCING AND CAPITAL PROGRAMME BUDGET

Each year the Council approves a programme of capital works, which provides for investment in assets such as land, buildings and road improvements. The 2013/14 Capital Programme was approved in the sum of £40,900k (Housing Revenue Account £10,992k and Council Fund £29,908k); this figure moved during the course of the year to a final programme total of £39,879k, (Housing Revenue Account £12,874k and Council Fund £27,005k). Capital Programme budget monitoring information was reported to Cabinet on a quarterly basis throughout the year, with final outturn reported on 15<sup>th</sup> July 2014.

The programme was financed by way of supported borrowing, other borrowing, capital receipts, capital grants and contributions, reserves and revenue account funding.

	<b>2014</b>
	<b>£000</b>
Supported borrowing *	4,263
Other borrowing (including Salix loans)	6,155
Capital receipts	3,711
Capital grants and contributions	17,471
Capital reserves/capital expenditure funded from revenue account	6,375
<b>Core financing</b>	<u>37,975</u>
Finance leases	0
<b>Total financing</b>	<u>37,975</u>

\* Cash reserves used in place of borrowing as detailed in Borrowing Facilities note on page 5.

### CAPITAL OUTTURN

The financing total of £37,975k supported capital expenditure (including REFCUS of £3,792k) across those programme areas detailed in the table below; the information included in this table is presented on the basis of those 'service blocks' used by Welsh Government in collecting capital data by way of the Capital Outturn Return (COR) form, for its published Local Government Finance Statistics

	<b>2014</b>
	<b>£000</b>
Education	9,102
Social services	0
Transport	6,225
Housing	15,549
Libraries, culture and heritage	53
Agriculture and fisheries *	324
Sport and recreation	419
Other environmental services	6,303
<b>Outturn</b>	<u>37,975</u>

\* Incorporating land drainage and flood prevention/coast protection (to which the Council's expenditure relates)

## EXPLANATORY FOREWORD

### BORROWING FACILITIES

No major long term Public Works Loan Board (PWLB)/financial institution borrowing was undertaken during 2013/14 - the Council continues to use cash reserves to fund capital expenditure in place of new borrowing. The balance sheet (long term) borrowing total of £172,700k includes the sum of £189k relating to two interest free loans from Salix Finance Ltd. - an independent company funded by the Carbon Trust to help improve energy efficiency in public sector buildings - repayable over the period 2012/13 to 2018/19. A £698k Welsh Government interest free Invest to save loan was received in year to part fund the Flintshire Connects programme, the loan is repayable in 2014/15 and 2015/16 with £300k included in short term borrowing on the balance sheet, and £398k in long term.

### PENSION LIABILITY

Disclosures are in accordance with International Accounting Standard 19 (IAS 19), accounting in full for the pension liability. The liability recorded in the balance sheet (£258,417k) is the total projected deficit over the life of the fund. IAS 19 has no impact on Council tax levels or housing finance, but the liability does impact on the net worth of the Authority as reflected in the balance sheet total of £361,314k (£317,142k as at 31<sup>st</sup> March 2013). The 2013/14 Code adopts the June 2011 amendments to IAS 19, the revised accounting standard has been applied from 1<sup>st</sup> April 2013 in the Council's financial statements as required, note 44 provides further detail.

### IMPACT OF THE CURRENT ECONOMIC CLIMATE

Approximately 80% of the funding for Council services comes from Welsh Government through Revenue Support Grant. In 2013/14, there was a small increase in funding of 1.15% which followed a 0.2% cut in 2012/13 and 1.7% cut in 2011/12. This small increase in funding was far outweighed by the significant pressures due to factors outside of the Council's control increasing revenue costs including; inflation, demographic growth and a general increase in demand for Council services due to the continuing effects of the economic downturn. The impact of funding not keeping pace with increasing costs had significant consequences and will continue to do so in future years as this position is not expected to improve.

Despite this financial challenge, careful budget planning and monitoring delivered £4,213k of new efficiencies during 2013/14 enabling the Council to invest in priorities such as school budgets and social care and provide resources to re-shape services.

### REVALUATION OF ASSETS

The whole of the assets of the Authority must be revalued every five years - the Council meets this requirement by revaluing a proportion of the total asset portfolio each year; during 2013/14 (the fourth year of the current cycle, commencing 1<sup>st</sup> April 2010) 43% of non-dwelling assets were revalued. The overall impact of the 2013/14 revaluation process was a net increase in the value of non-current property assets - property, plant and equipment, investment properties and the agricultural estate - recorded in the balance sheet (from £760,376k to £760,637k).

### CHANGE IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during 2013/14. During the year accounting policies were reviewed and enhanced to make the accounting policies and the impact on the accounts clear to all readers.

### FURTHER INFORMATION

The Statement of Accounts is available on the internet ([www.flintshire.gov.uk](http://www.flintshire.gov.uk)); any further information is available from the Corporate Finance Manager, Flintshire County Council, County Hall, Mold, CH7 6NA.

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to :-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, this is the Corporate Finance Manager as Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

**Signed :**

**Glenys Diskin  
Chair to the County Council**

**Date :**

## THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of the Authority's statement of accounts in accordance with the proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("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;
- complied with the Code.

The Chief Finance Officer has also :-

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

The following statement of accounts has been prepared in accordance with the Accounts and Audit (Wales) (Amendment) Regulations 2010. The statement of accounts presents a true and fair view of the financial position of the Authority at 31<sup>st</sup> March 2014, and its income and expenditure for the year then ended.

In addition the statement presents a true and fair view of the financial transactions of the Clwyd Pension Fund during the year ended 31<sup>st</sup> March 2014 and the amount and disposition at that date of its assets and liabilities.

**Signed :**

**Gary Ferguson CPFA  
Corporate Finance Manager (Chief Finance Officer)**

**Date :**

## MOVEMENT IN RESERVES STATEMENT

for the year ended 31<sup>st</sup> March 2014

The movement in reserves statement shows the movement in the year on the different reserves held by the Council, analysed into Usable Reserves (those that can be applied to fund expenditure or reduce local taxation) and other (Unusable) 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 Council Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the Statutory Council Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves.

	Council Fund Balance	Earmarked Council Fund Reserves	Housing Revenue Account Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves of the Authority
Note	£000	£000	£000	£000	£000	£000	£000	£000
<b>At 31st March 2013</b>	9,270	42,604	1,931	5,348	3,622	<b>62,775</b>	254,367	<b>317,142</b>
Surplus/(deficit) on the provision of services	(18,039)	0	(12,330)	0	0	<b>(30,369)</b>	0	<b>(30,369)</b>
Other comprehensive income and expenditure	0	0	0	0	0	<b>0</b>	74,057	<b>74,057</b>
<b>Total comprehensive income and expenditure</b>	<b>(18,039)</b>	<b>0</b>	<b>(12,330)</b>	<b>0</b>	<b>0</b>	<b>(30,369)</b>	<b>74,057</b>	<b>43,688</b>
Adjustments between accounting and funding basis under regulations	5 16,626	0	12,053	(1,055)	182	<b>27,806</b>	(27,806)	<b>0</b>
<b>Net increase/(decrease) before transfers to earmarked reserves</b>	<b>(1,413)</b>	<b>0</b>	<b>(277)</b>	<b>(1,055)</b>	<b>182</b>	<b>(2,563)</b>	<b>46,251</b>	<b>43,688</b>
Transfers to/(from) earmarked reserves	22 3,304	(3,312)	8	0	0	<b>0</b>	0	<b>0</b>
<b>Increase/(decrease) in year</b>	<b>1,891</b>	<b>(3,312)</b>	<b>(269)</b>	<b>(1,055)</b>	<b>182</b>	<b>(2,563)</b>	<b>46,251</b>	<b>43,688</b>
<b>At 31st March 2014</b>	<b>11,161</b>	<b>39,292</b>	<b>1,662</b>	<b>4,293</b>	<b>3,804</b>	<b>60,212</b>	<b>300,618</b>	<b>360,830</b>



## MOVEMENT IN RESERVES STATEMENT

for the year ended 31<sup>st</sup> March 2013

	Council Fund Balance	Earmarked Council Fund Reserves	Housing Revenue Account Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves of the Authority
Note	£000	£000	£000	£000	£000	£000	£000	£000
<b>At 31st March 2012</b>	6,468	37,964	1,890	6,074	3,185	55,581	349,025	404,606
Surplus/(deficit) on the provision of services* **	(20,948)	0	(10,724)	0	0	(31,672)	0	(31,672)
Other comprehensive income and expenditure*	0	0	0	0	0	0	(55,792)	(55,792)
<b>Total comprehensive income and expenditure*</b>	<b>(20,948)</b>	<b>0</b>	<b>(10,724)</b>	<b>0</b>	<b>0</b>	<b>(31,672)</b>	<b>(55,792)</b>	<b>(87,464)</b>
Adjustments between accounting and funding basis under regulations* **	5 28,390	0	10,765	(726)	437	38,866	(38,866)	0
<b>Net increase/(decrease) before transfers to earmarked reserves**</b>	<b>7,442</b>	<b>0</b>	<b>41</b>	<b>(726)</b>	<b>437</b>	<b>7,194</b>	<b>(94,658)</b>	<b>(87,464)</b>
Transfers to/(from) earmarked reserves	22 (4,640)	4,640	0	0	0	0	0	0
<b>Increase/(decrease) in year**</b>	<b>2,802</b>	<b>4,640</b>	<b>41</b>	<b>(726)</b>	<b>437</b>	<b>7,194</b>	<b>(94,658)</b>	<b>(87,464)</b>
<b>At 31st March 2013**</b>	<b>9,270</b>	<b>42,604</b>	<b>1,931</b>	<b>5,348</b>	<b>3,622</b>	<b>62,775</b>	<b>254,367</b>	<b>317,142</b>

\* Prior period adjustment IAS 19 - see Note 44.

\*\* Prior period adjustment - see Note 46.

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

for the year ended 31<sup>st</sup> March 2014

The Comprehensive Income and Expenditure 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 local taxation. Authorities raise local 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.

	Note	2014			2013		
		Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
<b>Service Expenditure Analysis</b>	<b>38</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adult social care*		55,495	(8,223)	47,272	49,791	(8,876)	40,915
Central services to the public		3,299	(1,354)	1,945	2,231	(1,207)	1,024
Education and children's services*		178,902	(28,204)	150,698	167,611	(27,174)	140,437
Cultural and related services*		25,046	(11,144)	13,902	30,551	(12,160)	18,391
Environmental and regulatory services*		24,468	(6,950)	17,518	27,368	(7,382)	19,986
Planning services		7,412	(3,281)	4,131	12,190	(5,181)	7,009
Highways and transport services**		28,982	(10,385)	18,597	21,142	(4,311)	16,831
Housing services :							
Housing - Council fund**		60,724	(45,472)	15,252	64,509	(56,544)	7,965
Housing revenue account (HRA)*		38,490	(28,221)	10,269	35,003	(26,440)	8,563
Corporate and democratic core		6,357	(3)	6,354	4,297	0	4,297
Non distributed costs*		(1,608)	0	(1,608)	1,334	0	1,334
<b>Cost of services* **</b>		<b>427,567</b>	<b>(143,237)</b>	<b>284,330</b>	<b>416,027</b>	<b>(149,275)</b>	<b>266,752</b>
Other Operating Expenditure*	<b>2</b>			22,923			17,488
Financing and Investment Income and Expenditure*	<b>3</b>			15,875			23,142
Taxation and Non-Specific Grant Income**	<b>4</b>			(292,759)			(275,710)
<b>(Surplus)/deficit on the provision of services* **</b>				<b>30,369</b>			<b>31,672</b>
(Surplus)/deficit arising on revaluation of non-current assets				(17,523)			(4,176)
(Surplus)/deficit arising on revaluation of available-for-sale financial assets				0			370
Actuarial (gains) or losses on pension assets and liabilities*				(56,534)			59,598
<b>Total comprehensive income and expenditure</b>				<b>(43,688)</b>			<b>87,464</b>

\* Prior period adjustment IAS 19 - see Note 44.

\*\* Prior period adjustment - see Note 46.

**BALANCE SHEET**as at 31<sup>st</sup> March 2014

		2014		2013	
	Note	£000	£000	£000	£000
<b>NON-CURRENT ASSETS</b>					
<b>Property, Plant &amp; Equipment</b>	<b>6</b>				
Council dwellings		263,031		270,298	
Other land and buildings		272,006		272,283	
Vehicles, plant, furniture and equipment		16,347		18,522	
Surplus assets		7,807		5,411	
Infrastructure assets		155,600		154,422	
Community assets		4,720		4,720	
Assets under construction		4,582		544	
<b>Total Property, Plant &amp; Equipment</b>			724,093		726,200
Investment properties	7		20,658		21,453
Agricultural estate	7		15,886		12,723
Intangible assets	9		581		697
Long term investments	10		2,021		15
Long term debtors	11		1,879		1,592
<b>NON-CURRENT ASSETS TOTAL</b>			<u>765,118</u>		<u>762,680</u>
<b>CURRENT ASSETS</b>					
Inventories	12	1,202		1,024	
Short term debtors (net of impairment provision)	13	36,976		39,404	
Short term investments	14	6,781		19,474	
Cash and cash equivalents	15	40,505		34,348	
Assets held for sale	8	803		3,774	
Donated assets	19	1,136		0	
<b>CURRENT ASSETS TOTAL</b>			<u>87,403</u>		<u>98,024</u>
<b>CURRENT LIABILITIES</b>					
Borrowing repayable on demand or within 12 months	16	(1,454)		(4,296)	
Short term creditors*	17	(31,122)		(32,874)	
Provision for accumulated absences	20	(3,376)		(2,612)	
Deferred liabilities	42	(492)		(556)	
Grants receipts in advance*	18	(1,581)		(3,040)	
Provisions	20	(806)		(43)	
Donated assets account	19	(1,136)		0	
<b>CURRENT LIABILITIES TOTAL</b>			<u>(39,967)</u>		<u>(43,421)</u>
<b>NON-CURRENT LIABILITIES</b>					
Long term creditors* **	17	(2,251)		(1,915)	
Long term borrowing	21	(172,700)		(172,356)	
Deferred liabilities	42	(7,060)		(7,553)	
Provisions	20	(10,179)		(10,968)	
Other long term liabilities	45	(258,417)		(305,518)	
Grants receipts in advance*	18	(1,117)		(1,831)	
<b>NON-CURRENT LIABILITIES TOTAL</b>			<u>(451,724)</u>		<u>(500,141)</u>
<b>NET ASSETS</b>			<u>360,830</u>		<u>317,142</u>

## BALANCE SHEET

	Note	2014		2013	
		£000	£000	£000	£000
<b>USABLE RESERVES</b>	<b>22</b>				
Capital receipts reserve		4,293		5,348	
Capital grants unapplied**		3,804		3,622	
Council fund		11,161		9,270	
Earmarked reserves		39,292		42,604	
Housing revenue account		1,662		1,931	
<b>USABLE RESERVES TOTAL**</b>			60,212		62,775
<b>UNUSABLE RESERVES</b>	<b>23</b>				
Revaluation reserve		67,796		52,739	
Available-for-sale financial instruments reserve		(3)		(3)	
Capital adjustment account		507,508		527,474	
Financial instruments adjustment account		(7,912)		(8,381)	
Pensions reserve		(258,417)		(305,518)	
Equal pay account		(4,978)		(9,334)	
Deferred capital receipts		0		2	
Accumulated absences account		(3,376)		(2,612)	
<b>UNUSABLE RESERVES TOTAL</b>			300,618		254,367
<b>TOTAL RESERVES**</b>			<u>360,830</u>		<u>317,142</u>

\* Prior period adjustment - see Notes 17 & 18.

\*\* Prior period adjustment - see Note 46.

The Balance Sheet shows the value 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. Reserves are reported in two categories –

- Usable Reserves - those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).
- Unusable Reserves - those reserves that the Authority is unable to use to provide services, including reserves that hold unrealised gains and losses (e.g. 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'.

**CASH FLOW STATEMENT**  
for the year ended 31<sup>st</sup> March 2014

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority 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 Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority'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 Authority.

The cash flow statement is reported using the indirect method, whereby net surplus or deficit on the provision of services is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

	Note	2014		2013	
		£000	£000	£000	£000
Net surplus or (deficit) on the provision of services * **		(30,369)		(31,672)	
Adjustment to surplus or deficit on the provision of services for non-cash movements * **		59,954		63,337	
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		<u>(20,677)</u>		<u>(23,016)</u>	
Net cash outflows from operating activities	<b>24</b>		8,908		8,649
Net cash flows from investing activities	<b>25</b>	(2,838)		(11,094)	
Net cash flows from financing activities	<b>26</b>	<u>87</u>		<u>(2,144)</u>	
<b>Net increase or decrease in cash and cash equivalents</b>			<u>(2,751)</u>		<u>(13,238)</u>
			6,157		(4,589)
Cash and cash equivalents at the beginning of the reporting period	<b>15</b>		34,348		38,937
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>15</b>		<b>40,505</b>		<b>34,348</b>

\* Prior period adjustment IAS 19 - see Note 44.

\*\* Prior period adjustment - see Note 46.

# NOTES TO THE CORE FINANCIAL STATEMENTS

for the year ended 31<sup>st</sup> March 2014

## INTRODUCTION

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the accounting policies set out at Note 1. The notes that follow (1 to 46) set out supplementary information to assist readers of the accounts.

## 1. STATEMENT OF ACCOUNTING POLICIES

### General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2005 (amended) 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 2013/14 (the Code) and the Service Reporting Code of Practice for Local Authorities 2013/14 (SeRCOP), supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### Accounting Standards Issued But Not Yet Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 has introduced the following changes, amendments and interpretations to existing standards. They are mandatory for the Council's accounting periods beginning on or after 1<sup>st</sup> April 2014 or later periods and will require changes to accounting policies in next years accounts, but the Council has not early adopted them.

A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities.

If these had been adopted for the financial year 2013/14 there would be no material changes as detailed below:

- IFRS 10 Consolidated Financial Statements – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The Council does not have any subsidiaries so there is no requirement to produce consolidated accounts for this financial year.
- IFRS 11 Joint Arrangements – This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. The Council has no material joint arrangements for this financial year.
- IFRS 12 Disclosures of Involvement with Other Entities – This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The Council does not have any material joint arrangements with other entities that require further disclosure in the context of the 2013/14 financial statements.
- IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) – These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no changes in the financial statements, except for disclosure, due to the changes to IFRS 10, IFRS 11 and IFRS 12, there is therefore also no impact as a result of changes in IAS 27 and IAS 28.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- IAS 32 Financial Instruments Presentation – The Code refers to amended application guidance when offsetting a financial asset and a financial liability. Any gains or losses are reported separately within the notes to the accounts and therefore no further disclosure is required.
- IAS 1 Presentation of the Financial Statements – The changes clarify the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period, therefore these changes will not have a material impact.

### Critical Judgements and Assumptions Made

In preparing the Statement of Accounts, the Council has had to make judgements, estimates and assumptions for certain items that affect the application of its policies and reported levels of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience, current trends and other relevant factors that are considered to be reasonable and are used to inform the basis for judgements about the carrying values of assets and liabilities, where these are not readily available from other sources. However, because these cannot be determined with certainty, actual results could be materially different from those assumptions and estimates made.

The significant accounting estimates within the Statement of Accounts relate to non current assets and the impairment of financial assets.

Estimates and underlying assumptions are regularly reviewed. Changes in accounting estimates are adjustments of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with assets and liabilities.

Changes to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements made and key sources of estimation uncertainty identified by the Council which have a significant effect on the financial statements are:

- Future Levels of Government Funding and Levels of Reserves – The future levels of funding for local authorities has a high degree of uncertainty. The Council has set aside amounts in provisions, working balances and reserves which it believes are appropriate based on local circumstances including its overall budget size, risks, robustness of budget estimates, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions and the Council's track record in financial management. The Council's budget strategy for 2014/15 was approved in February 2014 and can be found on the Council's website.
- Retirement Benefit Obligations – The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirements of IAS 19 "Employee Benefits". The estimation of the net pension liability depends on a number of complex judgements and estimates 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 actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Changes in these assumptions can have a significant effect on the value of the Council's retirement benefit obligation.
- Provisions – The Council is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision or contingent liability. In calculating the level of provisions the Council also exercises judgement; they are measured at the Council's best estimate of the costs required to settle the obligation at the Balance Sheet date.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Impairment of Financial Assets – The Council provides for the impairment of its receivables based on the age, type and recoverability of each debt.
- Property, Plant and Equipment – Assets are depreciated over their useful life and reflect such matters as the level of repairs and maintenance that will be incurred in relation to individual types of asset, cost of replacement and assuming prudent maintenance, an estimate of the unexpired useful life of the asset.
- Asset Valuations – The Council values its non current assets on the basis of Fair Value, with the exception of the Housing Stock which is valued to 'Existing Use Value – Social Housing'. The Council exercises judgement on whether there is market evidence to value the asset on the basis of Fair Value and where there is no such evidence, the Council uses a depreciated replacement cost (DRC) approach.

### Accounting Policies

#### Accruals of Income and Expenditure

The revenue and capital accounts of the Council are prepared on an accruals basis. Sums are included in the final accounts to cover income or expenditure attributable to the year of account for goods received or work done, but for which payment has not been received/made by 31<sup>st</sup> March 2014. In particular:-

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.

#### Borrowing Costs

The Council has elected to adopt the adaptation by the Code in respect of IAS 23 which allows borrowing costs in respect of qualifying assets to be expensed rather than capitalised. Therefore, all borrowing costs are recognised as an expense as they are incurred.

#### Capital Receipts

Capital receipts arise from the disposal of property assets and the repayment of advances, and are accounted for on an accruals basis; amounts not exceeding £10k from any disposal are treated as revenue income, in accordance with capital regulations. The requirement to set-aside 75% of receipts from the sale of council houses to repay debt was removed by way of the Local Government Act 2003, but the Council continues to make the set-aside as assumed in the HRA subsidy rules. The balance of receipts that is not reserved in this way, and which has not been used for capital financing purposes is included in the Balance Sheet as usable capital receipts. Non-housing capital receipts are 100% usable.

#### Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The scheme is currently in the last year of its introductory phase, which ends on 31<sup>st</sup> March 2014.

The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the 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 apportioned to services on the basis of energy consumption, and is recognised and reported in the costs of services.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### Charges to Revenue for Non Current Assets

Services and support services are charged with the following amounts to record the cost of holding fixed assets during the year:-

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.
- The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are, therefore, replaced by the contribution in the Council Fund Balance – Minimum Revenue Provision (MRP) - by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Council's MRP is calculated in accordance with the 2013/14 MRP Policy Statement agreed by Council in March 2013 and Welsh Government Guidance on MRP. The Council's Policy is to:

- Charge a minimum revenue provision equal to 2% of debt outstanding for the housing revenue account and 4% for the council fund, on capital expenditure incurred before 1<sup>st</sup> April 2008 and on future supported capital expenditure.
- Capital expenditure incurred on or after 1<sup>st</sup> April 2008 and funded by prudential borrowing will be repaid based on the useful asset life of the asset using equal annual instalments.

In addition, the Council may pay off or replace loans earlier than originally planned as part of its debt management strategy, dependent upon prevailing market conditions, risk and financial benefit. A breakdown of MRP charged for the year is disclosed in Note 39.

### Employee Benefits

#### *Benefits Payable during Employment*

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi time, time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The accrual is charged to Surplus or Deficit on the Provision of Services, (but then reversed out through the Movement 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 amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis when the Council can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructure.

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

### **Post Employment Benefits**

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, Clwyd Pension Fund (administered by Flintshire County Council).

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

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

### **The Local Government Pension Scheme**

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

- The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit actuarial cost method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the market yields at the reporting date on high quality corporate bonds.
- The assets of Clwyd pension fund attributable to the Council are included in the Balance Sheet at their fair value.
- The change in the net pensions liability is analysed into seven components:-

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net Interest on the net defined benefit liability – the net interest expense for the Council, the change during the period that arises from the passage of time – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Calculated as interest on pension liabilities less the interest on assets. The value of liabilities is calculated by discounting the expected future benefit payments for the period between the expected payment date and the date at which they are being valued. Interest on assets is the interest on assets held at the start of the period and cashflows occurring during the period, calculated using the discount rate at the start of the year.
- Administration expenses – the costs of running the fund attributable to the Council, does not include investment management expenses – debited to Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.
- Return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charge to the Pensions Reserve.
- Actuarial gains and 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 – charged to the Pensions Reserve.
- Contributions paid to the Clwyd pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the Council Fund / HRA balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Council Fund / HRA of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### ***Discretionary Benefits***

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Events After the Reporting Period

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

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

### Financial Instruments

#### *Financial Liabilities*

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, for interest payable, are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

#### *Financial Assets*

Financial assets are classified into two types:-

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

#### *Loans and Receivables:*

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, for interest receivable, are based on the carrying amount of the asset, multiplied by the effective rate of interest of the financial instrument. This means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year, as determined in the loan agreement.

#### *Available-for-Sale Assets:*

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument, and are initially measured and carried at fair value.

Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable, are based on the amortised cost of asset multiplied by the effective rate of interest for the instrument.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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 and determinable payments / discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

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 impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain / loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (Grants Receipts in Advance).

When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

### Heritage Assets

Heritage assets are those assets that the Council intends to preserve in trust for future generations because of their cultural, environmental or historical associations. The Council's heritage assets include historical buildings, its archive (record office) collections, and museum collections.

### ***Historical Buildings:-***

The Council's historical buildings are located primarily in the Greenfield Valley Heritage Park. Historical buildings are classified as operational or non-operational.

#### ***Operational***

If in addition to being held for their heritage characteristics, they are used for other activities or to provide other services; they are valued in the same way as other buildings of that general asset type, and accounted for as operational assets.

#### ***Non-Operational***

If held for their heritage characteristics only; they are valued in accordance with FRS 30 (Heritage Assets). Consideration has been given to the categorisation and valuation of these assets on the basis of their existing and any potential alternative use. The majority of these do not command a market value and given their nature such value cannot be made on replacement cost basis; as such, historical cost measurement is considered appropriate where records are held. In accounting for these assets, it is recognised that the acquisition of the majority of them pre-date the existence of the current administrative authority (i.e. pre 1996 Local Government Re-organisation), and thereby prevents the collection of accurate/total historical cost information for accounting purposes.

### ***Collections:-***

#### ***County Archives***

The archives, ranging from a single piece of paper to thousands of documents, are held under a variety of terms, the most common ones being deposit (long-term loan), gift or purchase.

The majority of archives are held on deposit. No attempt has been made to assign a cash or insurance value to this irreplaceable historical and cultural heritage, although in cases where the archives have been purchased, records of their saleroom value at the time may exist. Obtaining a valuation of all the owned assets would be a lengthy, resource intensive and costly exercise, and any market value placed on these assets would not be a true reflection of the value of the assets to the County's heritage; the assets, if lost, could not be replaced or reconstructed. Consequently, the Council does not recognise these assets on the Balance Sheet.

A small number of items are artefacts rather than documentary material which forms the large majority of the holdings, and as such are exceptions. The Council considers it appropriate to insure the artefacts even though it does not own them; their historical insurance value is £174,415 and is not considered material for reporting/disclosure purposes.

#### ***County Museum:-***

The County's museum collection consists of about 6,800 items or groups of items. Of these approximately 260 are displayed at Mold Museum, 100 at Buckley Museum and a group of about 580 items are on loan to Greenfield Valley Trust. The remainder is held in an off-site store.

The vast majority of the collection items have been donated. The only purchased items are - the Martin Harrison Collection of Buckley Pottery, consisting of 351 pieces of pottery and 103 tiles which was purchased in 2010 for £19,000, largely by way of grant funding; the collection was valued for the purposes of the grant aid application. A ceramic platter has since been added to this collection, purchased by the Tyrer Charitable Trust and donated to the Museums Service. Items have also been purchased through the Treasure Trove scheme and valued as part of that process – the purchase prices range from £50 to £1,500, some of which were grant aided.

## NOTES TO THE CORE FINANCIAL STATEMENTS

There are 6 ceramic vessels on display in Buckley Museum which have insurance values as supplied by the lender (National Museums Liverpool).

The vast majority of the collection cannot be valued because of its diverse and unique nature. Conventional valuation approaches lack sufficient reliability and the cost of obtaining the valuations for these items would be disproportionate in terms of the benefit derived. As with the County Archives collection, the Council does not recognise these assets on the Balance Sheet.

### Intangible Assets

Intangible assets are non-monetary assets without physical substance. Expenditure on intangible assets is capitalised only where it is expected that future economic benefits will flow to, or service potential be provided to, the Council and where the cost of the asset can be measured reliably.

Development expenditure, or purchased software licences may meet the definition of assets when access to the future economic benefits that they represent is controlled by the Council, either through custody or legal protection; a de minimis expenditure level of £10k below which the requirements of capital accounting will not be applied is in place.

Intangible assets are carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Amortisation commences the first full year following acquisition / addition.

The most common useful lives used in respect of amortisation are:-

	Years
Software licences	5
Development expenditure	7

### Interest Charges

External interest payable is charged to the Comprehensive Income and Expenditure Statement together with the amortisation of gains and losses on the repurchase or early settlement of borrowing carried forward in the Balance Sheet.

### Inventory

Inventories are valued at the lower of cost or net realisable value. The cost of each type of inventory is measured in a different way; the measurements used in respect of the Council's main inventories are:-

- Halkyn Depot (Highways maintenance and rock salt) Weighted average
- Alltami Depot (Grounds & vehicle maintenance and rock salt) Weighted average
- Alltami Depot (Fleet fuel) FIFO (first in first out)
- Canton Depot (Building maintenance) FIFO
- All other stock is measured at cost

### Investments

Investments are shown in the balance sheet at fair value (market value) for each class of financial instrument.

Short term deposits and investments are included in the cash and cash equivalents rather than short term investments if they mature within 3 months of the acquisition date, under IAS 7.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length.

Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Council Fund Balance. The gains and losses are, therefore, reversed out of the Council Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account (and for any sale proceeds greater than £10k, the Capital Receipts Reserve).

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Council Fund Balance.

### **Jointly Controlled Operations and Jointly Controlled Assets (including Joint Committees that does not include the establishment of a separate entity)**

The Council recognises on the Balance Sheet the assets that it controls and the liabilities that it incurs from the activity of any jointly controlled assets / operations undertaken in conjunction with other parties, and reflects within the Comprehensive Income and Expenditure Statement the expenditure it incurs, and the share of income it earns from such.

### Leases

#### ***Finance Leases***

For a lease to be classified as a finance lease substantially all risks and rewards of ownership need to be borne by the Council. There are five examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease. These are:

- the lease transfers ownership of the asset to the lessee by the end of the lease term
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised
- the lease term is for the major part of the economic life of the asset
- the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset (the Council have determined 'substantially all' to equate to 90% as advised by their independent lease consultants), and
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Where substantially all risks and rewards of ownership of a leased asset are borne by the Council, the asset is recorded as property, plant and equipment and a corresponding liability is recognised.



## NOTES TO THE CORE FINANCIAL STATEMENTS

The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease. The implicit interest rate is that which produces a constant periodic rate of interest on the outstanding liability.

The property, plant and equipment acquired under finance leases are depreciated over the life of the asset as per the depreciation accounting policy. The asset and liability are recognised at the inception of the lease, and are de-recognised when the liability is discharged, cancelled or expires.

The annual rental is split between the repayment of the liability and a finance cost. The annual finance cost is calculated by applying the implicit interest rate to the outstanding liability.

### ***Operating Leases***

Leases that do not meet the definition of finance leases are accounted for as operating leases. Operating lease rentals are charged to revenue accounts, on an accruals basis, on a straight-line basis over the term of the lease.

Property leases are classified and accounted for as separate leases of land and buildings.

### **Overheads and Support Services**

The costs of centrally provided support services and administrative buildings have been charged to services in line with the 2013/14 Service Reporting Code of Practice (SeRCOP). The costs of the corporate and democratic core and any non distributed costs are allocated to separate objective heads and are not apportioned to any other service.

### **Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

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

### **Property, Plant and Equipment**

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

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment that is deemed to enhance the value of an asset is initially capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Such assets are subsequently revalued in-year and impaired or revalued as appropriate to ensure they are held at the correct carrying value.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. A de minimis expenditure level of £20k below which the requirements of capital accounting will not be applied is in place.

### Measurement

Assets are initially measured at cost, comprising:-

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Donated assets are assets that have been transferred to the Council at nil or less than fair value consideration and are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally.

Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Council Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Council dwellings – fair value, determined using the existing use value for social housing (EUV – SH).
- Infrastructure assets – depreciated historical cost.
- Vehicles, plant, furniture and equipment – depreciated historical cost.
- All other operational assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- Community assets – historical cost and not depreciated.
- Investment property – market value and not depreciated.
- Assets held for sale – lower of value before classified as held for sale and market value, and not depreciated.
- Surplus assets – fair value (existing use value)
- Assets under construction – historical cost.

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

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

### Revaluation

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. The Council meets this requirement by revaluing a proportion of the total asset portfolio each year; during 2013/14 approximately 43% of non-dwelling assets were revalued.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The valuation methodology used for the HRA Housing Stock is the Beacon Approach, an adjusted vacant possession value technique based on the value of the property assuming vacant possession, with an adjustment factor to reflect continued occupation by a secured tenant. This methodology - the most widely adopted amongst local authorities in Wales - is the methodology that is most likely to produce consistent valuations of similar HRA properties in different local authorities. The fair value of council dwellings is measured using existing use value–social housing (EUV–SH) as defined by RICS Valuation Standards, being the estimated amount for which a property should exchange (on the date of valuation) between a willing buyer and a willing seller, in an arm's-length transaction.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

### Impairment

Assets are reviewed for impairment at the end of each reporting period to ensure that they are not carried at a value higher than their recoverable amount. Examples of impairment include a significant reduction in a specific assets value and evidence of physical damage (e.g. fire damage).

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for as follows:-

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

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets with a finite useful life. An exception is made for assets without a determinable finite useful life and assets that are not yet available for use (i.e. assets under construction). Depreciation on new assets is charged from the first full year following addition in the case of all assets other than those acquired under finance leases, for which provision is made from the year of addition.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Depreciation is calculated on a straight line basis, assuming nil residual values for all property plant and equipment, with the most common useful lives being:-

	Years
Buildings	50
Vehicles, plant, furniture and equipment	3-10
Infrastructure assets	40

Council Dwellings are depreciated by a sum equivalent to the Major Repairs Allowance (MRA).

Assets capitalised under finance leases are depreciated over the life assigned to the asset by either the contract in place or, in the absence of this information being available, the Council's independent lease consultants as a result of their review of the lease.

Assets under Construction are not depreciated until the asset is brought into use.

### Componentisation

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item and whose estimated useful life is significantly different from the useful life of the main asset, the components are depreciated separately.

A de minimis materiality level of £2.5m for the asset value has been set, below which individual items of property, plant and equipment will not be considered for componentisation; significant components will be deemed as those whose current value is 20% or more of the total current value of the asset.

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

### Derecognition of Property, Plant and Equipment

An item of property, plant or equipment is derecognised by disposal or when no future economic benefit or service potential is expected from its use.

### Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale once all of the following criteria are met:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets.
- The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.

The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

Amounts received for a disposal in excess of £10k are categorised as Capital Receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Council Fund Balance in the Movement in Reserves Statement.

### **Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

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

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

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

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

#### **Contingent Liabilities**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **Reserves**

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves. They represent either a planned set-aside of cash to resource unforeseen expenditure demands in the short term, resources to assist cash flow management or accumulated resources which have not been spent or earmarked at the end of the accounting period. Transfers to and from them are shown as appropriations in the movement on reserves statement.

### **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the Council Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

Examples of REFCUS expenditure are Disabled Facilities grants, grants to businesses and private property enhancement schemes.

### **Value Added Tax**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 2. OTHER OPERATING EXPENDITURE

	2014	2013
	£000	£000
Precept - North Wales Police and Crime Commissioner	13,443	13,059
Other preceptors - Community Councils	2,323	2,247
Levy - North Wales Fire and Rescue Authority	6,955	6,982
Net gain on the disposal of non-current assets	(200)	(5,193)
Admin. expenses on the net defined benefit liability*	402	393
	22,923	17,488

\* Prior period adjustment IAS 19 - see Note 44.

### 3. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

An aggregate net financing and investment income and expenditure total of £15,875k (£23,142k in 2012/13), incorporates the investment losses and investment expenditure detailed below.

	2014	2013
	£000	£000
Interest payable and similar charges	10,063	10,075
Investment losses and investment expenditure (see note below)	2,665	7,267
Net interest on the net defined benefit liability (see note 45) *	12,250	11,217
Interest and investment income	(9,103)	(5,417)
	15,875	23,142

\* Prior period adjustment IAS 19 - see Note 44.

#### Investment Losses and Investment Expenditure

The following entries have been recognised:

	2014		2013		£000
	£000	£000		£000	£000
Revaluation Losses on Investment property		1,741		6,099	
Impairment adjustments - LBI	17		66		
Less interest accrued - LBI	(81)		(101)		
		(64)		(35)	
Investment (properties) expenditure		1,677		6,064	
		988		1,203	
		2,665		7,267	

The LBI impairments, net adjustment of £64k credited to the Comprehensive Income and Expenditure Statement in 2013/14, relate to investments in the Icelandic bank LBI (formerly Landsbanki). The Council had £3,700k deposited with Landsbanki when the bank collapsed in October 2008.

The deposits have been subject to the administration process through the Icelandic courts for some years. The Winding up Board of LBI made 4 partial repayments to the Council as a priority creditor during 2012 and 2013.

## NOTES TO THE CORE FINANCIAL STATEMENTS

In the Council's 2012/13 accounts it was considered likely that UK local authorities would recover 100% of their deposits (subject to potential future exchange rate fluctuations). This was due to the LBI's financial position reported as at 31<sup>st</sup> December 2012, showed that LBI's assets were greater than the sum of the priority claims, however the final impact on the Council would not be known until the distribution process was completed and this was not expected until 2019.

During the year an opportunity arose to sell the Council's priority claims against the insolvent estate of LBI in a competitive auction process.

The Council's claims were sold and meant that 92% of the amounts originally deposited were recovered, representing a very large portion of the LBI deposits. A number of other priority creditors/UK local authorities sold their claims through the same auction process. Each creditor in the process achieved exactly the same auction price.

The administration of the insolvent estate of LBI is likely to continue for several years. The sale of the claims represents a clean break and removes the uncertainty around the timing of future recoveries. Future distributions could have been made in a number of currencies, including Icelandic Krona, which would have been less advantageous to the Council. As a result of the sale of the claims the Council is now no longer a creditor of LBI.

#### 4. LOCAL TAXATION AND NON-SPECIFIC GRANT INCOME

	2014	2013
	£000	£000
Council tax income	(75,006)	(72,197)
Non-domestic rates	(46,872)	(40,562)
Non-ringfenced government grants	(155,067)	(145,366)
Capital grants and contributions**	(15,814)	(17,585)
	<u>(292,759)</u>	<u>(275,710)</u>

\*\* Prior period adjustment - see Note 46

#### Council Tax

All domestic properties are included in the Council Tax Valuation List which is issued and maintained by the Valuation Office Agency, part of HMRC. Each property is placed in one of nine property bands (Band A to Band I) depending on the open market valuation of the dwelling at 1<sup>st</sup> April 2003 (otherwise known as the valuation date). A tenth band (A-) is only available to those taxpayers who live in band 'A' properties and are entitled to a disabled banding reduction.

Council Tax is payable based on the valuation band into which a property has been placed by the Valuation Office Agency. Gross charges are calculated by dividing the total income requirements of the County Council, Police and Crime Commissioner for North Wales and Town/Community Councils by the council tax base.

The tax base is the total of all the properties in each band expressed as Band 'D' equivalent numbers and adjusted for exemptions, discounts and disregards. Allowances are also made within the tax base for bad or doubtful debts. The tax base for 2013/14 was 60,254 band 'D' equivalent properties (60,865 in 2012/13) as calculated in the following table:



## NOTES TO THE CORE FINANCIAL STATEMENTS

	Valuation Band										
	A -	A	B	C	D	E	F	G	H	I	Total
<b>Chargeable Dwellings</b>											
Number of chargeable dwellings	0	3,835	8,939	19,295	11,910	9,866	6,693	3,000	572	230	64,340
Dwellings with disabled reliefs	0	19	57	121	109	118	85	39	10	19	577
Adjusted chargeable dwellings	19	3,873	9,003	19,283	11,919	9,833	6,647	2,971	581	211	64,340
<b>Adjusted Chargeable Dwellings</b>											
Dwellings with no discounts	10	1,237	4,845	12,443	8,320	7,464	5,497	2,517	498	186	43,017
Dwellings with one discount	9	2,635	4,151	6,829	3,589	2,358	1,144	447	64	20	21,246
Dwellings with two discounts	0	1	7	11	10	11	6	7	19	5	77
Discounted chargeable dwellings	19	3,873	9,003	19,283	11,919	9,833	6,647	2,971	581	211	64,340
<b>Discounted Chargeable Dwellings</b>											
Total discounted dwellings	17	3,214	7,962	17,570	11,017	9,238	6,358	2,856	556	204	-
Ratio to band "D"	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	21/9	-
Band "D" equivalent	9	2,143	6,192	15,618	11,017	11,291	9,184	4,760	1,111	475	61,799
											Collection rate adjustment (at 2.5%)
											(1,545)
											Exempt properties adjustment
											0
											<b>Council Tax Base 2013/14</b>
											60,254

The Flintshire County Council precept for a band 'D' property in 2013/14 was £959.43 (£932.39 in 2012/13). Council tax bills were based on the following multipliers for bands A- to I :-

Band	A-	A	B	C	D	E	F	G	H	I
Multiplier	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	21/9

Other precepts added to 2013/14 Council Tax demand notices included the North Wales Police and Crime Commissioner precept in the sum of £13,443k (£13,059k in 2012/13) and 34 Town and Community Councils who collectively raised precepts totalling £2,323k (£2,247k in 2012/13).

### Analysis of the net proceeds from Council tax:

	2014	2013
	£000	£000
Council tax collected	75,202	72,531
Less - Increase in bad debts provision	(92)	33
Less - Amounts written off to provision	(104)	(367)
	75,006	72,197
Less - Payable to North Wales Police and Crime Commissioner	(13,443)	(13,059)
	61,563	59,138

### Non-Domestic Rates (NDR)

NDR is organised on a national basis. The government sets the rate poundage which in 2013/14 was 46.4p for all properties (45.2p in 2012/13). The Council is responsible for collecting the rates in its area, which are paid into the NDR pool administered by the Welsh Government.

The Welsh Government distributes NDR pool receipts to local authorities on the basis of a fixed amount per head of population. 2013/14 NDR income paid into the pool was £58,659k after relief and provisions (£58,603k in 2012/13), based on a year end rateable value total of £151,912k (£153,000k in 2012/13).

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Analysis of the net proceeds from non-domestic rates:

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Non-domestic rates collected	59,524	59,110
Less - Paid into NDR pool	(58,659)	(58,603)
Less - Cost of collection	(363)	(374)
Less - Increase in bad debts provision	(502)	(132)
	<u>0</u>	<u>0</u>
Receipts from pool	46,872	40,562
	<u>46,872</u>	<u>40,562</u>

### 5. 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 Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. The debit adjustment for the year is £27,806k (£38,866k debit in 2012/13).

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Usable Reserves					Unusable Reserves
	Council Fund Balance £000	Council Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>2013/14</b>						
<b>Adjustments involving the Capital Adjustment Account:</b>						
<b><i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i></b>						
Charges for depreciation and impairment of non current assets	6,682	0	18,065	0	0	(24,747)
Revaluation losses on Property, Plant and Equipment	30,496	0	0	0	0	(30,496)
Movements in the market value of Investment Properties	(3,593)	0	0	0	0	3,593
Amortisation of intangible assets	123	0	(8)	0	0	(115)
Capital grants and contributions applied	0	0	0	0	(17,471)	17,471
Revenue expenditure funded from capital under statute	3,513	0	0	0	0	(3,513)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	2,126	0	642	0	0	(2,768)
<b><i>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>						
Statutory provision for the financing of capital investment	(7,143)	0	(542)	(370)	0	8,055
Capital expenditure charged against the Council Fund and HRA balances	(432)	0	(5,942)	0	0	6,374
<b>Adjustments involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to CIES	(17,653)	0	0	0	17,653	0
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(2,472)	0	(554)	3,026	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(3,711)	0	3,711
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(297)	0	(174)	0	0	471
<b>Adjustments involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	29,864	0	1,473	0	0	(31,337)
Employer's pensions contributions and direct payments to pensioners payable in the year	(20,955)	0	(949)	0	0	21,904
<b>Adjustment involving the Equal Pay Adjustment Account:</b>						
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(4,357)	0	0	0	0	4,357
<b>Adjustment involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	724	0	40	0	0	(764)
<b>Adjustments involving the Deferred Capital Receipts Account:</b>						
Transfer from deferred Capital Receipts Reserve to CIES	0	0	2	0	0	(2)
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	<b>16,626</b>	<b>0</b>	<b>12,053</b>	<b>(1,055)</b>	<b>182</b>	<b>(27,806)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Usable Reserves					Unusable Reserves
	Council Fund Balance	Council Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	
2012/13	£000	£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</b>						
Charges for depreciation and impairment of non current assets	29,954	0	15,974	0	0	(45,928)
Revaluation losses on Property, Plant and Equipment	18,502	0	0	0	0	(18,502)
Movements in the market value of Investment Properties	4,543	0	0	0	0	(4,543)
Amortisation of intangible assets	50	0	0	0	0	(50)
Capital grants and contributions applied**	0	0	0	0	(17,148)	17,148
Revenue expenditure funded from capital under statute**	7,217	0	0	0	0	(7,217)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	2,287	0	785	0	0	(3,072)
Realised investment upon liquidation of AD Waste	(3,151)	0	0	0	0	3,151
<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	(7,052)	0	(649)	0	0	7,701
Capital expenditure charged against the Council Fund and HRA balances	(236)	0	(4,692)	0	0	4,928
<b>Adjustments involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to CIES**	(17,585)	0	0	0	17,585	0
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	(4,983)	0	(798)	5,781	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(6,507)	0	6,507
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(494)	0	(174)	0	0	668
<b>Adjustments involving the Pensions Reserve:</b>						
Amount by which pension costs calculated in accordance with the Code (ie in accordance with IAS19) are different from the contributions due under the pension scheme regulations*	4,774	0	312	0	0	(5,086)
<b>Adjustment involving the Equal Pay Adjustment Account:</b>						
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(4,310)	0	0	0	0	4,310
<b>Adjustment involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,126)	0	0	0	0	1,126
<b>Adjustments involving the Deferred Capital Receipts Account:</b>						
Transfer from deferred Capital Receipts Reserve to CIES	0	0	7	0	0	(7)
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	<b>28,390</b>	<b>0</b>	<b>10,765</b>	<b>(726)</b>	<b>437</b>	<b>(38,866)</b>

\* Prior period adjustment IAS 19 - see Note 44

\*\* Prior period adjustment - see Note 46

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 6. PROPERTY PLANT AND EQUIPMENT

#### Movements 2013/14

	Council Dwellings & Garages	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Surplus Assets	Infrastructure Assets	Community Assets	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
At 1st April 2013	280,892	350,050	23,894	5,525	206,510	4,749	544	872,164
* Ex Ad Waste Assets Incorporated in 2012/13	0	973	987	0	0	0	0	1,960
	<u>280,892</u>	<u>351,023</u>	<u>24,881</u>	<u>5,525</u>	<u>206,510</u>	<u>4,749</u>	<u>544</u>	<u>874,124</u>
Additions	12,890	8,191	2,215	0	6,849	0	4,038	34,183
Revaluations	0	(43,224)	0	650	0	0	0	(42,574)
Reclassifications	(447)	367	0	1,772	0	0	0	1,692
Assets Derecognised	0	(308)	0	(99)	0	(29)	0	(436)
At 31st March 2014	<u>293,335</u>	<u>316,049</u>	<u>27,096</u>	<u>7,848</u>	<u>213,359</u>	<u>4,720</u>	<u>4,582</u>	<u>866,989</u>
<b>Accumulated Depreciation and Impairment</b>								
At 1st April, 2013	(10,594)	(78,739)	(6,153)	(114)	(52,088)	(29)	0	(147,717)
* Ex Ad Waste Assets Incorporated in 2012/13	0	0	(206)	0	0	0	0	(206)
	<u>(10,594)</u>	<u>(78,739)</u>	<u>(6,359)</u>	<u>(114)</u>	<u>(52,088)</u>	<u>(29)</u>	<u>0</u>	<u>(147,923)</u>
Depreciation charge for 2013/14	(5,208)	(8,494)	(3,544)	(26)	(5,327)	0	0	(22,599)
Depreciation written out to the Revaluation Reserve	0	14,316	0	0	0	0	0	14,316
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	3,080	0	0	0	0	0	3,080
Impairment charge for 2013/14	(14,502)	25,741	(846)	0	(344)	0	0	10,049
Reclassifications	0	(255)	0	0	0	0	0	(255)
Assets Derecognised	0	308	0	99	0	29	0	436
At 31st March 2014	<u>(30,304)</u>	<u>(44,043)</u>	<u>(10,749)</u>	<u>(41)</u>	<u>(57,759)</u>	<u>0</u>	<u>0</u>	<u>(142,896)</u>
Balance Sheet at 31st March 2014	<u>263,031</u>	<u>272,006</u>	<u>16,347</u>	<u>7,807</u>	<u>155,600</u>	<u>4,720</u>	<u>4,582</u>	<u>724,093</u>
Balance Sheet at 1st April 2013	<u>270,298</u>	<u>272,283</u>	<u>18,522</u>	<u>5,411</u>	<u>154,422</u>	<u>4,720</u>	<u>544</u>	<u>726,200</u>
<b>Nature of Asset Holding</b>								
Owned	263,031	272,006	9,155	7,807	155,600	4,720	4,582	716,901
Finance Lease	0	0	7,192	0	0	0	0	7,192
At 31st March 2014	<u>263,031</u>	<u>272,006</u>	<u>16,347</u>	<u>7,807</u>	<u>155,600</u>	<u>4,720</u>	<u>4,582</u>	<u>724,093</u>

\* A number of former AD Waste assets ('Other land and buildings' and 'Vehicles, Plant, Furniture and Equipment') were incorporated into the Council's 2012/13 accounts following the liquidation of AD Waste Ltd. The asset valuations for Vehicles, Plant, Furniture and Equipment were reported in 2012/13 at net book value (£781k) but have been 'grossed up' in 2013/14 with respective entries in 'Cost or Valuation' (£987k) and 'Accumulated Depreciation and Impairment' (£206k).

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Movements 2012/13

	Council Dwellings & Garages	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Surplus Assets	Infrastructure Assets	Community Assets	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
At 1st April 2012	281,509	376,343	42,643	6,967	200,535	11,439	5,204	924,640
** Assets Derecognised	0	0	(31,174)	0	0	0	0	(31,174)
	281,509	376,343	11,469	6,967	200,535	11,439	5,204	893,466
Additions	10,742	7,011	5,539	0	5,975	55	2,585	31,907
Revaluations	(10,809)	(30,558)	23	(2,568)	0	118	(7,245)	(51,039)
Reclassifications	(550)	(2,746)	6,863	1,126	0	(6,863)	0	(2,170)
At 31st March 2013	280,892	350,050	23,894	5,525	206,510	4,749	544	872,164

### Depreciation and Impairments

At 1st April 2012	(5,225)	(87,972)	(31,171)	(15)	(46,916)	(1,761)	0	(173,060)
** Assets Derecognised	0	0	31,174	0	0	0	0	31,174
	(5,225)	(87,972)	3	(15)	(46,916)	(1,761)	0	(141,886)
Depreciation charge for 2012/13	(5,208)	(8,552)	(3,746)	0	(5,172)	0	0	(22,678)
Impairment charge for 2012/13	(185)	(308)	(671)	(99)	0	(11)	0	(1,274)
Revaluations	24	17,661	0	177	0	4	0	17,866
Reclassifications	0	432	(1,739)	(177)	0	1,739	0	255
At 31st March 2013	(10,594)	(78,739)	(6,153)	(114)	(52,088)	(29)	0	(147,717)

Balance Sheet at 31st March 2013	270,298	271,311	17,741	5,411	154,422	4,720	544	724,447
Ex AD Waste assets	0	972	781	0	0	0	0	1,753
Balance Sheet at 31st March 2013	270,298	272,283	18,522	5,411	154,422	4,720	544	726,200
Balance Sheet at 1st April 2012	276,284	291,283	12,458	6,952	153,619	9,678	5,691	755,965

### Nature of Asset Holding

Owned	270,298	272,283	10,581	5,411	154,422	4,720	544	718,259
Finance Lease	0	0	7,941	0	0	0	0	7,941
At 31st March 2013	270,298	272,283	18,522	5,411	154,422	4,720	544	726,200

\*\* The 2012/13 Property, Plant and Equipment disclosure has been restated to include the impact of derecognising a number of assets that were being held at £0 net book value. This adjustment relates to assets where the economic benefit or service potential derived from using the asset has been fully consumed by the Council, with any remaining value for assets still retained considered below the de minimis capital threshold (£20k). As a result of this derecognition, the gross book value for the cost of vehicles, plant, furniture and equipment has been reduced, with an equivalent reduction in accumulated depreciation. Two additional £0 net book value items which originated from historical changes to the method used to calculate the value of Vehicles, Plant, Furniture and Equipment were also removed from the asset register. These adjustments also resulted in the removal of gross book values and the equivalent accumulated depreciation / impairment. The net effect of all of these adjustments is £0.

### Property, Plant and Equipment

- Council dwellings, other land and buildings, vehicles, plant, furniture and equipment that are held, occupied, used or contracted to be used on behalf of the Authority, or consumed in the direct delivery of services. Included are dwellings and other housing properties, office buildings, schools, libraries, sports centres and pools, residential homes/day centres, depots and workshops, cemetery buildings, off street car parks, vehicles, mechanical plant, fixtures and fittings and other equipment.
- Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Included are highways, footpaths, bridges, water and drainage facilities and coastal defences.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Community assets are assets that the Authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect of sale and change of use. Included are parks and open spaces, recreation grounds, play areas and cemetery land.

### 7. INVESTMENT PROPERTIES AND AGRICULTURAL ESTATE

#### Movements 2013/14

	Investment Properties £000	Agricultural Estate £000	Total £000
<b>Cost or Valuation</b>			
At 1st April 2013	21,663	12,723	34,386
Ex Ad Waste Assets Incorporated in 2012/13	45	0	45
Reclassifications	(813)	(758)	(1,571)
Revaluations	(237)	3,921	3,684
At 31st March 2014	20,658	15,886	36,544
<b>Depreciation and Impairments</b>			
At 1st April 2013	(255)	0	(255)
Reclassifications	255	0	255
At 31st March 2014	0	0	0
Balance Sheet at 31st March 2014	20,658	15,886	36,544
Balance Sheet at 1st April 2013	21,453	12,723	34,176

#### Movements 2012/13

	Investment Properties £000	Agricultural Estate £000	Total £000
<b>Cost or Valuation</b>			
At 1st April 2012	28,550	13,278	41,828
Additions	24	0	24
Reclassifications	(1,745)	(555)	(2,300)
Revaluations	(5,166)	0	(5,166)
At 31st March 2013	21,663	12,723	34,386
<b>Depreciation and Impairments</b>			
At 1st April 2012	(587)	0	(587)
Reclassifications	(255)	0	(255)
Revaluations	587	0	587
At 31st March 2013	(255)	0	(255)
Balance Sheet at 31st March 2013	21,408	12,723	34,131
Ex AD Waste assets	45	0	45
Balance Sheet at 31st March 2013	21,453	12,723	34,176
Balance Sheet at 1st April 2012	28,008	13,278	41,286

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 8. ASSETS HELD FOR SALE

	Council Dwellings & Garages £000	Other Property, Plant & Equipment £000	Investment Properties £000	Agricultural Estate £000	Total £000
<b>At 1st April 2013</b>	<b>283</b>	<b>1,790</b>	<b>1,146</b>	<b>555</b>	<b>3,774</b>
Assets newly classified as held for sale	447	41	0	758	1,246
Assets declassified as held for sale	0	(1,125)	(246)	0	(1,371)
Net Reclassifications	447	(1,084)	(246)	758	(125)
Revaluation gains	144	0	178	0	322
Revaluation losses	0	0	(400)	0	(400)
Net Revaluations	144	0	(222)	0	(78)
Assets sold	(642)	(706)	(445)	(975)	(2,768)
At 31st March 2014	232	0	233	338	803

### 9. INTANGIBLE ASSETS

	2014			2013		
	Software Licences £000	Development Expenditure £000	Total £000	Software Licences £000	Development Expenditure £000	Total £000
Balance at 1st April						
Gross carrying amounts	564	607	1,171	463	549	1,012
Accumulated amortisation	(181)	(293)	(474)	(65)	(215)	(280)
Net carrying amount	383	314	697	398	334	732
Additions	84	0	84	101	58	159
Amortisation for the period	(113)	(87)	(200)	(116)	(78)	(194)
Balance at 31st March	354	227	581	383	314	697
Comprising:						
Gross carrying amounts	648	607	1,255	564	607	1,171
Accumulated amortisation	(294)	(380)	(674)	(181)	(293)	(474)
Total	354	227	581	383	314	697

Intangible assets are amortised from the first full financial year following acquisition, in line with the related accounting policy. The amortisation of £200k charged to revenue in 2013/14 (£194k in 2012/13) is absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

### 10. LONG TERM INVESTMENTS

Long term investments are carried in the balance sheet at fair value. Further information is included in note 43.

	2014 £000	2013 £000
War stock	14	15
Banks / Building Society Deposits	2,007	0
	<u>2,021</u>	<u>15</u>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 11. LONG TERM DEBTORS

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Other entities and individuals	1,879	1,592
	1,879	1,592

Analysis of long term debtors classified as 'Other entities and individuals' :-

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Renewal and improvement loans	1,571	1,291
First time buyer loans	100	100
Assisted car purchase loans	166	160
Private street works	42	41
	1,879	1,592

### 12. INVENTORIES

The Council holds total inventories of £1,202k (£1,024k in 2012/13) in the balance sheet as at 31<sup>st</sup> March 2014.

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Building Maintenance	115	29
Highways Maintenance	250	286
Fuel	34	30
Vehicle Maintenance	39	38
Rock Salt	425	291
Catering	134	112
Recycling Equipment	66	90
Leisure Products	35	38
Miscellaneous	104	110
	1,202	1,024

The analysis of inventory has been expanded for 2013/14 and to enable comparison the 2012/13 totals have been restated in the same format

In accordance with IAS 2 the total cost in the year of each main type of inventory held at the balance sheet date is to be disclosed.

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Highways maintenance	261	308
Fleet fuel, grounds maintenance and vehicle maintenance	576	623
	837	931

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 13. SHORT TERM DEBTORS

	2014	2013
	£000	£000
Central government bodies	21,026	0
Other local authorities	3,155	0
NHS bodies	772	0
Public corporations and trading funds	3	0
Other entities and individuals *	12,039	39,521
Council tax	2,741	2,651
	39,736	42,172
Less provision for impairment losses (note 20)	(2,760)	(2,768)
	36,976	39,404

\* 2013 total included amounts in respect of Central government bodies, other local authorities, NHS bodies and public corporations and trading funds.

### 14. SHORT TERM INVESTMENTS

The balance sheet total of £6,781k (£19,474k in 2012/13) is recorded net of those sums invested for 3 months or less (including overnight/call account monies) which are treated as cash, amounting to £34,500k (£36,300k in 2012/13).

	2014	2013
	£000	£000
Investments (3 months – 365 days)	6,700	17,800
Accrued interest	81	130
	6,781	17,930
Residual Landsbanki Investment	0	1,938
Accrued Interest	0	737
Impairment	0	(1,131)
	0	1,544
Total	6,781	19,474

### 15. CASH AND CASH EQUIVALENTS

	2014		2013	
	£000	£000	£000	£000
<b>Current Assets</b>				
Temporary investments (call accounts)		4,600		2,000
Cash and cash equivalents	35,905		36,743	
Cash overdrawn	0		(4,395)	
		35,905		32,348
		40,505		34,348

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 16. BORROWING REPAYABLE ON DEMAND OR WITHIN 12 MONTHS

	2014	2013
	£000	£000
Accrued interest on long term external borrowing	1,100	4,242
Invest to Save loan (from Welsh Government)	300	0
Energy Efficiency Loans (from Salix Finance Ltd.)	54	54
	1,454	4,296

### 17. CREDITORS

	2014	2013
	£000	£000
<b>Short Term</b>		
Central government bodies	4,905	0
Other local authorities	7,786	0
NHS bodies	690	0
Public corporations and trading funds	48	0
Other entities and individuals ** ***	17,693	32,874
	31,122	32,874
<b>Long Term</b>		
Central government bodies *	2,032	1,716
Other entities and individuals **	219	199
	2,251	1,915

\* Prior period adjustment - see Note 46.

\*\* 2013 totals restated to exclude amounts in respect of section 106 agreements and commuted sums now included in Note 18, Grant Receipts in Advance. Total removed from creditors is £955k.

\*\*\* 2013 total included amounts in respect of Central government bodies, other local authorities, NHS bodies and public corporations and trading funds.

### 18. GRANT INCOME

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

	2014	2013
	£000	£000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	153,602	143,891
Outcome Agreement Grant	1,465	1,475
Total Non Ringfenced Government Grants	155,067	145,366
Welsh Government (WG):		
Major Repairs Allowance	5,200	5,200
General Capital Grant	2,603	2,603
Regional Transport Plan	1,283	2,773
Additional School Improvement Grant	2,770	1,877
Learning in Digital Wales Grant	1,020	0
Other WG Grants	993	3,198
Other Capital Grants and Contributions**	1,945	1,934
Total Capital Grants and Contributions	15,814	17,585
Total	170,881	162,951

\*\* Prior period adjustment - see Note 46

## NOTES TO THE CORE FINANCIAL STATEMENTS

	2014 £000	2013 £000
<b>Credited to Services</b>		
WG		
Supporting People	6,620	4,359
DELLS Post 16	6,085	7,241
Foundation Phase	4,947	4,918
Learning Pathways	642	888
Flying Start	2,213	1,560
Families First	1,690	1,661
Pupil Deprivation	1,244	1,235
School Effectiveness	1,445	1,214
Concessionary Fares	2,214	1,999
Sustainable Waste Management	3,182	3,354
Learning Disability	0	1,650
Substance Misuse	1,334	805
Other	233	697
Department of Work and Pensions	38,997	48,048
Other Grants and Contributions	9,226	8,705
	80,072	88,334

### Grants and Contributions Received in Advance

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the grantor if the conditions are not met. The balances at the year end are as follows:

	2014 £000	2013 £000
<b>Short Term</b>		
Revenue Grants	1,462	3,029
Revenue Section 106 Agreements *	47	7
Capital Section 106 Agreements *	58	4
Revenue Commuted Sums *	14	0
	1,581	3,040
<b>Long Term</b>		
Revenue Grants	395	887
Revenue Section 106 Agreements *	189	169
Capital Section 106 Agreements *	97	414
Revenue Commuted Sums *	330	278
Capital Commuted Sums *	106	83
	1,117	1,831

\* Total included in the Creditors note in the 2012/13 accounts.

### 19. DONATED ASSETS

During 2013/14 10 properties were donated to the Council by private developers for £1 each under section 106 agreements to provide affordable housing. These agreements between developers and local planning authorities are negotiated as part of a condition of planning consent and enable local authorities to negotiate contributions towards a range of infrastructure and services, including affordable housing.

The properties will be let at affordable rent levels which involves the granting of assured shorthold tenancies. The current statutory limitations which govern the Council's ability to grant tenancy agreements are very restrictive and mean that in all but exceptional circumstances the Council is obliged to grant a full secure tenancy to its tenants with further restrictions on the rent level that can be set.

## NOTES TO THE CORE FINANCIAL STATEMENTS

A new company, North East Wales Homes (NEW Homes), wholly owned by the Council has been established, that will own and manage the donated properties, alongside a number of other housing related initiatives to assist the Council in achieving its affordable housing objectives.

The position at the balance sheet date is temporary; the properties belonged to the Council but were vacant and not being used for any purpose, pending transfer to NEW Homes. NEW Homes was incorporated on 3<sup>rd</sup> April 2014, with the transfer of properties taking place on 24<sup>th</sup> June 2014. Future donated properties will transfer directly from the developer to the ownership of NEW Homes.

Whilst the properties do not strictly meet the requirements for recognition as an asset, as any economic benefit or service potential will be received by NEW Homes and not by the Council, the Council had possession of these properties at the balance sheet date and has therefore recognised the assets on the balance sheet in line with accounting policies for donated assets. The total market value of the properties is £1,136k.

### 20. PROVISIONS

The amounts recognised as provisions are the best estimates of the expenditure required to settle present obligations. The provision total (non current and current) of £10,985k incorporates the following balances :-

	2014	Movement Out	Movement In	2013
	£000	£000	£000	£000
Claims (staff)	9	0	0	9
Single Status / Equal pay	8,746	(588)	0	9,334
MMI Scheme of Arrangement	383	(215)	21	577
Aftercare of former landfill sites	1,102	(9)	20	1,091
Senior Management Restructure	745	0	745	0
	<u>10,985</u>	<u>(812)</u>	<u>786</u>	<u>11,011</u>

- The staff claims provision covers the anticipated costs of various staff claims against the Council; no immediate calls against the provision are expected.
- The Single Status / Equal Pay provision provides the funds for implementation and incentive payments made to staff under the single status agreement and cover for the potential costs associated with the settlement of historic equal pay cases, which includes the potential liability for existing and potential equal pay claims. The equal pay account included in the balance sheet on page 10 (and the disclosure in note 23) is used to hold an amount equal to equal pay which has been deferred from being charged to the Council fund under the Local Authority (Capital Finance and Accounting) (Wales) Regulations.
- The provision in relation to the 'MMI Scheme of Arrangement' was created in 2012/13 following the decision taken by the board of MMI to trigger the scheme of arrangement on 13<sup>th</sup> November 2012.

MMI was the predominant insurer of public sector bodies prior to it ceasing to write insurance business from September 1992. In order to ensure an orderly run-off, a scheme of arrangement with its Creditors was put in place. In the event of it becoming clear that a solvent run-off was unlikely to be achieved then the scheme of arrangement would be triggered. All scheme Creditors would be subject to a percentage levy on all scheme liabilities paid to date and any future payments would be made at a reduced rate.

The scheme administrator informed scheme Creditors that the levy will be 15% of claims paid to date, payable in February 2014. Flintshire, as the incumbent local government organisation, is responsible for paying the levy in relation to the former borough councils of Delyn and Alyn and Deeside, and its share of the former county council of Clwyd as agreed with the other North Wales Local Authorities.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The levy in relation to Delyn and Alyn and Deeside has been paid in full during the year, with the Clwyd levy being paid in part by all North Wales Local Authorities. Currently the administrator is unable to provide evidence to support a significant figure within the Clwyd scheme liabilities. The North Wales Local Authorities have agreed with the scheme administrator that this proportion of the Clwyd levy should not be paid until the dispute is resolved. The remaining balance of £383k in the provision equates to Flintshire's share of the disputed part of the Clwyd levy.

- The £1,102k provides for the environmental aftercare costs for the former waste disposal sites at Standard, Buckley and Brookhill, Buckley, with £61k a current liability and £1,041k a non-current liability. The projected costs have been embodied in performance deeds with Natural Resources Wales (formerly the Environment Agency). These deeds form the basis of the Council's legal obligation to make financial provision for aftercare for 60 years from the date the landfill site was closed. The provision is revised by way of indexation each year in line with RPI, and reviewed for adequacy. The provision matches the legal obligation contained in the performance deeds.
- In setting the 2014/15 budget the Council committed to making recurring revenue savings by a managed reduction to the workforce. A revised operating structure for the Council was approved in March 2014 which resulted in a senior management restructure.

Although the new operating structure only came into effect on 1<sup>st</sup> June 2014, the Council was sufficiently committed at the balance sheet date to warrant the creation of a provision for the termination benefits of senior management leaving the Council's employment as a result of the restructure. The £745k provision is an estimate based on the highest possible costs to the Council using the most up to date information available. The actual costs incurred during 2014/15 may well be lower than this estimate.

### Current Provisions – Accumulated Absences

The provision for accumulated absences in 2013/14 is £3,376k (£2,612k in 2012/13).

	2014	Movement Out	Movement In	2013
	£000	£000	£000	£000
Accumulated absences	3,376	(116)	880	2,612
	3,376	(116)	880	2,612

Short-term accumulating compensated absences refer to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay. Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31<sup>st</sup> March each year. Under previous accounting arrangements, no such accrual was required. The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

### Current Provisions - Provision for Impairment Losses (Bad Debts)

Amounts due to the Council have been reduced by estimated provisions for impairment losses.

	2014	2013
	£000	£000
Housing rents	662	719
Council tax	862	770
Other debtors	1,236	1,279
	2,760	2,768

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 21. LONG TERM BORROWING

Analysis	Interest Rates		2014	2013
	Minimum %	Maximum %	£000	£000
<b>By Loan Type (Fixed Rate)</b>				
Salix Finance (Energy Efficiency)		Interest Free	189	243
Government (PWLB)	0.54	9.50	153,163	153,163
Other financial institutions	4.48	4.58	18,950	18,950
Welsh Government (Invest to Save)		Interest Free	398	0
			172,700	172,356
<b>By Maturity</b>				
Between 1 and 2 years			398	0
Between 2 and 5 years			1,789	1,600
Between 5 and 10 years			17,753	15,734
More than 10 years			152,760	155,022
			172,700	172,356

### 22. USABLE RESERVES

The Council maintains a number of reserves on the Balance Sheet. Some are held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans. Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and in note 5.

#### Council Fund

The Council fund balance of £11,161k represents the value of unearmarked reserves available to the Authority (£9,270k in 2012/13).

#### Earmarked Reserves

Total earmarked reserves of £39,292k (£42,604k in 2012/13) include revenue service balances of £7,471k (£8,922k in 2012/13), the surpluses generated by locally managed schools of £3,261k (£3,097k in 2012/13), and various other specific reserves which includes:

- Service balances – represents the element of slippages that service departments have the right to carry forward for use in the subsequent financial year and other relevant specific income / underspends one-off in nature that extend over more than one year.
- School balances – this sum represents the element of balances released under the delegation of budgets to schools which remained unspent at the end of the financial year.
- Single status / equal pay – accumulated reserve to fund the costs of implementing the single status agreement and costs associated with the settlement of historic equal pay cases.
- Supporting people – this reserve has been established to mitigate the impact of proposed reductions in grant funding by Welsh Government.
- Flintshire Insurance Fund – Flintshire County Council does not insure all risks with external insurers but instead has established an internal reserve to meet those uninsured risks.
- Benefits Equalisation – this reserve was introduced to guard against the potential volatility in Housing Benefit Subsidy.
- Waste Disposal – this reserve is used predominantly to fund Flintshire County Council's contribution to the North Wales Residual Waste Treatment Partnership.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Movement between earmarked reserves is summarised in the following table:-

	Balance at 1 April 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance at 31 March 2013	Transfers Out 2013/14	Transfers In 2013/14	Balance at 31 March 2014
	£000	£000	£000	£000	£000	£000	£000
Service balances	6,479	(5,340)	7,783	8,922	(6,387)	4,936	7,471
School balances	2,658	(2,917)	3,356	3,097	(3,782)	3,946	3,261
Single status/equal pay	24,156	0	1,497	25,653	(5,245)	3,046	23,454
Benefits equalisation	489	(121)	751	1,119	0	0	1,119
County elections	92	(4)	0	88	(14)	34	108
Clwyd Theatr Cymru	(43)	26	0	(17)	0	42	25
Supporting people	1,493	0	0	1,493	0	18	1,511
Community equipment store	55	0	11	66	(46)	100	120
Building control trading account	209	0	0	209	0	0	209
Milk quotas	72	0	5	77	0	0	77
Waste disposal	811	(103)	0	708	(240)	0	468
Planning gain	3	0	0	3	0	0	3
Flintshire Enterprise Ltd	187	(48)	0	139	(12)	0	127
Third party claims	87	0	0	87	0	0	87
Design fees	120	0	0	120	0	0	120
Mineral and waste	7	0	4	11	(9)	0	2
Winter maintenance	245	(245)	0	0	0	250	250
Energy Efficiency	0	0	0	0	(1)	5	4
Mold Car Parks	0	0	0	0	0	30	30
Insurance fund - MMI	160	0	0	160	(1)	171	330
Flintshire Insurance Fund	674	(14)	0	660	(152)	0	508
Clwyd Insurance Fund	10	(1)	0	9	(1)	0	8
	37,964	(8,767)	13,407	42,604	(15,890)	12,578	39,292

### Housing Revenue Account

The housing revenue account reserve cumulative balance of £1,662k (£1,931k in 2012/13) includes the 2013/14 HRA deficit of £269k (£41k (surplus) in 2012/13), as detailed on pages 78 and 79.

### Capital Receipts Reserve

The capital receipts reserve contains receipts from the sale of assets which have yet to be used to finance capital or to repay debt.

### Capital Grants Unapplied

Capital grants unapplied are amounts received but not yet applied to finance capital expenditure.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 23. UNUSABLE RESERVES

The details of movements on unusable reserves are as follows :-

Reserves	2014 £000	2013 £000
Revaluation reserve	67,796	52,739
Available-for-sale financial instruments reserve	(3)	(3)
Capital adjustment account	507,508	527,474
Financial instruments adjustment account	(7,912)	(8,381)
Pensions reserve	(258,417)	(305,518)
Equal pay account	(4,978)	(9,334)
Deferred capital receipts	0	2
Accumulated absences account	(3,376)	(2,612)
<b>Total Unusable Reserves</b>	<b>300,618</b>	<b>254,367</b>

#### Revaluation Reserve

The revaluation reserve contains the gains made by the Authority 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 revaluation reserve records unrealised revaluation gains arising since 1st April 2007, the date that the Reserve was created. The reserve is matched by non-current assets within the balance sheet - the resources are not available for financing purposes.

	2014 £000	£000	2013 £000	£000
Balance at 1st April	52,739		58,060	
Opening Balance Adjustment	34		0	
		52,773		58,060
Upward revaluation of assets	35,461		10,994	
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(17,938)		(6,818)	
Surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of services		17,523		4,176
Difference between fair value depreciation and historical cost depreciation	(2,334)		(9,497)	
Accumulated gains on assets sold or scrapped	(166)		0	
Amount written off to the capital adjustment account		(2,500)		(9,497)
Balance at 31st March	67,796		52,739	

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Available-for-Sale Financial Instruments Reserve

The available-for-sale financial instruments reserve records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets. The reserve is matched by borrowings and investments within the balance sheet - the resources are not available for financing purposes.

	2014		2013	
	£000	£000	£000	£000
Balance at 1st April		(3)		368
Upward revaluation of investments	0		0	
Downward revaluation of investments not charged to the surplus/deficit on the provision of services	0		(371)	
	0	(3)	(371)	(371)
Balance at 31st March		(3)		(3)

### Pensions Reserve

The pensions reserve is an adjustment account that absorbs the timing differences arising from different arrangements for post employment benefits and for funding benefits in accordance with statutory provisions.

The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement - the benefits are earned by employees accruing years of service. The liabilities recognised in the accounts are updated to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

Statutory arrangements require those benefits earned to be financed as and when the Authority makes the employer's contributions to the pension fund, or eventually pays any pensions for which it has direct responsibility. 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 Authority 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.

	2014	2013
	£000	£000
Balance at 1st April	(305,518)	(240,834)
Return on plan assets	(9,436)	17,005
Actuarial gains and losses	65,970	(76,603)
Net charges to surplus / deficit on provision of services	(31,337)	(26,288)
Employers' contributions payable to the scheme	21,904	21,202
Balance at 31st March	(258,417)	(305,518)

### Capital Adjustment Account

The capital adjustment account absorbs the timing difference arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under the statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the revaluation reserves to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The account contains accumulated gains and losses on investment properties and revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Note 5 provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

	2014		2013	
	£000	£000	£000	£000
Balance at 1st April		527,474		557,855
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:				
- Charges for depreciation and impairment of non-current assets	(24,747)		(65,693)	
- Revaluation losses on PP&E	(30,496)			
- Amortisation of intangible assets	(199)		(35)	
- Revenue expenditure funded from capital under statute**	(3,513)		(7,217)	
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(2,768)		1,171	
- Movements in the market value of investment properties debited or credited to the Comprehensive Income & Expenditure Statement	3,593		(4,543)	
	(58,130)		(76,317)	
Adjusting amounts written out of the revaluation reserve	2,466		10,744	
Net written out amount of the cost of non-current assets consumed in the year		(55,664)		(65,573)
Capital financing applied in the year:				
- Use of the capital receipts reserve	3,711		2,263	
- Capital grants and contributions credited to the Comprehensive Income & Expenditure statement that have been applied to capital financing**	17,471		17,147	
- Intangible Assets - Additions	84			
- Statutory provision for the financing of capital investment charged against the Council Fund and HRA balances	7,686		6,867	
- Capital expenditure charged against the council fund and HRA balances	6,375		4,927	
HRA Capital Receipts Set Aside	371			
Long term debtors adjustments	0		837	
- Application of capital receipts to finance assets transferred from AD Waste	0		3,506	
- Disposal of investment in AD Waste	0		(355)	
	35,698		35,192	
Balance at 31st March		507,508		527,474

\*\* Prior period adjustment - see Note 46

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Financial Instruments Adjustment Account

The financial instruments adjustment account (FIAA) provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early payment of debt) are recognised under the Code and are required by statute to be met from the Council fund. Again, the reserve is matched by borrowings and investments within the balance sheet, and the resources are not available for financing purposes.

	2014		2013	
	£000	£000	£000	£000
Balance at 1st April		(8,381)		(9,051)
Premiums incurred in the year and charged to the comprehensive income and expenditure statement	0		0	
Proportion of premiums incurred in previous financial years to be charged against the Council Fund balance in accordance with statutory requirements	<u>469</u>		<u>670</u>	
Amount by which finance costs charged to the Comprehensive income and expenditure statement are different from finance costs chargeable in the year in accordance with statutory requirements		469		670
Balance at 31st March		<u>(7,912)</u>		<u>(8,381)</u>

### Equal Pay Account

The equal pay account compensates for the differences between the rate at which the Authority provides for the potential costs of equal pay settlements in relation to equal pay cases and the ability under statutory provisions to defer the impact on the council fund balance until such time as cash might be paid out to claimants.

	2014		2013	
	£000	£000	£000	£000
Balance at 1st April		(9,334)		(13,644)
(Increase) / decrease in provision for equal pay cases	4,356		4,310	
Cash settlements paid in the year	<u>0</u>		<u>0</u>	
Amount by which amounts charged for equal pay claims to the comprehensive income and expenditure statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements		4,356		4,310
Balance at 31st March		<u>(4,978)</u>		<u>(9,334)</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Deferred Capital Receipts

Deferred capital receipts are amounts derived from sales of assets, which will be received in instalments over agreed periods of time. The reserve holds the gain recognised on the disposal of non-current assets but for which cash settlement has yet to take place. They arise from mortgages on sales of council houses.

Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve.

	2014	2013
	£000	£000
Council houses	0	2
	0	2

### Accumulated Absences Account

The accumulated absences account absorbs the differences that would otherwise arise on the council fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31<sup>st</sup> March. Statutory arrangements require that the impact on the council fund balance is neutralised by transfer to or from the account.

	2014		2013	
	£000	£000	£000	£000
Balance at 1st April		(2,612)		(3,738)
Settlement or cancellation of accrual made at the end of the preceding year	2,612		3,738	
Amounts accrued at the end of the current year	(3,376)		(2,612)	
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		(764)		1,126
Balance at 31st March		(3,376)		(2,612)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 24. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The net cash flows from operating activities of £8,908k (£8,649k in 2012/13) include the following interest elements :

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Interest received	1,283	606
Interest paid	(14,336)	(10,063)

### 25. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Purchase of property, plant & equipment, investment property and intangible assets	(34,267)	(29,482)
Purchase of short term and long term investments	11,031	(6,125)
Other payments for investing activities	(281)	(523)
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	3,026	4,909
Proceeds from short term and long term investments	0	2,013
Other receipts from investing activities	17,653	18,114
<b>Net cash flows from investing activities</b>	<b>(2,838)</b>	<b>(11,094)</b>

### 26. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Cash receipts of short term and long term borrowing	698	0
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liability relating to finance leases	(557)	0
Repayment of short term and long term borrowing	(54)	(1,658)
Other payments for financing activities	0	(486)
<b>Net cash flows from financing activities</b>	<b>87</b>	<b>(2,144)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 27. OFFICERS' REMUNERATION

Regulation 7A of the Accounts and Audit (Wales) (Amendment) Regulations 2010 requires disclosure (in £5,000 bandings) of the number of employees whose remuneration - all sums paid to or receivable by the employee including payments on termination of employment, expense allowances chargeable to tax, and the money value of benefits - exceeded £60,000 :-

Remuneration Band	2014		2013	
	Non-Schools	Schools	Non-Schools	Schools
	No.	No.	No.	No.
£60,000 - £64,999	4	13	1	18
£65,000 - £69,999	3	5	5	4
£70,000 - £74,999	5	5	4	4
£75,000 - £79,999	4	1	2	1
£80,000 - £84,999	3	3	5	4
£85,000 - £89,999	1	0	0	0
£90,000 - £94,999	0	0	1	2
£95,000 - £99,999	3	1	2	0
£100,000 - £104,999	0	0	1	0
£105,000 - £109,999	0	0	0	0
£110,000 - £114,999	1	0	1	0
£115,000 - £119,999	0	0	1	0
£120,000 - £124,999	0	0	0	0
£125,000 - £129,999	0	0	0	0
£130,000 - £134,999	0	0	0	0
£135,000 - £139,999	1	0	0	0
£140,000 - £144,999	0	0	0	0
£145,000 - £149,999	0	0	0	0
£150,000 - £154,999	0	0	0	0
£155,000 - £159,999	0	0	1	0
	25	28	24	33

Information has been compiled on the basis of the requirements of the Accounts and Audit Regulations, and related CIPFA guidance. All non-schools numbers include the senior employee posts listed in the Senior Employee Emoluments table. The band values do not include employer pension contributions, which for 2013/14 were accounted for at a rate of 14.1% for teachers and 22.5% for other employees.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Senior Employee Emoluments

The Accounts and Audit (Wales (Amendment) Regulations 2010 introduced the requirement to disclose the individual remuneration details for senior employees by post where the salary is between £60,000 and £150,000 and by name where the salary exceeds £150,000. Senior employees for the purpose of the disclosure are the chief executive, directors, statutory officers and persons for whom the chief executive is directly responsible.

Post Title	Note	Pensionable Pay £	Total Remuneration Excluding Pension Contributions £	Employer's Pension Contributions £	Total Remuneration Including Pension Contributions £
<b>2013/14</b>					
Chief Executive (Colin Everett)	1	137,138	137,138	30,856	167,994
Director of Environment		97,328	97,328	21,899	119,227
Director of Community Services		97,499	97,499	21,937	119,436
Director of Lifelong Learning		97,328	97,328	21,899	119,227
Head of Finance		81,960	81,960	18,441	100,401
Head of Legal and Democratic Services	2	78,825	78,825	17,736	96,561
Head of Human Resources and Organisational Development		74,063	74,063	16,664	90,727
Head of ICT & Customer Services	3	82,600	82,600	18,585	101,185
		746,741	746,741	168,017	914,758
<b>2012/13 (comparative information)</b>					
Chief Executive (Colin Everett)	1	159,597	159,597	35,909	195,506
Director of Environment		97,328	97,328	21,899	119,227
Director of Community Services		91,437	91,437	20,400	111,837
Director of Lifelong Learning		97,328	97,328	21,899	119,227
Head of Finance		81,960	81,960	18,441	100,401
Head of Legal and Democratic Services	2	76,917	76,917	16,744	93,661
Head of Human Resources and Organisational Development		74,063	74,063	15,608	89,671
Head of ICT & Customer Services	3	80,679	80,679	18,009	98,688
		759,309	759,309	168,909	928,218

**Note 1 :** Pensionable pay includes remuneration for (a) returning officer for local and national elections (with costs reimbursed by the respective Government for the latter), and (b) Clerk to the North Wales Fire and Rescue Authority (costs reimbursed by that body). Base salary (unchanged since 2007) is £131,233.

**Note 2 :** Pensionable pay includes remuneration relating to role as Deputy Clerk to the North Wales Fire and Rescue Authority (with costs reimbursed by that body).

**Note 3 :** Pensionable pay includes remuneration for additional responsibilities (Assistant Chief Executive for Organisational Change).

### Exit Packages

The Council is required to disclose (in £20k bandings) the numbers of exit packages agreed and the cost of the packages to the authority in the financial year. The totals disclosed are made up of redundancy payments and pension strain (including teacher's pension lump sum payments).

Exit costs arising in 2014/15 which the authority is committed to incurring at the 31<sup>st</sup> March 2014 are also included in the disclosure.



## NOTES TO THE CORE FINANCIAL STATEMENTS

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

Exit Package Cost Band	Compulsory Redundancies		Other Departures Agreed		Total Exit Packages by Cost Band		Total Exit Packages in Each Band	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
	No.	No.	No.	No.	No.	No.	£	£
£0 - £20,000	31	16	5	13	36	29	196,497	147,931
£20,001 - £40,000	11	5	1	5	12	10	369,716	271,494
£40,001 - £60,000	1	0	0	4	1	4	50,272	184,487
£60,001 - £80,000	2	1	0	1	2	2	139,727	147,232
£80,001 - £100,000	1	0	0	1	1	1	90,203	91,765
	<u>46</u>	<u>22</u>	<u>6</u>	<u>24</u>	<u>52</u>	<u>46</u>	<u>846,415</u>	<u>842,909</u>

### 28. MEMBERS' ALLOWANCES

Allowances totaling £1,336k (inclusive of employer's national insurance and superannuation) were paid to members of the Council in 2013/14 (£1,347k in 2012/13).

	2014 £000	2013 £000
Basic allowance	911	921
Special responsibility allowance	230	228
Employer's national insurance	80	85
Employer's superannuation	59	57
Members' expenses	56	56
	<u>1,336</u>	<u>1,347</u>

The allowances paid fall into the following bands :-

Allowance Band	2014 Number of Members	2013 Number of Members
£0 - £9,999	3	0
£10,000 - £14,999	36	41
£15,000 - £19,999	13	11
£20,000 - £24,999	9	7
£25,000 - £29,999	3	7
£30,000 - £34,999	3	1
£35,000 - £39,999	2	0
£40,000 - £44,999	1	2
£45,000 - £49,999	0	0
£50,000 - £54,999	0	0
£55,000 - £59,999	0	1
£60,000 - £64,999	1	0
	<u>71</u>	<u>70</u>

## 29. RELATED PARTIES

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

### Welsh and Central Government

Welsh Government exerts significant influence through legislation and grant funding – 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 such as council tax bills and housing benefits. Grants received from Welsh and other Government departments are set out in the subjective analysis in note 38.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2013/14 is shown in note 28.

The Council appoints members to some external charitable or voluntary bodies or they have disclosed a link to organisations, public bodies and authorities. The total transactions with bodies under this heading during 2013/14 is as follows:

- Payments £41k
- Receipts (£9k)

Members have declared an interest or relationship in companies or businesses which may have had dealings with the Council. The total payments made to companies under this heading during 2013/14 and amounts outstanding at 31<sup>st</sup> March are as follows:

- Payments £331k
- Amounts owed by the Council £11k

The personal interests of all members are recorded in the Public Register of Members' Interests, in accordance with the law and the Council's Code of Conduct. The Register is available for public inspection by contacting the Head of Legal and Democratic Services at Flintshire County Council, County Hall, Mold.

### Officers

Senior Officers have declared as required and where appropriate, an interest or relationship in companies, voluntary, charitable, or public bodies which receive payments from the Council. The total transactions with such bodies during 2013/14 are as follows:

- Payments £780k
- Receipts (£10k)

### Other Public Bodies

#### Clwyd Pension Fund

The Council is the administering authority for the Clwyd Pension Fund. Details of transactions with the Clwyd Pension Fund are provided within the Pension Fund accounts on page 107.

#### Teachers Pensions Agency

The pension costs charged are the contribution rate set by the Department for Education on the basis of a notional fund. Teacher's pension details are set out in note 45.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### North Wales Police and Crime Commissioner and North Wales Fire Authority

Police and Crime Commissioners and Fire and Rescue Authorities set their own charges to council tax payers which are then included in the council tax bill – these charges are known as the precept. Total precepts and levies paid to the North Wales Police and Crime Commissioner and the North Wales Fire and Rescue Authority amounted to £20,398k (£20,041k in 2012/13).

### Community / Town Councils

Total precepts paid to the 34 community/town councils amounted to £2,323k (£2,247k in 2012/13).

### Betsi Cadwaladr University Local Health Board

The Betsi Cadwaladr University Health Board combines the North Wales NHS Trust (previously North East Wales NHS Trust and Conwy & Denbighshire NHS Trust), the North West Wales NHS Trust, and the six Local Health Boards of Anglesey, Conwy, Denbighshire, Flintshire, Gwynedd and Wrexham. Transactions with Betsi Cadwaladr University Local Health Board for related healthcare activities during 2013/14 were as follows:

• Payments	£1,975k
• Receipts	(£3,640k)
• Amounts owed by the Council	£743k
• Amounts owed to the Council	(£704k)

### Welsh Joint Education Committee

• Payments	£476k
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### Welsh Local Government Association

• Payments	£130k
• Receipts	(£8k)
• Amounts owed to the Council	(£6k)

## 30. AUDIT FEES

Total audit and inspection fees due during the year amounted to £475k (£496k in 2012/13). External audit services were provided by Wales Audit Office.

	2014	2013
	£000	£000
Fees for the accounts	216	216
Fees for the Local Government Measure	138	140
Fees for grants	121	140
	<u>475</u>	<u>496</u>

Under the Public Audit Wales Act 2013 the Wales Audit Office is no longer able to hold reserves. As a consequence, the Wales Audit Office advised in August 2014 that the Council would receive a redistribution of accumulated reserves of £71,992 in respect of prior year audit fees. The redistribution of accumulated reserves has not been reflected in the figures above.

## 31. AGENCY SERVICES

Flintshire County Council is one of six partners within the North Wales Trunk Road Agency (NWTRA), the other partners being Anglesey, Conwy, Denbighshire, Gwynedd and Wrexham Councils. The Environment directorate within Flintshire County Council undertakes trunk road work on behalf of NWTRA for the Welsh Government. Reimbursement for work carried out under the Trunk Road Agency Agreement amounted to £2,348k (£2,280k in 2012/13).

The six North Wales councils act as agents of Welsh Government in providing recyclable loans under the Houses into Homes Scheme, for the repair of properties which have been long term vacant, with the aim of bringing them back into use. Flintshire County Council is the lead/banker authority for the North Wales region and responsible for administering the fund.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Total income of £2,333k was received from Welsh Government during 2013/14 (£2,332k in 2012/13) with payments against this sum amounting to £2,060k (£1,847k in 2012/13) of which Flintshire County Council received £340k (£529k in 2012/13).

### 32. NATIONAL HEALTH SERVICES (WALES) ACT 2006

The Council has an agreement with Wrexham County Borough Council and the Betsi Cadwaladr University Health Board, pursuant to Section 33 of the National Health Service (Wales) Act 2006, for the provision of an integrated community equipment service under a pooled fund arrangement. The service is provided through staff of Flintshire County Council (as host partner) from Unit 3, Hawarden Industrial Estate, Hawarden.

Partnership	2014 £000	2013 £000
Gross expenditure	1,048	1,043
Gross income	(1,148)	(1,054)
(Surplus) / deficit for year	(100)	(11)
<b>Contribution to Budget</b>		
Flintshire County Council	412	406

Unit 3, which is situated within Flintshire, is jointly owned by Flintshire County Council (50.25%) and Wrexham County Borough Council (49.75%), and has been valued at £907k; the premises are included in Flintshire County Council's balance sheet (as host partner):-

	Gross £000	Net £000	%
Flintshire County Council	456	443	50.25
Wrexham County Borough Council	451	439	49.75
	907	882	100.00

### 33. JOINT ARRANGEMENTS

Flintshire County Council is involved in various joint arrangements/partnerships with neighbouring North Wales Councils, being :-

- North East Wales Community Equipment Service (with Wrexham)
- North East Wales Food Waste Hub (with Conwy and Denbighshire)
- North Wales Adoption Service (with Anglesey, Conwy, Denbighshire, Gwynedd and Wrexham)
- North Wales Residual Waste Treatment Project (with Anglesey, Conwy, Denbighshire and Gwynedd)
- North Wales Procurement Partnership (with Anglesey, Conwy, Denbighshire, Gwynedd and Wrexham)
- Taith [North Wales Regional Transport Consortium] (with Anglesey, Conwy, Denbighshire, Gwynedd and Wrexham)
- GwE [North Wales Regional School Effectiveness and Improvement Service] (with Anglesey, Conwy, Denbighshire, Gwynedd and Wrexham)

Flintshire County Council is the host partner for the North East Wales Community Equipment Service (details of which are provided in note 32), the North Wales Residual Waste Treatment Project (NWRWTP), and Taith.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Separate (joint committee) financial statements are prepared for NWRWTP ([www.nwrwtp.org](http://www.nwrwtp.org)), Taith ([www.taith.gov.uk](http://www.taith.gov.uk)) and GWE ([www.gwynedd.gov.uk](http://www.gwynedd.gov.uk)). The 2013/14 joint committee statements record NWRWTP gross expenditure of £783k (£843k in 2012/13), Taith expenditure of £13,030k (£185k in 2012/13) and GWE expenditure of £4,088k (newly established in 2013/14); the expenditure totals are shared equally by all partners the NWRWTP and pro-rata to population in TAITH and GWE. Flintshire County Council's share of the income and expenditure for NWRWTP and Taith is recorded in the Net Cost of Services in the Comprehensive Income and Expenditure Statement in line with the accounting policy for Jointly Controlled Operations.

### 34. OTHER FUNDS ADMINISTERED BY THE AUTHORITY

The County Council administered 19 education trust funds during 2013/14. The administration of 3 funds was transferred to their associated school during the year. As the remaining 16 funds were moribund they were transferred to a newly established 'Flintshire Community Endowment Fund' which is managed by the trustees of the Community Foundation in Wales (CFIW). The funds totalling £204k were transferred between September and November 2013.

The Council also administers a trust fund on behalf of Optec D.D. (UK) Limited. The fund provides financial support to the youth exchange scheme between Flintshire County Council and Murata and Kuga Cho in Japan. The fund balance at 31<sup>st</sup> March 2014 was £96k (£115k in 2012/13) and is not included in the balance sheet.

Flintshire County Council acts as lead authority in the administration of the Welsh Church Acts Fund on behalf of Denbighshire, Flintshire and Wrexham. Income received from investments, net of central management expenses, is apportioned to each authority to be used to give grants which accord with the stated objectives. At 31<sup>st</sup> March 2014 the fund balance was £562k (£600k in 2012/13).

The Community Services Directorate - Social Services for Adults Section maintain individual bank accounts for service users living in the community who are unable to cope with their financial affairs due to their mental incapacity; individual members of the Deputyship team are approved to act as corporate appointee with the Department for Work and Pensions for each service user. The total amount held by the Council at 31<sup>st</sup> March 2014 was £3,439k in 415 separate accounts (£3,441k in 423 accounts in 2012/13).

### 35. CONTINGENT LIABILITIES

- During 2013/14 the Council agreed a settlement rate in relation to a number of equal pay claims registered in the Employment Tribunal and a methodology for dealing with potential claims with trade unions. Settlement costs will be made from the Equal Pay/Single Status reserve and financial modelling confirms that there is sufficient funding within the reserve. To conclude the issue, a process of signing agreements with employees will be completed; protecting the Council from any on-going equal pay liabilities.

There maybe a very small residual equal pay risk where claimants opt not to settle or where employees choose not to sign an agreement to waive their equal pay rights. In these cases the Council will consider its options for achieving potential settlement.

The Council is aware that the outcome of the Birmingham City Council case (2012) may increase the potential liability costs as claims may now be brought for up to 6 years, rather than 6 months (as was the case previously). There have been no historical claims lodged as a result of the Birmingham case in Flintshire and very few such claims lodged across Wales and on that basis, the risk is viewed as minimal.

- An Adjudication Panel Wales hearing in respect of an elected Member concluded on 19th July 2013 resulting in the Member's disqualification for 2 1/2 years, for breaching the Councillor's Code of Conduct. The Member appealed against the disqualification at the High Court, and the disqualification was reduced to 1 1/2 years. The legal process in the UK has now ended. The Member can apply for permission to appeal to the European Court of Human Rights.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Dependent upon permission to appeal being granted, and the outcome of the appeal, the Council may have to pay none, some or all of the Member's costs of defending the original case under an indemnity given to him in 2009. None of the money paid under the indemnity, would be in respect of the Member's appeal costs. Should the Member seek permission to appeal the Council understands that any decision is unlikely for some months.

- A group of property search companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have been issued (after the balance sheet date) and are being handled by solicitors jointly instructed by the LGA and WLGA on behalf of around 300 councils. The Council has been informed that the value of those claims at present is £191k plus interest and costs. The claimants have also claimed against all English and Welsh authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claims would be against the Council. Negotiations are underway at present with a view to resolving these claims. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.
- In accordance with the provisions of Part 2A of the Environmental Protection Act 1990 and the Council's Contaminated Land Inspection Strategy, 7 former waste disposal sites within the county, will be considered and the condition of each assessed in due course. The assessments may conclude that liability for carrying out some or all of any necessary remediation works will be the Council's responsibility.
- Further to the provision in relation to the 'MMI Scheme of Arrangement' in Note 20, the Council recognises that any future payments made by MMI after the imposition of the initial levy will be made at the reduced rate of 85% and has created an earmarked reserve to fund the 15% that the Council in any future claim settled will need to fund. The projection of future claims is uncertain because of the latent nature of many of the claims that MMI is still receiving. The levy is subject to review at least once every 12 months by the scheme administrator. Despite setting an initial levy of 15%, when modelling projected outcomes for the solvent run-off of MMI, the administrator indicated that the levy could range between 9.5% and 28%.

### 36. CONTINGENT ASSET

The Council continues to pursue refunds of VAT from HM Revenue and Customs, following the House of Lords decisions in the cases of Fleming (trading as Bodycraft) and Conde Nast Publications Ltd. In 1996, the time limit for claiming overpaid VAT was reduced to three years; the absence of transitional arrangements was held in 2008 to breach Community law and the three year cap was disapplied. The individual claims relate to various periods between April 1973 and December 1996. Subject to HM Revenue and Customs' Court of Appeal referral of the High Court judgment in the case of Littlewoods Retail Ltd, the Council will pursue appeals to the Tax Tribunal and/or in the High Court for compound interest where repayment to date has been made with the addition of simple interest only.

### 37. HERITAGE ASSETS: FURTHER INFORMATION ON THE COLLECTIONS

#### County Archives

Flintshire Record Office holds the historic and administrative archives for the County of Flintshire. These comprise some two miles of records dating from the 13th Century to the present day and are held for the express purpose of ensuring their preservation, and providing public access to information recording the county's heritage.

Records held include central and local government records but also privately owned records such as records of landed estates, businesses, local societies, family papers etc., together with significant collections of records of Flintshire churches and local schools.

Flintshire Record Office acquires archive material relating to Flintshire which is deemed to be of lasting historical interest. Material acquired is kept in secure, environmentally controlled strong rooms and made accessible to the public in a supervised search room.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Record Office has a qualified archive conservator who packages and repairs material as necessary. Archive material is rarely disposed of - should it be deemed desirable to do so it is dealt with in accordance with any applicable legal requirements and where possible in consultation with the original donor or depositor.

Public access is available in the search-room which is open Monday, Tuesday, Thursday and Friday, 10am to 4.30pm. Information regarding the records held (and some images) are included on the Record Office's pages on the Flintshire County Council website. There is also a presence on the Archives Wales and The National Archives websites. An on-line catalogue and Flickr gallery of images can be accessed via links from the Record Office's pages on the FCC website.

### County Museum

The Museum Service works to an Acquisition and Disposal Policy which complies with the National Museum Accreditation Scheme. In outline, the Service collects items only of relevance to the history of the County of Flintshire and only disposes of items for sound curatorial reasons and in line with strict guidelines. The Service's Collection Management Plan governs the way in which the collection is cared for, made accessible and generally managed. The collection is catalogued on a collections management system, which will be made publicly accessible online in the near future.

The museum collection is listed comprehensively on a database and primarily consists of social history and archaeological collections, the most significant of which is the collection of Buckley Pottery - a collection of about 1000 items connected to the Buckley Pottery industry, ranging from the medieval period to the second world war, primarily donated by Dr. Fraser in the 1970s, James Bentley in the 1990s and the Martin Harrison Collection purchased in 2010. Buckley Pottery has national significance, and as a whole this collection is the largest of its type.

There is a collection of agricultural items primarily acquired by Delyn Borough Council in the 1980s, the majority of which is now loaned to Greenfield Valley Trust. It is of significance to local agricultural history, mainly nineteenth and early twentieth century in date and includes large items such as ploughs, threshers and other farm equipment.

Some art is included within the collection - over 100 paintings by local amateur artist James Bentley, of relevance to Buckley history, and about a dozen other paintings by local artists. There are 2 large civic portrait oil paintings currently displayed at the Mold Library Headquarters.

Significant archaeological archives include those from excavations at Caergwrle Castle, Flint Castle, and Pentre Farm, Flint. The Gilbert Smith Archaeological Collection consists of about 650 items originally acquired by the amateur archaeologist Gilbert Smith in the 1930s. Highlights include a group of weapons from the medieval moated site of Llys Edwin, excavated in the 1930s.

Access to the Buckley and the Mold Museum is free of charge and both are open 6 days a week, all year round. Greenfield Valley Heritage Park is managed by a charitable Trust and there is an entry charge to the museum. Access to the reserve collections is encouraged and available by way of appointment.

### 38. SEGMENTAL REPORTING

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

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).

## NOTES TO THE CORE FINANCIAL STATEMENTS

- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

2013/14	Community Services £000	Environment £000	Lifelong Learning £000	Corporate Services £000	Central and Corporate Finance £000	Excluding HRA £000	HRA £000	Total £000
<b>Income</b>								
Fees, charges & other service income	(7,940)	(23,238)	(18,943)	(42,902)	(7,760)	(100,783)	(32,705)	(133,488)
Government grants	(10,612)	(7,755)	(19,212)	(538)	(30)	(38,147)	6,297	(31,850)
<b>Total</b>	<b>(18,552)</b>	<b>(30,993)</b>	<b>(38,155)</b>	<b>(43,440)</b>	<b>(7,790)</b>	<b>(138,930)</b>	<b>(26,408)</b>	<b>(165,338)</b>
<b>Expenditure</b>								
Employee expenses	28,869	23,464	99,459	13,191	258	165,241	6,175	171,416
Other service expenses	49,130	39,678	52,069	56,021	33,151	230,049	19,964	250,013
<b>Total</b>	<b>77,999</b>	<b>63,142</b>	<b>151,528</b>	<b>69,212</b>	<b>33,409</b>	<b>395,290</b>	<b>26,139</b>	<b>421,429</b>
<b>Final Outturn</b>	<b>59,447</b>	<b>32,149</b>	<b>113,373</b>	<b>25,772</b>	<b>25,619</b>	<b>256,360</b>	<b>(269)</b>	<b>256,091</b>

2012/13	Community Services £000	Environment £000	Lifelong Learning £000	Corporate Services £000	Central and Corporate Finance £000	Excluding HRA £000	HRA £000	Total £000
<b>Income</b>								
Fees, charges & other service income	(7,005)	(19,361)	(17,276)	(51,253)	(4,917)	(99,812)	(31,622)	(131,434)
Government grants	(7,773)	(7,133)	(22,321)	(358)	(162)	(37,747)	6,166	(31,581)
<b>Total</b>	<b>(14,778)</b>	<b>(26,494)</b>	<b>(39,597)</b>	<b>(51,611)</b>	<b>(5,079)</b>	<b>(137,559)</b>	<b>(25,456)</b>	<b>(163,015)</b>
<b>Expenditure</b>								
Employee expenses	27,968	24,095	106,676	13,053	1,946	173,738	5,974	179,712
Other service expenses	41,935	34,171	43,947	56,349	25,868	202,270	19,408	221,678
<b>Total</b>	<b>69,903</b>	<b>58,266</b>	<b>150,623</b>	<b>69,402</b>	<b>27,814</b>	<b>376,008</b>	<b>25,382</b>	<b>401,390</b>
<b>Final Outturn</b>	<b>55,125</b>	<b>31,772</b>	<b>111,026</b>	<b>17,791</b>	<b>22,735</b>	<b>238,449</b>	<b>(74)</b>	<b>238,375</b>

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

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

	2013/14 £000	2012/13 £000
Final outturn	256,091	238,375
Add amounts not reported to management* **	51,999	45,995
Remove amounts reported to management not included in comprehensive income and expenditure statement	(23,760)	(17,618)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement*</b>	<b>284,330</b>	<b>266,752</b>

\* Prior period adjustment IAS 19 - see Note 44

\* Prior period adjustment - see Note 46



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Reconciliation to Subjective Analysis

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

Reconciliation to Subjective Analysis 2013/14	Service Analysis £000	Not Reported to Management £000	Not Included in I&E £000	Net Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(133,488)	0	0	(133,488)	0	(133,488)
Interest and investment income	0	0	0	0	(9,103)	(9,103)
Income from council tax	0	0	0	0	(75,006)	(75,006)
Distribution from non-domestic rate pool	0	0	0	0	(46,872)	(46,872)
Government grants and contributions	(31,850)	0	0	(31,850)	(170,881)	(202,731)
Gain or loss on disposal of fixed assets	0	0	0	0	(200)	(200)
<b>Total Income</b>	<b>(165,338)</b>	<b>0</b>	<b>0</b>	<b>(165,338)</b>	<b>(302,062)</b>	<b>(467,400)</b>
Employee expenses	171,416	0	0	171,416	0	171,416
Other service expenses	250,013	3,043	5,633	258,689	402	259,091
Support Service recharges	0	29,393	(29,393)	0	0	0
Depreciation, amortisation and impairment	0	19,563	0	19,563	0	19,563
Interest payments	0	0	0	0	24,978	24,978
Precepts & levies	0	0	0	0	22,721	22,721
<b>Total operating expenses</b>	<b>421,429</b>	<b>51,999</b>	<b>(23,760)</b>	<b>449,668</b>	<b>48,101</b>	<b>497,769</b>
<b>Surplus or deficit on the provision of services</b>	<b>256,091</b>	<b>51,999</b>	<b>(23,760)</b>	<b>284,330</b>	<b>(253,961)</b>	<b>30,369</b>

Reconciliation to Subjective Analysis 2012/13	Service Analysis £000	Not Reported to Management £000	Not Included in I&E £000	Net Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(131,434)	0	0	(131,434)	0	(131,434)
Interest and investment income*	0	0	0	0	(23,971)	(23,971)
Income from council tax	0	0	0	0	(72,197)	(72,197)
Distribution from non-domestic rate pool	0	0	0	0	(40,562)	(40,562)
Government grants and contributions**	(31,581)	0	0	(31,581)	(162,951)	(194,532)
Gain or loss on disposal of fixed assets	0	0	0	0	(5,192)	(5,192)
<b>Total Income*</b>	<b>(163,015)</b>	<b>0</b>	<b>0</b>	<b>(163,015)</b>	<b>(304,873)</b>	<b>(467,888)</b>
Employee expenses	179,712	0	0	179,712	0	179,712
Other service expenses* **	221,678	(17,865)	1,289	205,102	0	205,102
Support Service recharges	0	18,907	(18,907)	0	0	0
Depreciation, amortisation and impairment	0	44,953	0	44,953	0	44,953
Interest payments*	0	0	0	0	47,505	47,505
Precepts & levies	0	0	0	0	22,288	22,288
<b>Total operating expenses*</b>	<b>401,390</b>	<b>45,995</b>	<b>(17,618)</b>	<b>429,767</b>	<b>69,793</b>	<b>499,560</b>
<b>Surplus or deficit on the provision of services*</b>	<b>238,375</b>	<b>45,995</b>	<b>(17,618)</b>	<b>266,752</b>	<b>(235,080)</b>	<b>31,672</b>

\* Prior period adjustment IAS 19 - see Note 44.

\*\* Prior period adjustment - see Note 46.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 39. PROVISION FOR REPAYMENT OF EXTERNAL LOANS

Section 22 of the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 requires the Authority to set aside a minimum revenue provision (MRP) in respect of the financing of capital expenditure incurred in that year or in any financial year prior to that year. The amounts set aside in 2013/14 were as follows :-

	2014 £000	2013 £000
Total minimum revenue provision	7,686	7,578
Recharge to housing revenue account	(542)	(558)
	7,144	7,020

### 40. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the following table (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the capital financing requirement, a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

	2014 £000	2013 £000
<b>Capital Investment</b>		
Property, plant and equipment	34,183	31,907
Investment properties	0	24
Intangible assets	84	159
REFCUS** (see page 29)	3,792	7,740
	38,059	39,830
<b>Sources of Finance</b>		
Capital receipts	(3,711)	(6,051)
Capital grants and contributions**	(17,471)	(17,147)
Capital reserves / CERA	(6,459)	(5,087)
	(27,641)	(28,285)
<b>Increase/(decrease) in capital financing requirement</b>	<b>10,418</b>	<b>11,545</b>
Increase in supported borrowing	4,263	5,141
Increase in other (unsupported) borrowing	6,155	3,778
Assets acquired under finance leases	0	2,626
	10,418	11,545

\*\* Prior period adjustment - see Note 46

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 41. FUTURE CAPITAL COMMITMENTS

Significant commitments under capital contracts (in excess of £250k) at 31<sup>st</sup> March 2014 were as follows:

	Contracts Sum	Payments to date	Amount Outstanding
	£000	£000	£000
Deeside Corridor Traffic Signal Synchronisation	419	180	239
Household Waste Recycling Centre - Sandycroft	264	0	264
Provision of Flying Start Family Centre	677	269	408
New primary school - Brookfield CP, Shotton	5,180	2,992	2,188
New primary school - Ysgol Caer Nant, Connahs Quay	6,321	6,275	46
Street lighting replacement	623	0	623
Window replacement - Elfed High School	357	332	25
	13,841	10,048	3,793

### 42. LEASING

#### Lessee Rentals

#### Finance Leases

The Council has acquired a number of items of vehicles, plant and equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

Asset Classification	2014 £000	2013 £000
Vehicles, plant and equipment	7,192	7,941

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property, plant and equipment acquired by the Council, and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts of which £492k is due to be paid during the next 12 months (£556k equivalent for the previous financial year).

	2014 £000	Repaid £000	New £000	2013 £000
Finance lease liabilities (net present value of the minimum lease payments):				
Current	492	64	0	556
Non-current	7,060	492	0	7,552
	7,552	556	0	8,108
Finance costs payable in future years	4,771	725	0	5,496
Minimum lease payments	12,323	1,281	0	13,604

Minimum lease payments - the lowest amount that a lessee can expect to pay on a lease over its lifetime

Finance lease liabilities - the capital element of the minimum lease payments

Finance costs - the interest element of the minimum lease payments

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	Minimum Lease Payments		Finance Lease Liabilities	
	2014	2013	2014	2013
	£000	£000	£000	£000
Not later than one year	1,169	1,281	492	556
Later than one year and not later than five years	5,340	5,577	2,731	2,706
Later than five years	5,814	6,746	4,329	4,846
	<u>12,323</u>	<u>13,604</u>	<u>7,552</u>	<u>8,108</u>

### Operating Leases

In 2013/14, operating lease rentals paid amounted to £1,692k (£1,908k in 2012/13).

Asset Classification	2014	2013
	£000	£000
Land	40	55
Buildings	179	152
Vehicles, plant and equipment	1,473	1,701
	<u>1,692</u>	<u>1,908</u>

The minimum lease payments due under operating leases in future years are:

	Land	Buildings	Vehicles, Plant & Equipment	Total
	£000	£000	£000	£000
Not later than one year	39	165	1,162	1,366
Later than one year and not later than five years	145	583	1,879	2,607
Later then five years *	946	777	0	1,723
	<u>1,130</u>	<u>1,525</u>	<u>3,041</u>	<u>5,696</u>

\* Any open ended agreements are calculated to 2022/23 in line with the general average life of the longest leases

### Lessor Rentals

#### Operating Leases

The Council leases out property under operating leases largely for economic development purposes. In 2013/14, lease rentals receivable amounted to £2,785k (£2,387k in 2012/13).

The minimum lease payments receivable under operating leases in future years are:

	Land	Buildings	Total
	£000	£000	£000
Not later than one year	230	2,466	2,696
Later than one year and not later than five years	852	6,174	7,026
Later then five years *	10,307	9,274	19,581
	<u>11,389</u>	<u>17,914</u>	<u>29,303</u>

\* Any open ended agreements are calculated to 2025/26 in line with the general average life of the longest leases

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Finance Leases

The Council does not lease out any properties on finance leases.

### 43. FINANCIAL INSTRUMENTS

Financial instruments included in the balance sheet are made up of the following financial liabilities and assets:

	Long-Term		Current	
	2014	2013	2014	2013
	£000	£000	£000	£000
Financial liabilities at amortised cost	172,700	172,356	1,454	4,296
Payables	0	0	35,239	42,036
<b>Total financial liabilities</b>	<u>172,700</u>	<u>172,356</u>	<u>36,693</u>	<u>46,332</u>
Loans	1,571	1,291	6,781	19,802
Receivables	2,007	0	30,036	31,469
Available-for-sale financial assets	14	15	0	0
<b>Total financial assets</b>	<u>3,592</u>	<u>1,306</u>	<u>36,817</u>	<u>51,271</u>

The balance sheet value of trade payables and other payables amounted to £35,239k (£42,036k in 2012/13) as disclosed above, and trade receivables amounted to £30,036k (£31,469k in 2012/13).

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

	2014				2013			
	Financial Liabilities	Financial Assets		Total	Financial Liabilities	Financial Assets		Total
	Liabilities Measured at Amortised Cost	Loans and Receivables	Available-for-Sale Assets		Liabilities Measured at Amortised Cost	Loans and Receivables	Available-for-Sale Assets	
£000	£000	£000	£000		£000	£000	£000	
Interest expense	(10,063)	0	0	(10,063)	(10,073)	0	0	(10,073)
Impairment losses	0	64	0	64	0	35	0	35
<b>Interest payable and similar charges</b>	<u>(10,063)</u>	64	0	(9,999)	<u>(10,073)</u>	35	0	(10,038)
Interest income	0	506	0	506	0	749	0	749
<b>Interest and investment income</b>	<u>0</u>	506	0	506	<u>0</u>	749	0	749
Gain on revaluation			0				0	
<b>Deficit arising on revaluation of financial assets</b>			<u>0</u>				<u>0</u>	
Net gain/(loss) for the year	<u>(10,063)</u>	570	0		<u>(10,073)</u>	784	0	

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments (in line with the 2012/13 method). The 2013/14 borrowing figure for Public Works Loans Board (PWLB) loans has been calculated by reference to the 'premature repayment' set of rates in force on 31<sup>st</sup> March 2014 (in line with the 2012/13 method).

The 2013/14 Lender Option Borrower Option loans (LOBOs) figure has been calculated by discounting the cashflows over the whole life of the loans at the appropriate interest rate.

The fair value of shares and war stock are calculated using the value of undated gilts as published for 31<sup>st</sup> March 2014.

The fair value of trade and other receivables is taken to be the invoiced or billed amount, and no early repayment or impairment is recognised. The fair values are calculated as follows:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
<b>Financial Liabilities</b>				
PWLB	154,036	212,051	157,179	226,577
LOBOs	19,177	23,224	19,176	26,298
	173,213	235,275	176,355	252,875

The PWLB fair value is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. This commitment to pay interest above current market rates increases the amount that the Authority would have to pay if the lender requested or agreed to early repayment of the loans. The same is the case for LOBOs, with the interest rates higher than the PWLB rates available at the balance sheet date, resulting in a higher fair value.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
<b>Loans and Receivables</b>				
War stock	14	14	15	15
Long Term Investments	2,007	2,007	0	0
	2,021	2,021	15	15

### Disclosure of Nature and Extent of Risks Arising from Financial Instruments

The Council manages its Treasury Management risk by adoption of the CIPFA Treasury Management in the Public Services - Code of Practice 2011, the Prudential Code for Capital Finance in Local Authorities, and an Annual Investment Strategy as issued by the National Assembly for Wales under section 15 (1) (a) of the Local Government Act 2003. The Authority must prepare (as a minimum) a Policy and Strategy Statement (a mid-year report) and an annual outturn report for submission to Cabinet, in accordance with Financial Procedure Rules. The Welsh Government also requires investment limits on specified (investments offering high security and liquidity), non-specified investments (investments with greater potential risk) and investments committed for more than one year. In addition, key prudential indicators must be set and Treasury Management Practices documented. These practices include financial risks such as Credit Risk, Liquidity Risk and Market Risk.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by Flintshire County Council in the Policy and Strategy Statement. Flintshire provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

### **Risk - Liabilities**

The Council has raised long term finance by either borrowing from the PWLB or the market via LOBOs.

- PWLB – The majority of this debt is fixed rate, hence there is interest rate risk. If rates fall in the future, the Council will be paying higher than the current market rate, however, it is considered more beneficial to have budget certainty on future payments of interest in a low interest rate environment; currently 6% of PWLB debt is variable rate, reducing the interest rate risk but increasing budget uncertainty. There is an option in the Treasury Management Strategy to have 35% variable debt if deemed appropriate. Liquidity risk is managed through the debt maturity profile and a prudential indicator which does not allow any more than 10% of debt to reach maturity in any one year.
- LOBOs - All LOBOs have a fixed rate of interest for a period of between 12 and 23 months followed by a further fixed rate for the period of the loan, however the loan can be recalled by the lender after a certain fixed period of time. LOBOs are used because they have an interest rate lower than PWLB and this is balanced against the risks of rates rising and the loan having to be repaid which results in re-financing risk at a time of higher interest rates. The amount of LOBOs is restricted to 35% of long term borrowing.

Analysis shows that if interest rates rose by 1% the financial effect would be an increase in variable rate debt costs of £90k.

### **Risk - Loans and Receivables**

#### **Long Term Investments -**

- Investments of more than 1 year (or in Money Market Funds), are referred to as non-specified investments because of the additional interest rate risk. There is a limit of £20m for long term investments and additional procedures for authorisation by the Corporate Finance Manager.
- Deposits with banks and building societies do carry some credit risk and this is managed by using three rating agencies. The Council uses the following criteria, and investments are made subject to the monetary and time limits shown.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Fitch	Moody's	S & P	Cash Limit	Time Limit
Banks, Building Societies and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	Aaa	AAA	£7m each	5 years
	AA+	Aa1	AA+		5 years
	AA	Aa2	AA		4 years
	AA-	Aa3	AA-		3 years
	A+	A1	A+		2 years
	A	A2	A		1 year
	A-	A3	A-	£5m	6 months
The council's current account bank (NatWest Bank plc) if rated below A-				£5m	next day
UK Building Societies with assets greater than £1bn, which are either unrated by the credit rating agencies or have a minimum rating of BBB or equivalent and above.				£5m each	1 year
Money Market Funds and similar pooled vehicles whose lowest published credit rating is AAA				£7m each	1 year
UK Central Government (irrespective of credit rating)				unlimited	5 years
UK Local Authorities				£7m each	5 years

Analysis shows that if interest rates rose by 1% the financial effect would be an increase in investment income of £404k. If rates fell by 1%, there would be a loss of income for the same amount.

### Bonds -

Investments in bonds have limited credit risk because they are government backed but the market will fluctuate based on current interest rates thus changing the fair value.

### Other Receivables -

Customers are required to make arrangements to pay outstanding monies due to the Council, based on their ability to pay. Customers are requested to complete a financial assessment form and are required to confirm in writing the amount agreed and the start date of the arrangement, and to make the Council fully aware of any circumstances surrounding their ability to pay which they wish to be taken into account in making the assessment.

## 44. PRIOR PERIOD ADJUSTMENT – PENSIONS

In June 2011 amendments were made to IAS 19 for post-employment benefits resulting in changes to the classification, recognition, measurement and disclosure requirements. In line with the Code of Practice on Local Authority Accounting, the Council has applied the revised accounting standard from 1<sup>st</sup> April 2013 which has meant that the 2012/13 figures have been restated for comparative purposes.

The adjustment has no impact on the Balance Sheet with the pension reserve remaining at the level stated in the 2012/13 accounts. The adjustments made to the Comprehensive Income and Expenditure Statement (CI&ES) and Movement in Reserves Statement are listed on the following page. Amounts previously recognised in the Other comprehensive income and expenditure line are now required to be recognised in various lines in the Comprehensive Income and Expenditure Statement. The adjustment is not considered material as the real costs of retirement benefits recognised in the Comprehensive Income and Expenditure Statement are reversed out in the Movement in Reserves Statement and replaced with cash payable in year, the statutory charge required to be made against Council Tax.



## NOTES TO THE CORE FINANCIAL STATEMENTS

	Original 2013		Restated 2013		Variance 2013	
	£000	£000	£000	£000	£000	£000
<b>CIES</b>						
<b>Service Expenditure Analysis -</b>						
Current service cost	14,035		14,379		344	
Past service cost/(gain)	78		78		0	
Curtailments/settlements	221		221		0	
<b>Other Operating Expenditure -</b>		14,334		14,678		344
Administration expenses	0		393		393	
<b>Financing and Investment Inc. and Expd.</b>		0		393		393
Expected return on scheme assets	(20,852)		n/a		20,852	
Net interest expense	29,771		11,217		(18,554)	
		8,919		11,217		2,298
<b>Net charge on provision of services -</b>		23,253		26,288		3,035
<b>Other CI&amp;E</b>						
<b>Net charge to other CI&amp;E -</b>		62,633		59,598		(3,035)
<b>Net charge to CI&amp;E -</b>		85,886		85,886		0
<b>Movement in Reserves Statement</b>						
Reversal of net charges on provision of services for retirement benefits		(23,253)		(26,288)		(3,035)
<b>Actual amount charged to Council fund balance for pensions in the year</b>						
Employers' contributions payable to scheme		21,202		21,202		0
<b>Net debit/(credit) to the movement in reserves statement</b>		(2,051)		(5,086)		(3,035)

The adjustment is followed through in related 2012/13 comparative figures within the Statement of Accounts.

### 45. PENSIONS

#### Pensions - Teachers

Teachers employed by the Council are members of the Teachers' Pension Scheme a multi-employer defined benefit scheme, providing teachers with specified benefits upon their retirement. For accounting purposes it is treated as a defined contribution scheme as the Council is unable to identify its share of assets and liabilities with sufficient reliability. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate.

The Council contributes to the scheme by making contributions based on a percentage of teachers' pensionable salaries. In 2013/14 the Council paid £7,391k (£7,294k in 2012/13), which represents 14.1% (average) of teachers' pensionable pay (14.1% in 2012/13). The contributions due in 2014/15 are estimated to be £7,434k, 14.1% of teachers' pensionable pay.

The Council is not liable to the scheme for any other entities obligations under the plan.

In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases, outside of the terms of the teachers' scheme. In 2013/14 these amounted to £526k (£513k in 2012/13) and are accounted for on a defined contribution basis as detailed in the following section.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Pensions - Other Employees

Officers employed by the Council are members of the Local Government Pension Scheme, the Clwyd Pension Fund, administered locally by Flintshire County 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 pension's liabilities with investment assets.

The Clwyd Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Clwyd Pension Fund Panel. Policy is determined in accordance with the Pension Fund Regulations.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme.

Further information regarding the Clwyd Pension Fund accounts is provided on pages 83 to 110, and in the Clwyd Pension Fund Annual Report which is available from [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

### Transactions Relating to Retirement Benefits

The cost of retirement benefits is recognised in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against Council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the movement in reserves statement. The transactions that have been made in the comprehensive income and expenditure statement and the movement in reserves statement during the year are :-

	2014		2013	
	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
<b>Service Expenditure Analysis -</b>				
Current service cost	18,300		14,379	
Past service cost/(gain)	38		78	
Curtailments/settlements	347		221	
		18,685		14,678
<b>Other Operating Expenditure -</b>				
Administration expenses	402		393	
		402		393
<b>Financing and Investment Income and Expenditure</b>				
Net interest expense	12,250		11,217	
		12,250		11,217
<b>Net charge to surplus / deficit on the provision of services -</b>		31,337		26,288
<b>Other Comprehensive Income and Expenditure</b>				
<b>Remeasurement of the net defined benefit liability -</b>				
Return on plan assets	9,436		(17,005)	
Actuarial (gains) and losses - experience (gain) or loss	(23,696)		0	
Actuarial (gains) and losses - demographic assumptions	16,095		6,976	
Actuarial (gains) and losses - financial assumptions	(58,369)		69,627	
		(56,534)		59,598
<b>Net charge to other comprehensive income and expenditure -</b>		(56,534)		59,598
<b>Net charge to Comprehensive Income and Expenditure -</b>		(25,197)		85,886
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to surplus / deficit on the provision of services for retirement benefits in accordance with IAS 19		(31,337)		(26,288)
<b>Actual amount charged against the Council fund balance for pensions in the year</b>				
Employers' contributions payable to scheme		21,904		21,202
<b>Net debit/(credit) to the movement in reserves statement</b>		(9,433)		(5,086)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Pensions Assets and Liabilities in Relation to Retirement Benefits Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:-

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Present value of liabilities	(674,809)	(713,423)
Fair value of assets	416,392	407,905
Surplus/deficit in the scheme	(258,417)	(305,518)

The liabilities total reflects the underlying long-term commitments that the Authority has in respect of retirement benefits due. The net liability of £258,417k is included as part of the unusable reserves total on the Balance Sheet.

Reconciliation of present value of the scheme liabilities:-

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
1st April	713,423	611,007
Current service cost	18,300	14,379
Interest cost	29,407	29,427
Contributions by scheme participants	5,020	4,913
Actuarial gains and losses - Experience gains or losses	(23,696)	0
Actuarial gains and losses - Demographic assumptions	16,095	6,976
Actuarial gains and losses - Financial assumptions	(58,369)	69,627
Benefits paid	(25,756)	(23,205)
Past service costs	38	78
Past service gains	0	0
Curtailments/settlements	347	221
31st March	674,809	713,423

Reconciliation of fair value of the Local Government Pension Scheme (LGPS) assets:-

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
1st April	407,905	370,173
Interest income	17,157	18,210
Administration Expenses	(402)	(393)
Return on plan assets	(9,436)	17,005
Employer contributions	20,269	19,572
Contributions by scheme participants	5,020	4,913
Benefits paid	(24,121)	(21,575)
31st March	416,392	407,905

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Local Government Pension Scheme's assets consist of the following categories:-

	2014		2013	
	£000	£000	£000	£000
Equity investments:				
UK Quoted*	41,635		40,792	
Global Quoted*	24,984		20,395	
Global Unquoted	16,656		16,316	
US*	12,492		12,237	
Japan*	12,492		12,237	
Europe*	12,492		8,158	
Emerging Markets*	24,984		28,553	
Frontier*	4,164		4,079	
Far East*	<u>24,984</u>		<u>28,553</u>	
		174,883		171,320
Bonds:				
Overseas Other	<u>58,295</u>		<u>61,186</u>	
		58,295		61,186
Property:				
UK*	12,492		12,237	
Overseas	<u>20,820</u>		<u>20,395</u>	
		33,312		32,632
Cash:				
Cash Accounts*	<u>12,492</u>		<u>8,158</u>	
		12,492		8,158
Alternatives:				
Hedge Funds	16,656		16,316	
Private Equity	49,967		48,949	
Infrastructure	8,328		8,158	
Timber & Agriculture	8,328		8,158	
Commodities	12,492		12,237	
GTA	<u>41,639</u>		<u>40,791</u>	
		137,410		134,609
		<u>416,392</u>		<u>407,905</u>

\* Denotes classes of assets that have a quoted market price in an active market.

The scheme maintains positions in a variety of financial instruments which exposes it to a variety of financial risks including credit risk, counterparty risk, liquidity risk, market risk and exchange rate risk. Risk management procedures are annually reviewed and focus on the unpredictability of financial markets and implementing restrictions to minimize these risks. The current policy is to lower risk by diversifying investments across asset classes, investment regions and fund managers.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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 dependant on assumptions about mortality rates, salary levels, etc. The liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries; estimates for the County Council are based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2013. The significant assumptions used by the actuary are:-

	2014	2013
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners -		
Men	23.3 yrs	22.2 yrs
Women	25.8 yrs	24.8 yrs
Longevity at 65 for future pensioners -		
Men	26.2 yrs	24.1yrs
Women	29.2 yrs	26.8 yrs
Rate of inflation (Consumer Prices Index)	2.4%	2.4%
Rate of increase in salaries	3.9%	3.9%
Rate of increase in pensions	2.4%	2.4%
Rate for discounting scheme liabilities	4.5%	4.2%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below are calculated by altering relevant assumptions by the amount specified, whilst assuming that all other variables remain the same. This approach is not necessarily realistic, since some assumptions are related; for example, if the scenario is to show the effect of higher than expected inflation, it might be reasonable to expect that nominal yields on corporate bonds will be higher too. However, the analysis isolates one effect from another.

	Impact of Increase on Defined Benefit Obligation	Impact of Decrease on Defined Benefit Obligation
	£000	£000
Longevity (increase / decrease in 1 year)	(12,990)	12,990
Rate of inflation (increase / decrease by 0.1%)	(12,475)	12,475
Rate of increase in salaries (increase / decrease by 0.1%)	(3,045)	3,045
Discount Rate (increase / decrease by 0.1%)	12,246	(12,246)

Increases in pensions are linked to increases to inflation (CPI) therefore the impact is the same for rate of inflation and rate of increases in pensions.

### Impact on Cash Flows

Regulations governing the scheme require actuarial valuation to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the scheme's solvency, and the detailed provisions are set out in the Clwyd Pension Fund Funding Strategy Statement. The most recent valuation was carried out as at 31<sup>st</sup> March 2013, which showed a shortfall of assets against liabilities of £0.55 billion as at that date; equivalent to a funding level of 68%. The scheme's employers are paying additional contributions over a period of up to 20 years in order to meet the shortfall.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The total contributions expected to be made to the LGPS by the Council in the year to 31<sup>st</sup> March 2015 is £19.127m.

The duration of the defined benefit obligation for LGPS members is 19 years, 2013/14 (15 years 2102/13).

### 46. PRIOR PERIOD ADJUSTMENT – AGENCY SERVICES

During 2013/14 the process of compiling the Council's Comprehensive Income and Expenditure Statement from the financial transactions recorded in the general ledger was reviewed and amended to make the process more efficient. The review highlighted that the Council had been incorrectly recognising income and expenditure from agency services in the statement; Houses into Homes scheme and North Wales Trunk Road Agency (see Note 31 for further information). Although the amounts are not material, as usable reserves (in the Houses into Homes scheme adjustment) are affected, the comparative 2012/13 figures have been adjusted.

The impact of the Houses into Homes scheme adjustment is an additional £379k charge to the Comprehensive Income and Expenditure Statement :-

	Original 2012/13 Accounts £000	Restated 2012/13 Accounts £000	Variance £000
Cost of Services (Housing - Council Fund line)	266,901	266,751	(150)
Taxation and Non-Specific Grant Income	<u>(276,239)</u>	<u>(275,710)</u>	<u>529</u>
Combined impact on (Surplus)/deficit on the provision of services	<u>31,292</u>	<u>31,671</u>	<u>379</u>

With a corresponding increase in long term creditors and decrease in capital grants unapplied of £379k on the Balance Sheet.

The impact of the North Wales Trunk Road Agency adjustment on the primary statements is nil as the 2012/13 expenditure of £2,280k is funded by grant income.

Both adjustments are followed through related 2012/13 comparative figures within the Statement of Accounts.

## HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

for the year ended 31<sup>st</sup> March 2014

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Statement.

	2014		2013	
	£000	£000	£000	£000
<b>Expenditure</b>				
Repairs and maintenance*		9,014		8,489
Management and supervision		3,873		3,077
Rents, rates, taxes and other charges		990		1,116
Housing revenue account subsidy payable		6,328		6,168
Depreciation and impairment of non-current assets		18,058		15,974
Debt management costs		11		13
Increase in bad debt provision		216		166
Total expenditure*		38,490		35,003
<b>Income</b>				
Dwelling rents (gross)	27,118		25,387	
Non-dwelling rents (gross)	272		296	
		27,390		25,683
Charges for services and facilities		831		757
Total income		28,221		26,440
<b>Net cost of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement*</b>		<b>10,269</b>		<b>8,563</b>
HRA share of Corporate and Democratic Core		48		0
HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		(92)		124
<b>Net cost of HRA services*</b>		10,225		8,687
Interest payable and similar charges		1,384		1,491
HRA investment income		(9)		(10)
Pensions interest cost*		586		556
Net loss on the disposal of non-current assets		144		0
<b>Total (surplus) / deficit for the year on HRA services*</b>		<b>12,330</b>		<b>10,724</b>

\* Prior period adjustment IAS 19 - see Note 44.

## MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

for the year ended 31<sup>st</sup> March 2014

This statement shows how the surplus/deficit on the Housing Revenue Account Income and Expenditure Statement for the year reconciles to the surplus/deficit for the year on the Statutory Housing Revenue Account.

	Note (from core notes)	2014 £000	2013 £000
At 1st April		1,931	1,890
Surplus/(deficit) on the HRA income and expenditure statement*		(12,330)	(10,724)
<b>Total comprehensive income and expenditure</b>		<b>(12,330)</b>	<b>(10,724)</b>
Adjustments between accounting and funding basis under regulations*	5	12,053	10,765
<b>Net increase/(decrease) before transfer to earmarked reserves</b>		<b>(277)</b>	<b>41</b>
Transfers (to)/from earmarked reserves		8	0
<b>Increase/(decrease) in year on the HRA</b>		<b>(269)</b>	<b>41</b>
At 31st March		<b>1,662</b>	<b>1,931</b>

\* Prior period adjustment - see Note 44.



## NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

### 1. LEGISLATION

The housing revenue account, in accordance with the Local Government and Housing Act 1989, reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure - maintenance, rent rebates, administration - and capital financing costs, and how these are met by rents, subsidy and other income.

### 2. HOUSING STOCK

The type and number of dwellings at 31<sup>st</sup> March 2014 were :-

Type	2014 No.	2013 No.
Houses	4,064	4,073
Flats	1,375	1,375
Maisonettes	145	191
Bungalows	1,796	1,796
	<u>7,380</u>	<u>7,435</u>

### 3. RENT ARREARS

The rents total of £1,165k (£1,254k in 2012/13) includes, in addition to the basic rent element, amounts due in respect of water/sewerage rates, heating charges, household insurance, communal television licences and value added tax on some garage rentals. These individual rent elements cannot be separately identified from the whole.

Analysis of arrears	2014 £000	2013 £000
<b>Rents</b>		
Current tenants	744	768
Former tenants	421	486
	<u>1,165</u>	<u>1,254</u>
<b>Provision for impairment losses (bad debts)</b>		
	£000	£000
Opening provision	750	645
Written off in year	(260)	(61)
Increase in provision	216	166
	<u>706</u>	<u>750</u>

**NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT**

**4. NON-CURRENT ASSET ACCOUNTING**

**Capital Financing**

Housing revenue account capital expenditure of £12,874k (£10,742k in 2012/13) was financed as follows :-

	<b>Capital Receipts</b>	<b>Capital Grants &amp; Contributions</b>	<b>Revenue Contributions</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Capital financing	1,281	5,651	5,942	12,874
	<u>1,281</u>	<u>5,651</u>	<u>5,942</u>	<u>12,874</u>

**Major Repairs Allowance (MRA)**

Included within the capital grants and contributions total (£5,651k) is the 2013/14 MRA allocation figure of £5,200k (also £5,200k in 2012/13). The MRA allocation figure is included within the government grants – general line in the Comprehensive Income and Expenditure Statement. This Welsh Government grant was fully used in 2013/14 in financing qualifying capital expenditure.

**Capital Receipts**

Gross capital receipts of £563k (£806k in 2012/13) were realised by way of the disposal of dwellings, land sales, shared ownership sales and mortgage repayments :-

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Council dwellings	501	608
Mortgages	2	7
Land sales	60	191
	<u>563</u>	<u>806</u>

**Depreciation**

Straight line depreciation is provided for on all housing revenue account non-current assets with a finite useful life, other than for non-depreciable land. The charge of £5,208k (£5,214k in 2012/13) is based on the 2013/14 opening net balance sheet valuations (valuation list less cumulative depreciation), with assumed nil residual values.

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Dwellings	5,196	5,196 (equating to the value of MRA)
Garages	12	12
Plant and equipment	0	6
	<u>5,208</u>	<u>5,214</u>

**Impairment Losses and Revenue Expenditure Funded from Capital Under Statute**

A HRA dwellings impairment adjustment total of £14,553k was accounted for in 2013/14 (£10,742k in 2012/13) and no revenue expenditure funded from capital under statute (£0k in 2012/13).

## NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

### 5. HRA SHARE OF CONTRIBUTIONS TO / FROM PENSIONS RESERVE

The cost of retirement benefits is recognised in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to the HRA is based on the employers' contributions made in year, so the real cost of retirement benefits is reversed out in the movement in reserves statement.

The HRA transactions in the comprehensive income and expenditure statement and the movement in reserves statement during the year are:-

	2014		2013	
	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
<b>Service Expenditure Analysis -</b>				
Current service cost	857		681	
Curtailments/settlements	9		0	
	866		681	
<b>Other Operating Expenditure -</b>				
Administration expenses	21		21	
	21		21	
<b>Financing and Investment Income and Expenditure</b>				
Net interest expense	586		535	
	586		535	
<b>Total HRA Charge</b>		1,473		1,237
 <b>Movement in Reserves Statement</b>				
Reversal of net charges made to surplus / deficit on the provision of services for retirement benefits in accordance with IAS 19		(1,473)		(1,237)
 <b>Actual amount charged against the HRA balance for pensions in the year:</b>				
Employers' contributions payable to scheme		949		925

## CLWYD PENSION FUND ACCOUNTS

for the year ended 31<sup>st</sup> March 2014

### THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

The Clwyd Pension Fund is administered by Flintshire County Council on a lead authority basis. The administration and investment strategy of the Fund is considered and agreed each quarter by the Clwyd Pension Fund Panel, consisting of five elected Members, the Head of Finance, the Clwyd Pension Fund Manager, a consultant to the Fund, and a scheme member observer. The Fund's investment management arrangements were implemented by twelve investment managers during 2013/14.

The Clwyd Pension Fund is a statutory Local Government Pension Scheme (LGPS), set up to provide death and retirement benefits for local government employees, other than teachers, police and firefighters in North East Wales. In addition, other qualifying bodies which provide similar services to that of local authorities have been admitted to membership of the LGPS and hence the Fund.

The Clwyd Pension Fund operates a defined benefit scheme whereby retirement benefits are funded by contributions and investment earnings. Contributions are made by active members 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<sup>st</sup> March 2014. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. The benefits of the scheme are prescribed nationally by Regulations made under the Superannuation Act 1972. The last valuation was at 31<sup>st</sup> March 2013, the findings of which become effective on 1<sup>st</sup> April 2014. The valuation showed that the funding level decreased from the previous valuation on 31<sup>st</sup> March 2010 from 72% to 68%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over an 18 year period. This implies an average employer contribution rate of 13.8% and a total payment of £32.6m per annum for deficit contributions, increasing at 4.1% per annum.

Up to the 1<sup>st</sup> April 2014 the fund was governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- The LGPS (Benefits , Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration ) Regulations 2008 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

Membership of the LGPS is voluntary and organisations participating in the Clwyd Pension Fund include:

- Scheduled bodies, that are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies that are organisations which participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar contractors undertaking a local authority function following outsourcing to the private sector.

The membership of the Fund as at 31<sup>st</sup> March 2014 and 2013 is shown below:-

	2014	2013
	No.	No.
Contributors	16,133	14,920
Pensioners :		
Ex employees	8,805	8,386
Widows/dependants	1,562	1,488
Preserved benefits	8,307	7,539
Total membership	<u>34,807</u>	<u>32,333</u>

## CLWYD PENSION FUND ACCOUNTS

The scheduled bodies which contributed to the Fund during 2013/14 are:-

Unitary Authorities:	Flintshire, Denbighshire, Wrexham.
Educational Organisations:	Coleg Cambria , Glyndwr University.
Town and Community Councils:	Argoed, Coedpoeth, Connah's Quay, Hawarden, Rhosllanerchrugog, Buckley, Prestatyn, Offa, Mold, Caia Park, Rhyl, Shotton, Llanasa.
Other:	North Wales Fire Service, North Wales Valuation Tribunal,

The admitted bodies contributing to the Fund are :-

Other: Careers Wales, Cartref y Dyffryn Ceiriog, Compass Group UK, Denbighshire Voluntary Services, Clwyd Leisure, Bodelwyddan Castle Trust, Grosvenor Facilities Management.

The increase in contributors from 1<sup>st</sup> April 2013 is mostly attributable to the impact of auto enrolment within the three unitary authorities.

The content of the accounts comply with accounting standards, but further information is available in the Clwyd Pension Fund Annual Report and Statement of Investment Principles which are presented to the Annual Joint Consultative Meeting for employers and member representatives that is held annually each November.

### **BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year end as at 31<sup>st</sup> March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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 is, disclosed at Note 15 of these accounts.

In summary, accounting policies adopted are detailed as follows:

- Contributions, benefits and investment income due are included on an accruals basis.
- Investments are included in the accounts at market value, usually bid price.
- Debtors and creditors are raised for all amounts outstanding at 31<sup>st</sup> March.
- Individual Transfer values received and paid out have been accounted for on a cash basis.
- Bulk Transfer values paid out are accounted for on an accruals basis.
- The financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.
- Investment management expenses are accounted for on an accruals basis and include the fees paid and due to the fund managers and custodian, actuarial, performance measurement and investment consultant fees.
- Administration expenses are accounted for on an accruals basis. All Flintshire County Council staff costs are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.
- Acquisition costs of investments include all direct transaction costs and sales receipts are net of all direct transaction costs.

## CLWYD PENSION FUND ACCOUNTS

		2014		2013		
	Note	£000	£000	£000	£000	£000
<b>Contributions and Benefits</b>						
Contributions receivable :						
From employers	1	52,289		52,294		
From employees or members	1	14,688		14,381		
			66,977		66,675	
Transfers in		3,801		4,735		
Other income		1,918		1,411		
			5,719		6,146	
			72,696		72,821	
Benefits payable :						
Pensions	1	46,885		44,717		
Lump sums (retirement)	1	12,331		10,859		
Lump sums (death grants)	1	1,921		1,401		
			61,137		56,977	
Payments to and on account of leavers :						
Refunds of contributions		26		8		
Transfers out (individual)		2,919		1,544		
Transfers out (bulk)		242		0		
Other		77		52		
Administrative and other expenses borne by the scheme	2	1,494		1,047		
			4,758		2,651	
			65,895		59,628	
<b>NET ADDITIONS (WITHDRAWALS)</b>			6,801		13,193	
<b>Returns on Investments</b>						
Investment income	4		2,721		2,397	
Change in market value of investments (Realised and Unrealised)	4		28,686		110,113	
Investment management expenses	2		(5,873)		(5,294)	
<b>NET RETURNS ON INVESTMENT</b>			25,534		107,216	
<b>NET (DECREASE)/INCREASE IN THE FUND</b>			32,335		120,409	
<b>OPENING NET ASSETS OF THE SCHEME</b>			1,181,232		1,060,823	
<b>CLOSING NET ASSETS OF THE SCHEME</b>			1,213,567		1,181,232	

## CLWYD PENSION FUND ACCOUNTS

	Note	2014 £000	2013 £000
<b>Net Assets Statement</b>			
<b>Investment Assets :</b>	<b>5</b>		
Managed fixed interest fund		174,002	175,148
Managed UK equity funds		0	122,222
Managed overseas equity funds		281,343	391,597
Managed multi strategy funds		115,487	120,380
Property funds		97,780	82,260
Infrastructure funds		29,636	23,907
Timberland / Agricultural funds		22,382	20,511
Commodity funds		32,084	34,588
Private equity funds		139,799	138,137
Hedge fund of funds		48,393	47,070
Liability Driven Investment		227,459	0
Opportunistic Funds		12,517	5,910
Other investment assets	<b>8</b>	0	874
Cash	<b>7</b>	31,928	17,331
<b>Investment Liabilities :</b>			
Other investment liabilities	<b>8</b>	0	0
<b>Current Assets :</b>			
Due within 1 year	<b>9</b>	4,745	3,845
<b>Current liabilities</b>	<b>9</b>	(3,988)	(2,548)
<b>NET ASSETS AT 31<sup>st</sup> MARCH</b>		1,213,567	1,181,232

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### 1. ANALYSIS OF CONTRIBUTIONS RECEIVABLE/BENEFITS PAYABLE

Contributions represent those amounts receivable from various employing authorities in respect of their own contributions and those of eligible pensionable employees. The total contributions received during 2013/14 amounted to £52.289m (£52.294m in 2012/13) from employers and £14.688m (£14.381m in 2012/13) from employees.

The employers total comprised an amount of £27.393m (£26.717m in 2012/13) relating to the common contribution rate average of 11.7% paid by all employers and £24.896m (£25.577m in 2012/13) relating to the individual adjusted rates and additional contributions paid in respect of deficit funding for individual employers.

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year.

Analysis of contributions received and benefits payable is shown below :-

<b>Scheduled Bodies</b>	<b>Benefits Payable £000</b>	<b>Contributions Receivable £000</b>
Flintshire County Council	20,783	23,373
Wrexham County Borough Council	19,906	20,474
Denbighshire County Council	13,942	16,567
Fund apportionment with :		
Gwynedd and Powys County Councils	2,371	0
Educational Organisations	2,616	4,482
Town and Community Councils	128	234
Others - scheduled bodies	583	1,152
Others - admitted bodies	808	695
	<u>61,137</u>	<u>66,977</u>

The above merely reflects the figures in the accounts. The circumstances pertaining to each of the bodies listed is different for a variety of reasons (contribution and pensioner profiles, employees' contribution rates, early retirement experience etc.) and direct comparisons, therefore, are largely meaningless.

### 2. ADMINISTRATION AND INVESTMENT MANAGEMENT EXPENSES

The regulations permit the Council to charge the cost of administering the scheme to the Fund. The external managers' fees have been accounted for on the basis contained within their management agreement.



## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

The cost of pensions administration and investment management is shown below:-

	2014	2013
	£000	£000
<b>Administration Expenses</b>		
Employee Costs	781	630
Support Services	242	161
Supplies and Services	288	135
Audit Fees	35	35
Actuarial Fees	148	86
	<hr/>	<hr/>
	1,494	1,047
<b>Investment Expenses</b>		
Net Fund Management Fees	5,571	5,187
Custody Fees	17	15
Performance Monitoring Fees	25	24
Consultancy Fees	260	68
	<hr/>	<hr/>
	5,873	5,294
<b>Total Fees</b>	<hr/>	<hr/>
	7,367	6,341

Investment management fees are based on valuations of the investments. The Fund is invested in pooled vehicles of which the majority of fees are charged within the Funds. In order to be transparent, the Fund discloses these fees. The gross fees included in the Pooled Vehicles amounted to £5.6m during the year (£5.3m during 2012/13).

Under the Public Audit Wales Act 2013, the Wales Audit Office is no longer able to hold reserves. As a consequence, the Wales Audit Office advised in August 2014 that the Pension Fund would receive a distribution of accumulated reserves of £7,127 in respect of prior year audit fees. In preparing the accounts, the level of redistribution was estimated at £4,463. The difference in the level of redistribution is not reflected in the figures above.

The main increases in administration expenses are due to recruitment to vacant positions within the service area and increased actuarial fees in respect of the triennial valuation. Within investment expenses, consultancy fees reflect the implementation of the Fund's new investment manager, Insight, who were appointed to manage the Long Term Management of Funding Risk mandate in September 2013.

### 3. INVESTMENTS AND PERFORMANCE

Further details on the investment strategy are available in the Statement of Investment Principles which can be obtained from the Clwyd Pension Fund Manager, County Hall, Mold, CH7 6NA (Web site [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk) or Telephone 01352 702264).

The Council uses the investment performance services of the WM Company. Their report for the financial year 2013/14 showed that the Fund achieved an overall return of +2.1% from its investments (+10.0% in 2012/13). This compares with the Fund's benchmark return of +3.7% for the year.

### 4. ANALYSIS OF TRANSACTIONS AND RETURN ON INVESTMENTS

#### Overview

The Fund invests its surplus monies in assets through a wide range of managers. All these main investments are through pooled vehicles where the Fund is one of many investors and where these pooled monies are invested on a common basis, although in the Fund's alternative assets there are a couple of quoted holdings. Generally, however, the Fund has no direct holdings of equities, bonds, properties, private equity companies, commodities or other financial instruments.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Transactions and Return on Investments

Details of the 2013/14 investment transactions and the net profit on sales of £107.501m (£8.854m in 2012/13) together with investment income of £2.721m (£2.397m in 2012/13) are set out below. The unrealised loss for 2013/14, because of the change in the market value of investments, amounted to £78.815m (£101.259m profit in 2012/13). Therefore, the increase in market value of investments (realised and unrealised) is £28.686m (£110.113m in 2012/13).

Purchases, sales and realised profit were increased significantly during 2013/14 due to the redemption from SSgA for developed equities. The proceeds were transferred to Insight who were appointed to the Funds Long Term Management of Risk mandate (Liability Driven Investment).

Direct transaction costs are included in the cost of purchases and sale proceeds. Transaction costs are incremental costs that are directly attributable to the acquisition and disposal of an investment. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. They are added to purchase costs or netted against sales proceeds, as appropriate. These costs cannot be directly identified as the Clwyd Pension Fund is almost wholly invested through pooled vehicles. Investment income from these is reinvested within the vehicles and not shown separately.

	Market Value 2012/13 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2013/14 £000	Investment Income £000
Fixed Interest Securities	175,148	174,002	(174,002)	43,451	(44,597)	174,002	0
Liability Driven Investment	0	230,000	0	0	(2,541)	227,459	0
UK Equities Passive	122,222	0	(136,167)	33,414	(19,469)	0	0
Overseas Equities Active	288,379	50,042	(49,281)	1,202	(8,999)	281,343	8
Overseas Equities Passive	103,218	0	(111,813)	22,576	(13,981)	0	0
Multi Strategy	120,380	130	0	0	(5,023)	115,487	0
Property	82,260	16,727	(8,050)	6	6,837	97,780	1,790
Infrastructure	23,907	3,847	(1,622)	631	2,873	29,636	203
Timber & Agriculture	20,511	3,068	(413)	0	(784)	22,382	0
Commodities	34,588	0	0	0	(2,504)	32,084	0
Private Equity	138,137	17,523	(22,991)	629	6,501	139,799	328
Opportunistic	5,910	5,679	(292)	0	1,220	12,517	254
Hedge Fund of Funds	47,070	0	(412)	83	1,652	48,393	0
	<u>1,161,730</u>	<u>501,018</u>	<u>(505,043)</u>	<u>101,992</u>	<u>(78,815)</u>	<u>1,180,882</u>	<u>2,583</u>
Cash	17,331	0	0	0	0	31,928	0
Fees within Pooled Vehicles	0	0	0	5,579	0	0	0
Interest	0	0	0	0	0	0	138
Currency	0	0	0	(70)	0	0	0
	<u>17,331</u>	<u>0</u>	<u>0</u>	<u>5,509</u>	<u>0</u>	<u>31,928</u>	<u>138</u>
Total 2013/14	<u>1,179,061</u>	<u>501,018</u>	<u>(505,043)</u>	<u>107,501</u>	<u>(78,815)</u>	<u>1,212,810</u>	<u>2,721</u>
2012/13	<u>1,083,854</u>	<u>54,629</u>	<u>(45,161)</u>	<u>8,854</u>	<u>101,259</u>	<u>1,179,061</u>	<u>2,397</u>

**NOTES TO THE CLWYD PENSION FUND ACCOUNTS**

	<b>Market Value 2011/12</b>	<b>Purchases</b>	<b>Sales</b>	<b>Realised Gain (Loss)</b>	<b>Unrealised Gain (Loss)</b>	<b>Market Value 2012/13</b>	<b>Investment Income</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed Interest Securities	170,075	0	(10,000)	2,382	12,691	175,148	0
UK Equities Passive	104,624	0	0	0	17,598	122,222	0
Overseas Equities Active	245,992	12,537	(4,857)	1,980	32,727	288,379	11
Overseas Equities Passive	88,152	0	0	0	15,066	103,218	0
Multi Strategy	118,080	123	0	0	2,177	120,380	0
Property	75,307	6,704	(5,358)	(2,816)	8,423	82,260	1,837
Infrastructure	23,414	5,086	(7,979)	2,510	876	23,907	250
Timber & Agriculture	14,686	4,761	(170)	0	1,234	20,511	0
Commodities	36,879	0	0	0	(2,291)	34,588	0
Private Equity	122,318	19,636	(15,461)	1,221	10,423	138,137	164
Opportunistic	0	5,782	0	0	128	5,910	11
Hedge Fund of Funds	47,321	0	(1,283)	228	804	47,070	0
Leveraged Loans	530	0	(53)	(1,880)	1,403	0	0
	<u>1,047,378</u>	<u>54,629</u>	<u>(45,161)</u>	<u>3,625</u>	<u>101,259</u>	<u>1,161,730</u>	<u>2,273</u>
Cash	36,476	0	0	0	0	17,331	0
Fees within Pooled Vehicles	0	0	0	5,300	0	0	0
Interest	0	0	0	0	0	0	124
Currency	0	0	0	(71)	0	0	0
	<u>36,476</u>	<u>0</u>	<u>0</u>	<u>5,229</u>	<u>0</u>	<u>17,331</u>	<u>124</u>
Total 2012/13	<u>1,083,854</u>	<u>54,629</u>	<u>(45,161)</u>	<u>8,854</u>	<u>101,259</u>	<u>1,179,061</u>	<u>2,397</u>
2011/12	<u>1,051,611</u>	<u>230,350</u>	<u>(152,119)</u>	<u>7,907</u>	<u>13,190</u>	<u>1,083,854</u>	<u>3,326</u>

**5. MARKET VALUE OF INVESTMENTS (EXCLUDING CASH AND FUTURES)**

The book cost of the investments as at 31<sup>st</sup> March 2014 is £1,047.423m (£949.455m in 2012/13). The market value of investments as at 31<sup>st</sup> March 2014 is £1,180.882m (£1,161.730m in 2012/13); this can be analysed as follows:

**By Continent**

The UK holdings as at 31<sup>st</sup> March 2014 account for 27% of total investments at market value :-

**NOTES TO THE CLWYD PENSION FUND ACCOUNTS**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
UK	323,254	203,154
Europe	118,047	142,201
Asia Pacific	76,598	119,172
North America	88,272	116,680
Emerging/ Frontier markets	83,023	91,714
Global Investments	491,688	488,809
	<u>1,180,882</u>	<u>1,161,730</u>

**By Fund Manager**

	<b>2014</b>		<b>2013</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
BlackRock	50,922	4	56,385	5
Wellington	106,314	9	117,468	10
Aberdeen	85,391	7	93,876	8
Insight	227,459	19	0	0
Pioneer	1,539	0	2,001	0
Liongate	22,377	2	21,358	2
SSARIS	24,477	2	23,711	2
Duet	49,954	4	48,826	4
BlueCrest	32,032	3	31,470	3
Investec	71,768	6	62,797	5
Stone Harbor	174,002	15	175,148	15
SSgA	0	0	225,440	19
Pyrford	32,533	3	32,525	3
Property	97,780	8	82,260	7
Infrastructure	29,636	3	23,907	2
Timber / Agriculture	22,382	2	20,511	2
Private Equity	139,799	12	138,137	12
Opportunistic	12,517	1	5,910	1
	<u>1,180,882</u>	<u>100</u>	<u>1,161,730</u>	<u>100</u>

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### By Listed /Managed

	2014			2013		
	Listed Managed	Listed	Unlisted	Listed Managed	Listed	Unlisted
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	0	0	174,002	0	0	175,148
UK Equities	0	0	0	122,222	0	0
Overseas Equities	231,389	0	49,954	328,800	0	62,797
Multi Strategy	115,487	0	0	120,380	0	0
Property	31,738	0	66,042	29,107	0	53,153
Infrastructure	0	5,549	24,087	0	4,764	19,143
Timber / Agriculture	0	0	22,382	0	0	20,511
Commodities	0	0	32,084	0	0	34,588
Private Equity	0	2,809	136,990	0	3,446	134,691
Hedge Fund of Funds	22,377	0	26,016	21,358	0	25,712
Opportunistic	0	0	12,517	0	0	5,910
Liability Driven Investment	227,459	0	0	0	0	0
	<u>628,450</u>	<u>8,358</u>	<u>544,074</u>	<u>621,867</u>	<u>8,210</u>	<u>531,653</u>
			<u>1,180,882</u>			<u>1,161,730</u>

## 6. FAIR VALUE OF INVESTMENTS

### Financial Instruments

Whilst the Fund invests almost exclusively through pooled vehicles, the managers of these vehicles invest in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings, unlisted equity products, commodity futures and other derivatives. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). It is effectively a trading activity to generate income rather than an investment. The Fund has no direct exposure to stock lending but the Fund's passive equity manager did use stock lending in its pooled vehicles to generate income as an offset to transaction costs.

### Fair Value – Valuation Bases

Investments are shown in the accounts at fair value as at 31<sup>st</sup> March 2014 on the following bases.

- UK and overseas listed securities are valued within the respective pooled vehicles using the official bid prices quoted on the relevant stock exchange. Overseas holdings are converted to sterling at an exchange rate quoted at close of business on 31<sup>st</sup> March 2014.
- Unit trusts are valued at the bid market price.
- Other pooled vehicles are valued at the bid point of the latest process quoted by their respective managers or fund administrators at 31<sup>st</sup> March 2014. Where a bid price is not available the assets are priced at the net asset value provided.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

- Property funds are valued at the bid market price, which is based upon regular independent valuation of the pooled vehicles' underlying property holdings.
- Private equity holdings are interests in limited partnerships. It is important to recognise the highly subjective nature of determining the fair value of these investments. They are inherently based on forward looking estimates and judgments involving many factors. These holdings are valued based upon the Fund's share of the net assets of the partnership according to the latest financial statements published by the respective managers. Where these valuations are not at the Fund's balance sheet date, the valuations are adjusted having due regard to the latest dealings, asset values and other financial information available at the time of preparing these statements in order to reflect the Fund's balance sheet date. The managers' valuation statements are prepared in accordance with the European Private Equity and Venture Capital Association (EVCA) Guidelines, net of carried interest. These incorporate the US-based FAS157 protocol on valuation approaches –
  - Market – uses prices and other relevant data generated by market transactions involving identical or comparable assets/liabilities (e.g. money multiples)
  - Income – uses valuation techniques to convert expected future amounts to a single present amount (discounted cash flows or earnings)
  - Cost – based upon the amount that currently would be required to replace the service capacity of an asset (adjusted for obsolescence)

Managers are required “to use the method that is appropriate in the circumstances and for which sufficient data is used and to apply the approach consistently until no longer appropriate.” It is also possible to use multiple or combinations of approaches. Most private equity managers use a combination of the “market” and “income” approaches.

- Infrastructure investments are generally carried at the lower of cost and fair value, except where there are specific upward or downward valuations. In estimating fair value, managers use their judgment, having regard to the EVCA guidelines noted above for valuing unquoted investments. Upward valuations are considered only where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted regardless of the investment stage where the manager considers that there is impairment to the underlying investment.
- Timberland investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by underlying managers or vehicles. In circumstances where audited financial statements are not available to 31<sup>st</sup> March, the valuations are derived from unaudited quarterly reports from the underlying managers or vehicles. Where the timber investments are direct rather than through underlying managers, valuations are based upon regular independent valuation of these holdings.
- Commodity exposure is actively managed through the use of exchange traded and OTC derivative instruments (Futures, Options and Swaps) and some securities. Exchange traded derivatives are priced using a vendor file sent daily from Bloomberg with IDC as a second source. These prices are sourced directly from the derivative exchanges. Options receive the last trade price on the primary exchange. If an option does not trade, the bid price is utilized to value the option. Valuations for OTC options are sourced from brokers/dealers that are usually the counterparty to the deal. If the necessary inputs are available from vendors on a schedule that permits same day pricing, OTC options may be valued using a vendor- supplied option calculator, with the dealer price used to validate the model results. Residual cash is primarily invested in short-dated investment-grade, US dollar-denominated debt obligations.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

- Funds of hedge funds and multi-strategy hedge funds are valued monthly to create a net asset value on the basis of the Fund's proportionate share of the value of underlying pools on a manager by manager basis. Generally the fair value of the Fund's investment in a related pool represents the amount that the Fund could be reasonably expected to receive from the pool if the Fund's investment was redeemed at the date of valuation, based upon information reasonably available at the time that the valuation was made and that the fund believes to be reliable.
- GTAA funds invest for the most part in markets that are not exchange-based. These include OTC or "interdealer" markets and leverage is utilized by such funds to a significant level. If market prices are not available or do not reflect current market prices, the Fund applies its own pricing policies by reference to such relevant prices as are available to establish a fair value for the assets held.

### **Fair Value – Hierarchy**

The valuation of financial instruments has been classified 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 interest securities and unit trusts. Listed investments are shown at bid price.

#### **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 those 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 be unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgment in determining appropriate assumption.

The following tables show the position of the Fund's assets at 31<sup>st</sup> March 2014 and 31<sup>st</sup> March 2013 based upon this hierarchy.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Market Value 2013/14	Level 1	Level 2	Level 3
	£000	£000	£000	£000
Fixed Interest Securities	174,002	17	173,985	0
Liability Driven Investment	227,459	227,459	0	0
Overseas Equities Active	281,343	280,147	1,196	
Multi Strategy	115,487	47,377	68,110	0
Property (1)	97,780	0	31,738	66,042
Infrastructure (1)	29,636	5,549	0	24,087
Timber & Agriculture (1)	22,382	0	0	22,382
Commodities	32,084	15,432	16,652	0
Private Equity (2)	139,799	2,809	0	136,990
Hedge Fund of Funds	48,393	0	45,809	2,584
Opportunistic Funds (2)	12,517	0	0	12,517
	1,180,882	578,790	337,490	264,602
Cash	31,928	31,928	0	0
Total 2013/14	1,212,810	610,718	337,490	264,602

(1) Property/ Infrastructure /Timber and Agriculture - Various valuation bases are used. Direct fund holdings are valued based upon independent valuations, these have been classified as level 2, some funds also often hold joint venture and partnership interests that are subject to a variety of valuation methodologies. To be conservative, these funds have been classified Level 3 unless the fund itself is quoted.

(2) Private Equity and Opportunistic Funds - Various valuation bases are used including cost, quoted prices (often discounted for "lock-ups", transaction multiples, market multiples, future realisation proceeds, company prospects, third party opinion etc. Company and fund valuations often reflect combinations of these valuation bases. To be conservative, all funds have been classified Level 3 unless the fund itself is quoted.

Within the investments shown above as (1) or (2), whilst a small proportion are listed, the majority of the holdings are in unquoted investments; (£293.756m) compared to £262.515m in 2012/13. These are valued at a fair value by the fund managers, using an appropriate basis of valuation. The valuations are reliant upon a significant degree of judgment, and due to the subjectivity and variability of these valuations there is an increased likelihood that the valuations included in the financial statements would not be realised in the event of a sale. The difference could be materially lower or higher.



## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Market Value 2012/13 £000	Level 1 £000	Level 2 £000	Level 3 £000
Fixed Interest Securities	175,148	70	175,078	0
UK Equities Passive	122,222	121,366	856	0
Overseas Equities Active	288,379	281,460	420	6,499
Overseas Equities Passive	103,218	102,495	723	0
Multi Strategy	120,380	64,504	55,876	0
Property (1)	82,260	0	0	82,260
Infrastructure (1)	23,907	4,764	0	19,143
Timber Agriculture (1)	20,511	0	0	20,511
Commodities	34,588	14,496	20,092	0
Private Equity (2)	138,137	3,446	0	134,691
Hedge Fund of Funds	47,070	0	43,997	3,073
Opportunistic Funds (2)	5,910	0	0	5,910
	1,161,730	592,601	297,042	272,087
Cash	17,331	17,331	0	0
Total 2012/13	1,179,061	609,932	297,042	272,087

### 7. INVESTMENT RISKS

As demonstrated, the Fund maintains positions in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings and unlisted equity products. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

#### Procedures for Managing Risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (amended) and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money. The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The Pension Fund annually reviews its Statement of Investment Principles (SIP) and corresponding Funding Strategy Statement (FSS), which set out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. The SIP and FSS can be found on the Fund's website ([www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk)).

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

The Fund carries out a formal review of its structure at least every 4 years, usually every 3 years. The last review was carried out in 2010 and implemented in April 2011. The next review is expected to be undertaken during 2014. The Fund's optimisation model, used to help determine the Fund's strategic benchmark, suggests that the asset mix so determined coupled with the requirements for certain fund managers to outperform their market indices should produce long-term returns of just over 9% with a volatility of around 10%. A key element in this review process is the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

- private equity – by stage, geography and vintage where funds of funds are not used
- property – by type, risk profile, geography and vintage (on closed-ended funds)
- infrastructure – by type (primary/secondary), geography and vintage
- hedge funds – multi-strategy or funds of funds

In September 2013, the Fund appointed Insight to manage a Long Term Management of Risk mandate. The mandate was funded by disinvesting the Fund's developed passive equity holding managed by SSgA. The cash raised from the redemption is used, in part, as collateral to replicate the Fund's developed passive equity allocation using Equity Total Return Swaps (TRS), the remainder to provide the ability to implement a liability hedging mandate.

Once complete, the strategy will provide a framework to enable the Fund to effectively reduce risk when market conditions become more favourable (i.e. bonds become cheaper). The framework will include both market yield based triggers and funding level triggers. In particular, the manager will make use of Liability Driven Investment (LDI) techniques to increase the level of hedging within the Fund. This can be achieved through the physical purchase of gilts along with repurchase agreements (repo). These allow the fund to gain "unfunded" exposure to gilts.

### **Roll risk**

The LDI manager has the facility to use repurchase agreements, once these agreements mature, they need to be replaced with other contracts to maintain the relevant exposure (known as "rolling" the contract). This involves managing the operational risks raised to ensure sufficient resources are in place to arrange the trades and manage the process. In addition, as a contract matures, the underlying market for repo may become illiquid and at the extreme, the manager may not be able to roll the position. This is mitigated by structuring the overall repo over a range of maturity dates and diversifying counterparty exposure.

### **Manager Risk**

The Fund is also well diversified by manager with no single manager managing more than 19% of Fund assets. On appointment fund managers are delegated the power through an investment management agreement to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. On private equity, property, infrastructure and timber/agriculture, investment is fund rather than manager-specific, with specific funds selected by the in-house team after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above, almost all the Fund's investment are through pooled vehicles and a number of these are involved in derivative trades of various sorts, including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties.

However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk. Once appointed, managers are required to provide copies of their annual internal control reports for review to ensure that the standards expected are maintained.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's minimum credit criteria.

Subject to cash flow requirements, cash can be deposited in one of the following:

- The Pension Fund bank account with the National Westminster Bank for daily liquidity
- A National Westminster deposit account with access up to 180 days notice
- A Money Market AAA Fund for unexpected liquidity requirements or higher rates of return.

The Fund believes it has managed its exposure to credit risk and has no experience of default or uncollectible deposits in the last three financial years. The Fund's cash holdings as at 31<sup>st</sup> March 2014 were £31.928m (£17.331m at 31<sup>st</sup> March 2013). This was held as follows:

		2014	2013
	Rating	£000	£000
<b>Money Market Funds</b>			
BlackRock	AAA	480	478
Bank of New York Mellon	AAA	928	979
<b>Bank Deposit Accounts</b>			
National Westminster Bank PLC	AA	30,500	15,850
<b>Bank Current Accounts</b>			
National Westminster Bank PLC	AA	20	24
		<u>31,928</u>	<u>17,331</u>

Within the Fund, the areas of focus in terms of credit risk are bonds and some of the alternative asset categories.

- The Fund's bond portfolio is managed on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31<sup>st</sup> March 2014, the Fund's exposure to non-investment grade paper was £66.2 million or 38.0% of the fixed interest portfolio (29.5% at 31<sup>st</sup> March 2013).
- On private equity and infrastructure the Fund's investments are almost entirely in the equity of the companies concerned.
- The Fund also has residual "side pocketed" holdings with one manager, which are currently illiquid. Details of this holding is set out as follows :-

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Book Cost	Market Value
	£000	£000
Hedge Fund of Funds - Pioneer	1,218	1,539
	1,218	1,539

### Liquidity Risk

The Pension Fund has its own bank account. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered. Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential and undertaken regularly by the Fund.

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities (including synthetic equity exposure) and bonds now comprise 56% of the Fund's total value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

On alternative assets the position is more mixed. Whilst there are a couple of quoted vehicles here, most are subject to their own liquidity terms or, in the case of property, redemption rules. Closed-ended funds such as most private equity vehicles and some property and infrastructure funds are effectively illiquid for the specified fund period (usually 10 years), although they can be sold on the secondary market, usually at a discount.

The table below analyses the value of the Fund's investments at 31<sup>st</sup> March 2014 by liquidity profile.

	Market Value 2013/14	1 Month	2 - 3 Months	3 - 6 Months	6 - 12 Months	Closed - ended	Locked
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	174,002	174,002	0	0	0	0	0
Liability Driven Investment	227,459	227,459	0	0	0	0	0
Overseas Equities Active	281,343	276,431	4,912	0	0	0	0
Multi Strategy	115,487	115,487	0	0	0	0	0
Property	97,780	0	0	0	31,738	66,042	0
Infrastructure	29,636	5,549	0	0	0	24,087	0
Timber & Agriculture	22,382	0	0	0	0	22,382	0
Commodities	32,084	32,084	0	0	0	0	0
Private Equity	139,799	2,809	0	0	0	136,990	0
Hedge Fund of Funds	48,393	0	0	46,854	0	0	1,539
Opportunistic Funds	12,517	0	0	0	0	12,517	0
	1,180,882	833,821	4,912	46,854	31,738	262,018	1,539

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated “within 1 month” for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach was applied and all such investments have been designated “within 6-12 months”.

Closed-ended funds have been designated illiquid for the purposes of liquidity analysis. However, these closed-ended vehicles have a very different cash flow pattern to traditional investments since the monies committed are only drawn down as the underlying investments are made (usually over a period of 5 years) and distributions are returned as soon as underlying investments are exited (often as early as year 4).

In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw downs well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund’s practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 1997 to 2013. This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual “10-year life”, many are closer to maturity than implied by this broad designation.

As can be seen from the table, even using the conservative basis outlined above, around 71% of the portfolio is realisable within 1 month.

### Market Risk

Market risk is the risk that the fair value or future cash flows of a financial institution will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments and the consequential danger that its assets will fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term.

Market risk is comprised of two elements –

- The risks associated with volatility in the performance of the asset class itself (beta);
- The risks associated with the ability of managers, where allowed, to move away from index weights and to generate alpha, thereby offsetting beta risk by exceeding market performance.

The following table sets out an analysis of the Fund’s market risk positions at 31<sup>st</sup> March 2014 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark and managers’ maximum target volatility (or risk) against index in achieving this.

This target volatility is a measure of the maximum degree of dispersion of likely results compared with the selected benchmark.

**NOTES TO THE CLWYD PENSION FUND ACCOUNTS**

	<b>Manager</b>	<b>Market Value 2013/14 £000</b>	<b>Benchmark</b>	<b>Target  (Gross)</b>	<b>Risk (&lt;)  %</b>
Fixed Interest Securities	Stone Harbor	174,002	FT All Stocks	+1.5%	4.0
Liability Driven Investment	Insight	227,459	Liability / FTSE	Match	
Foreign equities–active	Investec	71,768	MSCI AC World NDR	+3.5%	10.0
	Aberdeen	76,598	MSCI AC Asia/P ex Japan	+3.0%	12.0
	Aberdeen	8,793	MSCI Frontier Markets	+3.0%	12.0
	Wellington	74,230	MSCI EM Free	+2.5%	8.0
	Duet	49,954	Absolute	+8-10%	3.0
Multistrategy funds	BlackRock	50,922	7 day LIBID	+15.0%	20.0
	BlueCrest	32,032	Absolute	+10-15%	6.0
	Pyrford	32,533	RPI	+5.0%	8.0
Hedge fund of funds	Liongate	22,377	Absolute	+8-10%	6.0
	SSARIS	24,477	Absolute	+8-10%	5.0
	Pioneer	1,539	Absolute	+8-10%	4.0
Commodity fund	Wellington	32,084	GCSI Equally Weighted	+1.5%	4.0
Property funds	Various	97,780	IPD Balanced PUTs	Exceed	
Infrastructure funds	Various	29,636	Absolute	+15.0%	
Timber /Agricultural funds	Various	22,382	Absolute	+15.0%	
Private equity funds	Various	139,799	Absolute	+15.0%	
Opportunistic funds	Various	12,517	Absolute	+15.0%	
		<u>1,180,882</u>			

The risks associated with volatility in market values are mainly managed through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The Fund also adopts a specific strategic benchmark (details are in the Fund’s SIP) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions, there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund’s asset allocation model, is designed to diversify and minimise risk for a specific level of performance through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current strategic benchmark is targeted to produce long-term returns of just over 9% with a volatility of around 10%.

Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects. On property and private equity, fund and manager diversification is vital and, whilst a full list of investments is not detailed here, the Fund has exposures as follows:

	<b>Market Value 2014 £000</b>	<b>Managers No.</b>	<b>Funds No.</b>	<b>Properties / Companies Estimated No.</b>
Real Assets	149,797	21	36	>280
Private Equity / Opportunistic	52,315	19	61	>4,000

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund's investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance measurer, WM Company, the fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset Type	Potential Market Movements (+ / -)
Global Equity inc UK	7.97%
UK Equity	12.25%
Oveseas Equity	12.30%
Global Fixed Income	5.34%
Alternatives	2.93%
Property	3.71%
Cash	0.02%

The sensitivities are consistent with the assumptions provided by WM Company based on historic data collated for the Fund. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Had the market price of the Fund's investments increased / decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (prior year comparator also provided).

Asset Type	Market Value 2013/14	Percentage Change %	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>	31,928	0.02	31,934	31,922
<b>Investment portfolio assets:-</b>				
Global Equity inc UK	121,722	7.97	131,423	112,021
UK Equity	0	12.25	0	0
Overseas Equity	159,621	12.30	179,254	139,988
Global Fixed Income	174,002	5.34	183,294	164,710
Alternatives	627,757	2.93	646,150	609,364
Property	97,780	3.71	101,408	94,152
	<u>1,212,810</u>		<u>1,273,463</u>	<u>1,152,157</u>

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Asset Type	Market Value 2012/13	Percentage Change %	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>	17,331	0.0	17,331	17,331
<b>Investment portfolio assets:-</b>				
Global Equity inc UK	111,623	11.8	124,795	98,451
UK Equity	122,222	14.2	139,578	104,866
Overseas Equity	279,974	12.7	315,531	244,217
Global Fixed Income	175,148	4.9	183,730	166,566
Alternatives	390,503	3.3	403,390	377,616
Property	82,260	3.7	85,304	79,216
	<u>1,179,061</u>		<u>1,269,659</u>	<u>1,088,263</u>

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund recognises that interest rates can vary and affect both the income to the fund and the net assets available to pay benefits. The Fund's Fixed Income manager has advised that they have revised their expectation from a small change of 50 basis points (bps) to 75 bps from one year to the next. As the fund does not use Fixed Income securities to provide income, the following sensitivity analysis only refers to cash and cash balances.

Asset Type	Carrying Value 2013/14 £000	Change in year in net assets available to pay benefits +75BPS £000	Change in year in net assets available to pay benefits -75BPS £000
Cash and cash equivalents	1,408	11	(11)
Cash balances	30,520	229	(229)
	<u>31,928</u>	<u>240</u>	<u>(240)</u>

Asset Type	Carrying Value 2012/13 £000	Change in year in net assets available to pay benefits +50BPS £000	Change in year in net assets available to pay benefits -50BPS £000
Cash and cash equivalents	1,457	7	(7)
Cash balances	15,874	79	(79)
	<u>17,331</u>	<u>86</u>	<u>(86)</u>



## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any other currency other than the functional currency of the Fund (GBP). The Fund holds assets denominated in currencies other than GBP.

The following table summarises the Fund's currency exposure as at 31<sup>st</sup> March 2014 and as at the previous year end:

Currency Exposure - Asset Type	Market Value 2013/14 £000	Market Value 2012/13 £000
Global Fixed Income	174,002	175,148
Overseas Equities Active	281,343	288,379
Overseas Equities Passive	0	103,218
Multi Strategy	115,487	120,380
Commodities	32,084	34,588
Hedge Funds	48,393	47,070
Property	38,374	39,755
Infrastructure	15,600	11,521
Timber / Agriculture	22,382	20,511
Opportunistic	12,517	5,910
Private Equity	117,446	112,096
	857,628	958,576

Following analysis of the historical data in consultation with the fund's Performance Measurers, WM Company, and analysis of the exposures to foreign currency for the year to 31<sup>st</sup> March 2014, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.06%. For the period to 31<sup>st</sup> March 2013, this was calculated to be 5.1%.

This analysis assumes that all other variables, in particular interest rates, remain constant. These individual year percentages strengthening / weakening against the various currencies in which the fund hold investments would increase / decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Market Value 2013/14	Percentage Change %	Value on Increase £000	Value on Decrease £000
Global Fixed Income	174,002	5.06	182,801	165,203
Overseas Equity - Active	281,343	5.06	295,571	267,115
Overseas Equity - Passive	0	5.06	0	0
Multistrategy	115,487	5.06	121,327	109,647
Hedge Funds of Funds	48,393	5.06	50,840	45,946
Commodities	32,084	5.06	33,707	30,461
Timber & Agriculture	22,382	5.06	23,514	21,250
Infrastructure	15,600	5.06	16,389	14,811
Property	38,374	5.06	40,315	36,433
Opportunistic	12,517	5.06	13,150	11,884
Private Equity	117,446	5.06	123,385	111,507
	857,628		900,999	814,257

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Currency Exposure - Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2012/13	%	£000	£000
Global Fixed Income	175,148	5.1	184,073	166,223
Overseas Equity - Active	288,379	5.1	303,074	273,684
Overseas Equity - Passive	103,218	5.1	108,478	97,958
Multistrategy	120,380	5.1	126,514	114,246
Hedge Funds of Funds	47,070	5.1	49,469	44,671
Commodities	34,588	5.1	36,351	32,825
Timber	20,511	5.1	21,556	19,466
Infrastructure	11,521	5.1	12,108	10,934
Property	39,755	5.1	41,781	37,729
Opportunistic	5,910	5.1	6,211	5,609
Private Equity	112,096	5.1	117,808	106,384
	<u>958,576</u>		<u>1,007,423</u>	<u>909,729</u>

### 8. OTHER INVESTMENTS

	2014		2013	
	£000	£000	£000	£000
Other Investment Assets :				
Sale of Investments / Income accrual	<u>0</u>		<u>874</u>	
		0		874
Other Investment Liabilities :				
Purchases of investments	<u>0</u>		<u>0</u>	
		0		0
Other Investment Balances		<u>0</u>		<u>874</u>

**NOTES TO THE CLWYD PENSION FUND ACCOUNTS**

**9. DEBTORS/CREDITORS**

	<b>2014</b>		<b>2013</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Current Assets :				
Contributions due - Employees	1,160		1,099	
Contributions due - Employers	2,276		2,105	
Added years	26		52	
H.M. Revenue and Customs	41		54	
Pension strain	1,063		251	
Administering authority	2		210	
Miscellaneous	177		74	
	<u>          </u>	4,745	<u>          </u>	3,845
Less Current Liabilities :				
Lump sums	(2,782)		(1,774)	
Death grants	(531)		(131)	
Administering authority	(236)		(303)	
Added years	(81)		(55)	
Miscellaneous	(358)		(285)	
	<u>          </u>	(3,988)	<u>          </u>	(2,548)
Net Current Assets		<u>          </u> 757		<u>          </u> 1,297

**Analysis of debtors**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Central Government Bodies	41	54
Other Local Authorities	4,174	3,468
Other Entities and Individuals	530	323
	<u>          </u>	<u>          </u>
	4,745	3,845

**Analysis of creditors**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Other Local Authorities	(298)	(331)
Other Entities and Individuals	(3,690)	(2,217)
	<u>          </u>	<u>          </u>
	(3,988)	(2,548)

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### 10. POST BALANCE SHEET EVENT

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31<sup>st</sup> March 2014. Since this date, the performance of the global equity markets may affect the financial value of pension fund investments. This movement does not affect the ability of the Fund to pay its pensioners.

Changes have been agreed to the Local Government Pension Scheme which will take effect from 1<sup>st</sup> April 2014. These changes will not impact the Statement of Accounts for 2013/14. A Clwyd Pension Fund Committee has now replaced the Clwyd Pension Fund Panel.

### 11. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

A market value or an estimate thereof has not been included for the money purchase AVC investments. These assets are specifically allocated to the provision of additional benefits for particular members. The Clwyd Pension Fund has the services of two AVC providers (Prudential and Equitable Life) for members' additional benefits with the funds being invested in a range of investment products including fixed interest, equity, cash, deposit, property and socially responsible funds, as follows :-

Contributions paid	£	885,208
Units purchased	No.	158,984
Units sold	No.	63,801
Market value as at 31st March 2014	£	4,766,107
Market value as at 31st March 2013	£	4,404,457

### 12. RELATED PARTY TRANSACTIONS

#### Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31<sup>st</sup> March 2014, two Members of the Pension Panel have taken this option. The Members of the Pension Fund Panel do not receive any fees in relation to their specific responsibilities as members of the Panel.

#### Key Management Personnel

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund. Kerry Feather, the Head of Finance (Treasurer and Administrator to the Clwyd Pension Fund) has been identified as holding a key position in the financial management of the fund.

#### Flintshire County Council

In the course of fulfilling its role as administering authority to the Fund, Flintshire County Council provided services to the Fund for which it charged £1,023k (£791k in 2012/13).

These costs are in respect of those staff employed in ensuring the pension service is delivered, and other costs such as payroll and information technology. The costs are included in the accounts within administration expenses (see note 2). At the year end, a net balance of £234k was owing to Flintshire in relation to creditors payments made on behalf of the fund and support service costs which were not available as at 31<sup>st</sup> March 2014 (£93k in 2012/13).

**13. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS**

As at 31st March 2014, the Fund has contractual commitments of £542.0m (£458.4m in 2012/13) in private equity and property funds, of which £371.8m (£323.4m in 2012/13) has been invested, leaving an outstanding commitment of £170.2m (£135.0m in 2012/13).

**14. TRANSACTION COSTS**

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. They can be added to purchase costs or netted against sales proceeds, as appropriate. These costs cannot be directly identified as the Clwyd Pension Fund is wholly invested in pooled vehicles.

**15. ACTUARIAL VALUATION & VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSE OF IAS 26 (Provided by the Fund’s Actuary)**

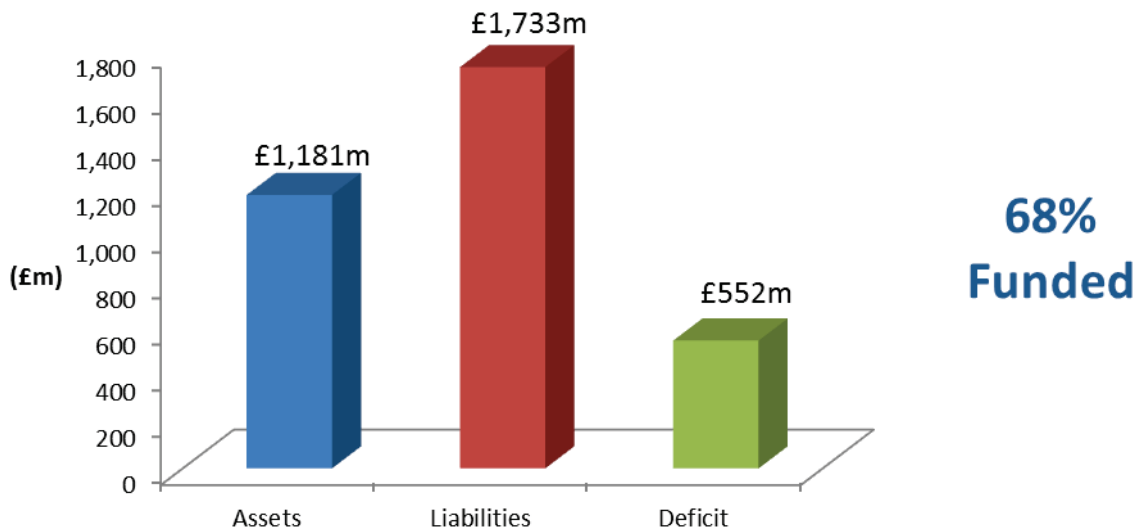
**CLWYD PENSION FUND**

**Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary**

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Clwyd Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund’s assets of £1,181 million represented 68% of the Fund’s past service liabilities of £1,733 million (the “Funding Target”) at the valuation date. The deficit at the valuation date was therefore £552 million.



The valuation also showed that a common rate of contribution of 13.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 73% with a resulting deficit of £449 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £27.4m per annum increasing at 4.1% per annum (equivalent to approximately 11.8% of projected Pensionable Pay at the valuation date) for 18 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the 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). Any different approaches adopted, e.g. with regard to the implementation of 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)	4.6% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

\* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

### **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 2014 (the 31 March 2013 assumptions are included for comparison):

## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

\* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £1,901 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£101 million. Adding interest over the year increases the liabilities by c£80 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£10 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£88 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 2014 is therefore £1,802 million.

Paul Middleman  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
**June 2014**

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLINTSHIRE COUNTY COUNCIL

I have audited the accounting statements and related notes of:

- Flintshire County Council; and
- Clwyd Pension Fund

for the year ended 31 March 2014 under the Public Audit (Wales) Act 2004.

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

Clwyd Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on International Financial Reporting Standards (IFRSs).

## **Respective responsibilities of the responsible financial officer and the independent auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, including Clwyd Pension Fund's accounting statements, which gives a true and fair view.

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

## **Scope of the audit of the accounting statements**

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

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

## **Opinion on the accounting statements of Flintshire County Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Flintshire County Council as at 31 March 2014 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.



**Opinion on the accounting statements of Clwyd Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Clwyd Pension Fund during the year ended 31 March 2014 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

**Opinion on other matters**

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

**Matters on which I report by exception**

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

**Certificate of completion of audit**

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

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

**Signature**

**Date: 30<sup>th</sup> September 2014**

## ANNUAL GOVERNANCE STATEMENT

This statement has the following five sections:-

1. Scope of Responsibility.
2. The Purpose of the Governance Framework.
3. The Governance Framework.
4. Review of Effectiveness.
5. Significant Governance Issues.

### 1. SCOPE OF RESPONSIBILITY

Flintshire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used appropriately and effectively. The 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, ensuring that we are economic, efficient and effective as an organisation.

In discharging this overall responsibility, Flintshire County Council should maintain proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and the management of risk.

The Council has approved and adopted a Code of Corporate Governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / the Society of Local Authority Chief Executives and Senior Managers (SOLACE) 'Delivering Good Governance in Local Government: A Framework'.

The Code of Corporate Governance is included in the Council's Constitution and a copy is also available from the Democracy & Governance Manager in Legal and Democratic Services.

This Statement explains how Flintshire County Council has complied with the Code and also meets the requirements of the Accounts and Audit (Wales) (Amendment) Regulations 2010.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework brings together the systems and processes, employees, other resources, culture and values by which the Council is managed and controlled and the activities through which it accounts to, engages with and leads the community. The framework enables the Council to monitor achievement against its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risks and challenges to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore provide proportionate and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, priorities, aims and objectives, to evaluate the likelihood of those risks and challenges occurring and to evaluate the impact if they do; to manage risks efficiently, effectively and economically.

The governance framework has been in place at Flintshire County Council for the year ended 31<sup>st</sup> March 2014 and up to the date of approval of the annual statement of accounts.

### 3. THE GOVERNANCE FRAMEWORK

#### a) Council Constitution

The Council's Constitution defines the roles of the Cabinet, Council, Audit Committee, Standards Committee, Overview & Scrutiny Committees and all other Committees.

## ANNUAL GOVERNANCE STATEMENT

It also details the portfolios of each of the Cabinet members, the responsibility for functions including the delegation arrangements and various codes and protocols including the Members' Code of Conduct, the Officers' Code of Conduct, the Member/Officer Protocol and the Code of Corporate Governance.

### b) Code of Corporate Governance

The key elements of the Council's governance arrangements are reflected in the **Code of Corporate Governance**. The Code forms part of the Constitution and applies to all aspects of the Council's business. Members and employees are required to conduct themselves in accordance with the high standards expected by the citizens of Flintshire and the six core principles set out within the revised CIPFA / SOLACE Framework:-

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability

The Cabinet, in consultation with the Constitution Committee, is responsible for approving the Code of Corporate Governance. The Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by way of annual reviews commencing in October each year.

Updating the Code of Corporate Governance and gaining assurance to inform this annual governance statement is undertaken and co-ordinated over the year as part of a cyclical approach.

### c) Council (Plan) Governance Framework

The final drafting and publication of the Council (Plan) Governance Framework was endorsed by the Council's then Executive in May 2011 and endorsed by County Council in June 2011. The framework is a family of co-related documents describing how the organisation's priorities and values are reflected within the Directorates and their functions and how the Council interacts with partners and its customers and communities.

The framework is revised and updated annually.

### d) Members

Flintshire County Council has 70 Councillors that represent 57 electoral divisions and are democratically elected normally every 4 years. The Council operates a Leader and Cabinet Executive which during the year to 31st March 2014 was made up of 8 members. Role descriptions have been approved for the Leader, Cabinet Members, Committee Chairs and ordinary Members. For the 2013/14 year there were 6 Overview & Scrutiny Committees supported by a team of officers. These Committees were as follows:-

- Housing
- Corporate Resources
- Environment
- Lifelong Learning
- Community Profile & Partnerships
- Social & Health Care

## ANNUAL GOVERNANCE STATEMENT

In addition the Council has the following Standing Committees:-

- Audit Committee
- Constitution Committee
- Standards Committee
- Planning and Development Control Committee
- Licensing Committee
- Democratic Services

The terms of reference of the various Committees are set out in the Council's Constitution. The number, size and terms of reference of the Standing Committees are reviewed annually at the Council's annual meeting in May.

On taking office all Members are required to sign a Declaration of Acceptance of Office whereby they undertake to be guided by the National Code of Local Government Conduct in the performance of their functions as a Councillor. Flintshire's Members' Code complies with the National Code and all Members are given a copy of it when taking up office. Any complaints that a Member has not complied with the Code are considered by the Public Services Ombudsman for Wales who may refer any apparent breaches to either the Council's Standards Committee or to the Adjudication Panel for Wales which may apply sanctions if a breach of the Code is found.

### **e) Officers**

Article 16 of the Constitution explains the role of the Chief Executive who is the Council's statutory Head of Paid Service. This includes providing leadership to the management and employees of the Council; ensuring that the Council has the governance, structure, workforce, resources and business systems needed to provide high quality, cost effective and responsive services to the people of Flintshire; working closely and supportively with elected Members to ensure the realisation of the Council's culture, vision, policies and programmes; working with partners at the local, regional and national level both to fulfil Flintshire's potential and to represent its interests, and to contribute to the governance of Wales as a devolved nation.

The Head of Legal and Democratic Services is the Council's Monitoring Officer under Section 5 of the Local Government & Housing Act 1989. In addition to the statutory responsibilities of ensuring the Council complies with the law and avoids maladministration the Council's Constitution also gives the Monitoring Officer responsibility for monitoring the operation of the Constitution and contributing to the promotion of high standards of conduct through the provision of support to the Standards Committee.

The Head of Finance is the Responsible Finance Officer and takes responsibility for the proper administration of the Council's financial affairs under Section 151 of the Local Government Act 1972 and in accordance with the CIPFA Statement on the role of the Chief Financial Officer.

### **f) Finance**

There are robust arrangements for effective financial management and control through the Council's accounting procedures, key financial systems, Financial Procedure Rules and Contract Procedure Rules as set out in the Constitution. Both the Financial Procedure Rules and Contract Procedure Rules are regularly reviewed and are available on the Council's Infonet.

The Council's Medium Term Financial Strategy provides a framework for the financial principles through which revenue and capital resources are forecast, organised and managed to deliver the Council's vision and strategic objectives. The Medium Term Financial Plan forecasts funding levels and resources required over the medium term to support strategic decision making; to ensure balanced budgets in future years, and so that the Council can invest in its improvement priorities. The Council has four types of resources – people, money, assets and information.

## ANNUAL GOVERNANCE STATEMENT

The Council's process for setting its annual revenue budget and capital programme is set out in the Budget and Policy Framework Procedure Rules in Part 4 of the Constitution. When the Authority sets its budget, elected members take account of the level of risk and uncertainty regarding its budgetary estimates in the context of the prevailing economy, public services' climate and the demand for services

The Council operates a scheme of delegated budgets supported by the Corporate Finance team which consists of central and service based finance teams supporting budget managers. Revenue budget monitoring reports, including full year forecasts, are reported to the Cabinet and the Corporate Resources Overview and Scrutiny Committee on a monthly basis. Capital Programme monitoring reports are reported to the Cabinet and the Corporate Resources Overview and Scrutiny Committee on a quarterly basis. In both instances, these reports identify reasons for variances and set out any corrective action that is proposed.

The Council has adopted the Chartered Institute of Public Finance Accountants (CIPFA) Treasury Management in the Public Services: Code of Practice. Treasury Management is conducted in accordance with the Council's Treasury Management Policy and Strategy Statement and Treasury Management Practices which are both reviewed annually. All borrowing and long term financing is made in accordance with CIPFA's Prudential Code. Treasury Management update reports are made to the Audit Committee, Cabinet and Council on a quarterly basis.

### g) **Organisational Change Strategy**

The Council has set out in its second version of the Medium Term Financial Plan, published mid-year, a developing approach to organisational change and redesign. This mid-year change in approach was a direct response to the emerging national decisions on reductions in direct funding support for local government. The change was based on a recognition that a broader based and more ambitious change programme was required; that the Council would need to return to the fundamentals of organisational structure and the total costs of employment; that the Council would need to reduce further its civic estate operational costs.

The Organisational Change and Redesign Programme will continue over a period of years and ambitiously 'front ends' reductions on organisational costs in the first year of 2014/15 with the intent of protecting services as far as possible.

The strategy covers:

1. **Corporate Efficiency: assets, customer, finance and procurement**  
Covering four programmes from the pre-existing Flintshire Futures Programme and step change elsewhere, notably procurement
2. **Organisational Design: operating model, functional and structural design, alternative delivery models**  
This requires a new operating model, the re-positioning and grouping of service functions, and a new senior management structure to deliver alternative delivery models
3. **Workforce Scaling: workforce planning, workforce reduction, vacancy management, costs of employment**  
A major planned programme which has to dovetail with both 2 above and service prioritisation from 4 below
4. **Functional Efficiency: value for money in all service and support functions**  
The developing value for money model is an extension of previous service reviews

### h) **Business Planning**

The Council has an established and effective approach to **business planning**. The process is described and signposted within the Council (Plan) Governance Framework (see c) above).

## ANNUAL GOVERNANCE STATEMENT

Alongside this is the Council's Improvement Plan which is published annually and describes the Council's priorities (Improvement Objectives) which are supported by both corporate and directorate level (sub) priorities. These priorities are connected to the County's Vision and priorities as determined by the Local Service Board.

The 'building blocks' of the Council's business planning approach are:-

- County Vision and Single Integrated Plan as set by the Local Service Board.
- Improvement Plan - Council priorities as set by the County Council and supported by service and corporate sub priorities.
- Council Improvement Targets – a set of performance indicators designated as those which require focused attention for improvement.
- Risk management – risks are owned and led in various ways dependent upon the type of risk:
  - the Council's strategic risks are owned in the Improvement Plan by sub priority lead officers and reported quarterly to Cabinet and respective Overview and Scrutiny Committees;
  - operational risks by service managers/Heads of Service and reported twice yearly to Cabinet and respective Overview and Scrutiny Committees;
  - project risks by the relevant Project Manager/Board and included within Heads of Service reports twice yearly;
  - partnership risks by the relevant Partnership Board and included within Heads of Service reports twice yearly or via an annual report;
  - collaborative risks by the 'lead' organisation of the collaborative partnership and where these have been agreed to be from a principal collaboration, reported to Cabinet and relevant Scrutiny Committees in accordance with the Council's agreed protocol.
- Outcome Agreement (with Welsh Government) – a set of actions and measures, positive performance against the actions and measures results in grant funding of £1.4m which supports the Council's budget.
- Directorate and Service Plans, plus the corporate resource plans (for Human Resources, ICT and Customer Services, Finance and Legal and Democratic).
- Findings of and Council responses to external regulation.
- Quarterly Improvement Plan Monitoring - a report monitoring progress towards delivery of the Improvement Plan and mitigation of strategic risks.
- Half-yearly performance reporting at Head of Service level to Cabinet and Overview and Scrutiny – a monitoring report on progress, including priorities which are 'business as usual', service plan, operational risks, audit reports, improvement targets (not in the Improvement Plan) and issues such as sickness absence which are relevant across the whole organisation.

An integral part of business planning is understanding and taking action against risks related to the business. The Council's **risk management** processes are embedded and include:-

- Operational risk – identified and monitored at service level
- Project risk – identified and monitored through the project management system
- Strategic partnership risk - identified and monitored through the partnership governance framework
- Collaborative partnership risk – identified and monitored in accordance with the Council's agreed protocol.

A corporate risk management model as described in the Risk Management Strategy supports these arrangements.

The Council's strategic risks are included within the Council's Improvement Plan. This document is embedded within our business planning processes.

## ANNUAL GOVERNANCE STATEMENT

- Regular updating and reporting on progress is captured within the quarterly Improvement Plan monitoring. This includes:
- A red, amber, green (RAG) matrix to evaluate the current risk score:-
  - Gross Score – the score if there were no measures in place to control the risk
  - Net Score – as it is at the end of the time of review (usually end of quarter)
  - Target Score – what the score will be when all actions are completed / satisfactory arrangements are in place.
- Identification of the direction the risk is moving in (risk trend) – increasing, decreasing or staying the same.
- Updating of actions to mitigate the risks.

Part of the Council's approach to risk management includes its **business continuity arrangements**. The Council has a resilient approach to business continuity practices in place. Business continuity management prepares the organisation to plan effective responses to business interruptions, such as severe weather or a power outage, for its critical services to function and then return to normal as soon as possible.

The approach includes:

- Mission Critical Services which must be maintained or recovered as a priority should a business interruption occur; these services have Business Continuity Plans in place.
- a Corporate Business Continuity Plan which is the overall framework within which the plans for Mission Critical Services operate. It sets out the actions to be taken should a number of business continuity impacts be faced at the same time across e.g. accommodation or ICT infrastructure.
- regular testing and updating of all Business Continuity Plans to ensure they are kept up to date and current

Overall strategic responsibility for ensuring that services are maintained is the responsibility of the designated senior officers.

### i) **Corporate Strategies**

The Council has four principal corporate resource strategies (see \*) and other plans which provide the resource and accountability framework and support for the delivery of the Directorate and Service Plans. They include:-

- Medium Term Financial Strategy and Plan \*
- People Strategy \*
- Asset Management Plan \*
- ICT Strategy \*
- Procurement Strategy
- Health and Safety Policy

### j) **Regulation and Assurance**

Regulation and accountability provides assurance for the effectiveness of the Council's arrangements for the services it is responsible for and the achievement of its objectives. It is undertaken both internally within the organisation through its governance arrangements, practices and procedures

External arrangements for regulation and assurance are provided by a number of statutorily appointed bodies principally the Wales Audit Office (WAO), Estyn and the Care and Social Services Inspectorate (CSSIW).

Their role is independent of government and they examine and challenge the performance and effectiveness of Welsh public bodies work and produce either periodic or annual local and national reports on their findings.

## ANNUAL GOVERNANCE STATEMENT

The Council has a well established practice of dealing with findings from the external regulatory bodies through referral to committees, formal responses and tracking, and open publication of regulatory reports in our committee papers (with availability on the website).

### **k) Information Governance**

The Council's existing arrangements on information governance include the designation of an Information Governance Manager, a group of officers who meet on a monthly basis to give corporate advice on compliance with the Data Protection Act, corporate procedures in place for dealing with Data Protection, Freedom of Information, Environmental Information Regulations and Records Management. These procedures and guidance are available on the Council's Infonet.

### **l) Audit Committee**

Internally, the Council's Audit Committee's role and functions are to:-

- Review the effectiveness of the Council's systems of Corporate Governance, internal control and risk management systems, and to make reports and recommendations to the County Council on the adequacy and effectiveness of these arrangements;
- Oversee the reporting of the statutory financial statements process to ensure the balance, transparency and integrity of published financial information and to review the financial statements prepared by the authority and recommend them to County Council;
- Monitor the performance and effectiveness of the internal and external audit functions within the wider regulatory context;
- Review and scrutinise the County Council's financial affairs, and to make reports and recommendations on them. The role of the committee is to assure the budgetary control systems of the Council rather than the scrutiny of the use and value for money of expenditure which is the role of the respective Overview and Scrutiny Committees

The above reflects the expanded role of the committee as a result of the Local Government (Wales) Measure 2011. A lay person is a member of the committee pursuant to that measure.

### **m) Internal Audit**

The Internal Audit service is provided in accordance with the Public Sector Internal Audit Standards (PSIAS) and in accordance with the CIPFA Statement on the Role of the Head of Internal Audit. The Standards state that Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. An annual audit plan is prepared on the basis of the Internal Audit Strategy.

In accordance with the requirements of the PSIAS the Internal Audit Manager reports to the Audit Committee a summary of audit findings each quarter and prepares an annual report that summarises the results of internal audit work during the year on the overall system of internal control within the Authority.



## ANNUAL GOVERNANCE STATEMENT

### n) Counter Fraud and Anti Corruption Arrangement

The Council has in place an Anti-Fraud and Corruption Strategy, which includes consideration of the Bribery Act. There is also a Fraud Response Plan so that managers know how to respond to any suspicion of fraud. Codes of Conduct for Members and Officers specify the requirements around declarations of interest, potential conflicts of interest, gifts, hospitality, etc.

Internal controls are designed to minimise the incidence of fraud taking place and maximise the likelihood of it being detected if it occurs. Contract Procedure Rules and Financial Procedure Rules set out how transactions should be completed.

ICT security is managed by the Information Management Team. Flintshire complies with the Public Services Network code of connection, which is subject to an annual external assessment.

### o) Partnerships

The Council is involved in various ways in partnerships (as lead, joint partner, service recipient, service provider) at national, regional and local levels. Nationally, the Council is part of the local government 'family' in Wales making contributions in social policy development, influencing national decisions and in guiding professional and other bodies. The Council is an active member of many regional partnerships and representative bodies and a collaborative partner in numerous regional projects and partnerships.

On a County level, the Local Service Board (LSB) brings together the public service providers in Flintshire including: Flintshire County Council, North Wales Police, Betsi Cadwaladr University Health Board, Coleg Cambria, Glyndwr University, Flintshire Local Voluntary Council, National Public Health Service, North Wales Fire and Rescue Service and Natural Resources Wales.

The Flintshire LSB was established in 2008. Its remit is to focus on five main areas:

- Building and maintaining effective and trusting partnership relationships as a set of local leaders.
- Discharging the responsibilities of an LSB - this includes producing a meaningful and fit for purpose Community Strategy.
- Consistent and effective governance and performance of strategic partnerships.
- Identifying and working on common issues as public bodies/employers.
- Promoting collaboration in the design and provision of local public services to make best economic use of local partner's resources, such as people, money, assets and technology.

The following strategic partnerships make up Flintshire in Partnership:-

- Children & Young People's Partnership
- Community Safety through the Local Service Board and the regional Safer Communities Board.
- Flintshire Housing Partnership
- Health, Social Care and Well-being Partnership. This was replaced during 2013 by the Health, Wellbeing and Independence Board
- Local Safeguarding Children Board
- Regeneration Partnership
- Voluntary Sector Compact
- Youth Justice Plan and Board

## ANNUAL GOVERNANCE STATEMENT

The strategic partnerships have a partnership governance framework which includes an annual self assessment. This self assessment enables the partnerships to assess areas for improvement when working as a partnership. The assessments are reported into the Local Service Board.

Overall strategic partnership performance is reported to the Council's Cabinet and the Community Profile and Partnerships Overview and Scrutiny Committee twice yearly.

### **p) Whistle-blowing**

The Council is committed to the highest possible standards of openness, probity and accountability. To support that commitment we encourage employees and others with serious concerns about any aspect of the Council's work to come forward and voice those concerns. It is recognised that sensitive cases have to proceed on a confidential basis. This policy makes it clear that employees can do so without fear of reprisal. The policy is included in the Council's Constitution and is available on the Council's Infonet.

### **q) Complaints**

The Council has adopted a formal complaints procedure which also seeks comments and compliments and this is periodically updated. The procedure can be found on the Council's website.

### **r) Clwyd Pension Fund**

The Clwyd Pension Fund is administered by Flintshire County Council on a lead authority basis. Since 1 April 2006, the Local Government Pension Scheme Regulations have required a pension fund administering authority to prepare, publish and maintain a governance policy statement. This statement is published in the Annual Report which is available on the Clwyd Pension Fund website: [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

## **4. REVIEW OF EFFECTIVENESS**

Flintshire has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Senior Managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's annual report, self assessment questionnaires on corporate governance completed by all Heads of Service and also by comments made by the external auditors and other review agencies and inspectorates.

### **a) Council Constitution**

The 3 year programme of reviewing the entire Constitution, agreed by the Constitution Committee in 2012 continued. The parts of the Constitution reviewed during the year included the financial procedure rules and the contract procedure rules. Throughout the year updating changes were made following consultation with the Chair of the Constitution Committee and the political Group Leaders. Briefing sessions were held for officers on the contents of the Constitution.

### **b) Code of Corporate Governance**

Each year there is a review and update of the Code of Corporate Governance. This is coordinated by the Corporate Governance Officer Working Group. Following work by the Officer Working Group an updated version of the Code of Corporate Governance was reported to the Audit Committee meeting on the 18 December 2013. The updated version was agreed and the Constitution subsequently amended to reflect the changes made.

The other main task of the Officer Working Group is to prepare the draft Annual Governance Statement. In preparing the draft AGS it was decided there should be greater Member involvement in addition to reports to Audit Committee and County Council.

## ANNUAL GOVERNANCE STATEMENT

Prior to consideration at Audit Committee there was an informal briefing meeting for members of the committee. There was also a report to the Audit Committee to start the preparation of the AGS in December 2013 and questionnaires sent to the Chairs of Overview & Scrutiny Committees to involve them in the process for the first time.

### c) Council (Plan) Governance Framework

During the year it has been used as part of the management development programme for Managers at Institute of Leadership and Management (ILM) Levels 4 and 5 and received a favourable response as a comprehensive and user friendly resource. The annual review of the framework will be presented to both the Council's Cabinet and County Council meetings in summer 2014.

### d) Members

The Member development programme for 2013/14 included training being provided on the following:-

- Various planning topics
- Writing for Community Newsletters
- Public Law Outline and Corporate Parenting
- Digital Training
- Community Safety and Reassurance
- Effective Overview and Scrutiny
- Treasury Management

Members were provided with financial updates on the economic position, prospects for public sector funding and aspects of strategic financial planning and management through a series of workshops during the 2014/15 budget process. There has also been specialist training provided to the members of the Audit Committee and to the members of the Pensions Panel.

### e) Officers

During the year substantial progress was made on single status and equal pay which had been identified in previous annual governance statements as a significant governance issue. At its meeting on the 29 October 2013, County Council agreed proposals on single status and equal pay. Single Status was later agreed by ballots of the members of the recognised Trade Unions and takes effect on the 1 June 2014. The process for equal pay was subsequently agreed with the Trade Unions.

Through working in partnership with Coleg Cambria a comprehensive officer development programme is available enabling employees to develop their skills and competencies further and to achieve national ILM qualifications.

Towards the end of the year, work commenced on reviewing the officers' code of conduct following which steps will be taken to make officers more aware of its contents.

At its meeting on the 25 March 2014 the County Council considered a report reviewing the Council's operating model and its senior management structure. The recommended new corporate operating model and senior management structure was agreed and will be implemented early in 2014/15.

### f) Finance

The Council's revenue budget and capital programme for 2013/14 were agreed by the Council. The budget is aimed at protecting 'front line' public services and re-investment to meet council priorities despite a reduced level of funding.

In order to achieve a balanced budget the Council:

- Reviewed previous year decisions for pressures and efficiencies and revised them to reflect current need.
- Took a targeted approach to inflation
- Reviewed and challenged the in-year position
- Reviewed Reserves and Balances
- Progressed the Flintshire Futures work streams

The budget strategy for 2014/15 has been developed in the context of the following expectations:

- The protection of local services as a first priority
- The more challenging reduction of operating costs and overheads
- The reorganisation of the Council with a marked reduction in management costs
- The reduction of overall workforce costs
- The remodelling of some functions
- Building a longer-term financial plan based on optimum efficiency

The final outturn for the year, with an in year budget underspend of £3.387m was reported in July, which exceeded the efficiency targets within the budget. On capital over 80% of planned spend in year was incurred.

The financial future facing the Council continues to be very uncertain and challenging. A reduction in the amount of external funding received from Welsh Government (Revenue Support Grant and Non Domestic Rates) and increases in pay and price inflation has meant the Council was required to make almost £12m efficiency savings to achieve a balanced budget for 2014/15. The next stage of the development of the Medium Term Financial Plan will be published in summer 2014 alongside the new Improvement Plan. This provides greater opportunity to deepen the links between service and financial planning and provide a more robust framework for future reporting of the effectiveness.

The Corporate Finance team will be actively seeking to promote and raise awareness of the Council's Financial Procedure Rules during 2014/15.

### g) Organisational Change Strategy

The efficiency dividends from the early stages of the Flintshire Futures Programme from internal service change and reduced operating costs have supported a balanced budget for 2014/15 and have assisted in achieving an in-year under-spend for 2013/14.

The existing Flintshire Futures Programme with its four sub-programmes of corporate change, service review led functional change, regional collaboration and local collaboration has been successful to a point in changing and improving the organisation and in making sufficient and sustainable annual financial efficiencies.

## ANNUAL GOVERNANCE STATEMENT

However, given the size of the financial challenge to be scaled and the extent of public service reform, the existing Flintshire Futures Programme has now been expanded into a single and coherent strategy as outlined in section 3 (g).

### h) Business Planning

The Council approved its first Improvement Plan in June 2011. This Plan built on the Administration Priorities established in 2010 and identified a set of ten (primary) Improvement Priorities supported by more detailed secondary Directorate priorities. The Council adopted its Improvement Plan for 2013/14 on 25 June 2013. The Improvement Priorities of the previous Council were thoroughly reviewed and challenged to streamline and reset them and to be clearer over the impacts and how performance would be measured, leading to a set of eight Improvement Priorities with 24 sub-priorities.

The Improvement Plan focused on the priorities which were going to have the most impact during 2013/14. This helped the organisation to concentrate on the things where sustained corporate attention was needed during 2013/14, with the remaining priorities being managed as more routine performance management.

The Improvement Plan has been monitored in the following ways:

- Quarterly Improvement Plan monitoring, including an overview of progress against the achievement measures/milestones and risks is reported to Cabinet. In addition the Improvement Priorities have been monitored by appropriate Overview and Scrutiny Committees.
- Twice annually (at quarters 2 and 4) performance highlight reports were presented from the Heads of Service. These focused on performance exceptions, both good and poor whilst ensuring that the 'business as usual' is still being monitored and reported against
- Annual achievement against each of the eight Improvement Priorities is summarised in the Council's Annual Performance Report (APR) which is presented to both Cabinet and County Council.

In addition the strategic risks are reported to Audit Committee at least twice yearly for review and to ensure that emerging risks are captured and that assurance of risks being mitigated is achieved.

Part of the Council's approach to risk management includes its **business continuity arrangements**. As part of regular testing of plans, an exercise to assess performance and resilience of the Mission Critical Business Continuity Plans was held in October 2013.

The results show that the Plan holders coped well with a challenging scenario (pandemic flu), having shown:

- A clear understanding of the purpose and value of having a defined Mission Critical Business Continuity Plans
- An understanding of the potential consequences of an incident and how to deal with them

No circumstances arose during the year where it was necessary for the Mission Critical Business Continuity Plans to be invoked.

### i) Corporate Strategies

All Corporate Strategies are reviewed periodically; key ones (Finance, ICT, and People) annually. Their review takes into account mid and longer term planning considerations and they have been regularly reported to Cabinet and Corporate Resources Overview and Scrutiny in Head of Service performance reports.

## ANNUAL GOVERNANCE STATEMENT

### j) Regulation and Assurance

All formal reports are presented to the Cabinet and Audit Committee and considered by the various Overview & Scrutiny Committees as appropriate. Some reports such as the annual improvement report are presented to the full Council. In January 2014 the first annual summary report on external regulation was presented to the Audit Committee. Audit Committee members, Chairs & Vice Chairs Overview & Scrutiny Committees and relevant officers met during the year leading to a better understanding of their respective roles when considering such reports.

### k) Information Governance

During the year:-

- Over 1600 requests for information under the Freedom of Information Act or Environmental Information Regulations were dealt with.
- Regular performance reports on dealing with such requests were made to Overview & Scrutiny Committee and quarterly statistical information published on the Council's website.
- A range of different types of Data Protection training were provided to officers.
- An audit undertaken by the Information Commissioner's office (ICO) reached the favourable conclusion that there is a reasonable level of assurance that processes and procedures are in place for delivering Data Protection compliance.
- The follow up by the ICO at the end of the year indicated its satisfaction with the progress on implementing its earlier recommendations.
- During the year the Head of Legal and Democratic Services was appointed as the Council's first Senior Information Risk Owner.

### l) Audit Committee

The Audit Committee carries out an overview of the activities of the Council's internal and external audit functions. Elected members are provided with reports from the Wales Audit Office and summary reports on major systems and processes from Internal Audit. They supervise Internal Audit's completion of the audit plan and the Audit Manager submits his annual report to the committee. The committee also receives regular updates on risk management and Treasury Management.

The committee attended training from CIPFA in February 2014 aimed at 'Developing the Audit committee'. Treasury Management training was also given in January 2014. Members completed a self assessment against CIPFA Guidance for Audit Committees at the year end. The results showed that in the main the Committee complies with the guidance. Some areas were highlighted where existing arrangements can be strengthened. Training for the Audit Committee will be maintained in 2014/15.

### m) Internal Audit

Public Sector Internal Audit Standards (PSIAS) came into force in April 2013. They require the Audit Manager to develop a Quality Assurance and Improvement Programme (QAIP), designed to enable an evaluation of internal audit's conformance with the Standards. The QAIP must include ongoing monitoring of the performance of the internal audit activity and an annual assessment.

Ongoing monitoring is in place. The quality of audit work is ensured by the use of an audit manual, ongoing supervision and management of staff and the review of all audit work. Performance targets are set and actual performance reported to quarterly Audit Committee meetings.

## ANNUAL GOVERNANCE STATEMENT

Internal Audit undertook a self-assessment against the PSIAS requirements towards the end of the year and found that the department 'generally conforms' with the standards, which means that the relevant structures, policies and procedures of the department, as well as the processes by which they are applied, comply with the requirements of the Standards and of the Code of Ethics in all material respects.

In his annual report, based on the results of internal audits undertaken during the year, the Internal Audit Manager has concluded that Flintshire's arrangements for governance, risk management and internal control are adequate and effective.

### **n) Counter Fraud and Anti Corruption Arrangements**

The Authority took part in the National Fraud Initiative during the year using information provided by the Audit Commission. This involved looking at around 3,000 data matches across the Authority, including benefits, payroll, pensions and licences.

Contract Procedure Rules were updated, approved by the Audit Committee and re-launched. All employees involved in procurement activity received training on the new procedures. In addition computerised purchasing (p2p) was rolled out during the year. The system enforces the right level of authorisation for each purchase and the use of suppliers that are set up on the system.

Financial Procedure Rules were updated during the year and approved by the Audit Committee. Internal controls were improved after fraud investigations and as a result of internal audits.

During the year an ICT health check was carried out by an independent company, confirming the security of internal IT systems. Quarterly vulnerability scans were completed to confirm the security of external facing systems. Service Self-assessment forms showed that there could be greater awareness of the Anti-Fraud and Corruption Strategy and the Fraud Response Plan. These will be reviewed and re-launched during 2014/15.

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### **o) Partnerships**

#### **Collaborative partnerships**

In February 2012 the Council's Cabinet and County Council endorsed the adoption of the Compact between the Welsh Government and Welsh Local Government and subsequently became a signatory.

The Council has also reaffirmed its commitment to collaboration with other local authorities and public bodies where the interests of Flintshire to protect/improve public services and to achieve efficiencies can be met.

As recognised in the 'Compact' above two major regional delivery partnerships have been implemented during 2012/13:

- Regional School Effectiveness and Improvement Service (RSEIS)
- Social Services Regional Commissioning Hub

There is significant collaborative working which pre-exist the Compact in service areas including transport, residual and food waste procurement, procurement services and ICT.

The governance arrangements for the national and regional collaborations have been determined locally with a protocol updated by Cabinet in May 2013 for project governance and reporting.

### Strategic partnerships

The Local Service Board produced and endorsed its Single Integrated Plan during 2013 which brings together the four priorities and commitments of the LSB along with their detailed governance and reporting arrangements. These priorities are:

- Priority 1: Lead by example as employers and community leaders
- Priority 2: People are safe
- Priority 3: People enjoy good health, wellbeing and independence
- Priority 4: Organisational environmental practices

A review of the North Wales Partnerships in 2011 resulted in a series of changes which have continued during 2013/14:-

- Community Safety Partnership: Flintshire's Community Safety Partnership continues to operate through the Flintshire Local Service Board with strategic functions being discharged at a regional level through the Safer Communities Board
- Health, Social Care and Wellbeing Board: this was replaced by the Health, Wellbeing and Independence Board in late 2013.

### p) Whistle-blowing

A small number of employees have used the policy during 2012/13 to raise concerns, which shows that the policy is known. They were treated sensitively and correctly, with the allegations being investigated whilst protecting the confidentiality of the whistleblowers. The policy was reviewed during the year to take into account changes introduced by the Enterprise and Regulatory Reform Act and the latest guidance received. It will be re-launched early in 2014/15.

### q) Complaints

Following the implementation of the new Compliments, Concerns and Complaints Policy, there has been an improvement in complaints handling with Step 1 complaints being managed in accordance with corporate standards i.e. 80% of complaints dealt with within 10 working days from receipt.

The Customer Services Award has been successfully delivered to 226 employees across the organisation with each employee receiving the nationally recognised OCR (Oxford Cambridge RSA) Customer Service qualification. This vocationally related, credit based qualification provides valuable opportunities for employees to develop their skills, gain underpinning knowledge and understanding and demonstrate competence in their place of work. The award is complimented by a half day Complaints Awareness session which is delivered in partnership with Coleg Cambria to further strengthen the Council's handling procedure across the organisation.

### r) Clwyd Pension Fund

The Annual Report of the Clwyd Pension Fund includes the Fund's Governance Compliance Statement and a review of its effectiveness by the Independent Advisor/Consultant. The annual report includes details of attendance by Members at Panel Meetings and the training they have received during the year. In 2011/12, the Fund adopted the CIPFA Code of Practice on knowledge and skills on Pension Finance for Members and Officers. The training continued in 2013/14 to satisfy the requirements of this Code of Practice. During 2013/14 the governance structure of the Clwyd Pension Fund has been reviewed leading to the creation of the Clwyd Pension Fund Committee.



## ANNUAL GOVERNANCE STATEMENT

### 5. SIGNIFICANT GOVERNANCE ISSUES

Set out below is a list of significant strategic risks to the Council and the proposed mitigating actions for those risks.

Issues	Risk	Mitigation
The public sector fiscal position	<p>The unpredictable scale of major reductions in Welsh Government resources and vying national priorities on the Revenue Support Grant (RSG) and specific grants.</p> <p>The level of potential reductions in RSG counter to previous Welsh Government indicative budget planning.</p>	<p>Influencing national decision-makers through negotiation as part of the collective negotiations.</p> <p>Medium Term Financial Planning on a number of challenging scenarios.</p>
Medium Term Financial Planning	<p>Planning being able to adjust to accommodate changing predictions for loss of funding (see above).</p> <p>The maturity of the Council's Medium Term Financial Strategy and Plan to reflect organisational and demographic changes and major cost reductions/service choices.</p>	<p>Producing two revisions of the Medium Term Financial Plan in-year which will be updated on an ongoing basis alongside the 2015/16 budget. Further broadening the scale of organisational change and cost reduction programmes.</p>
Housing Business Plan	<p>Being able to achieve the deadline for the Welsh Housing Quality Standard acceptable to Welsh Government.</p> <p>Having sufficient capital resources available to fund the required works.</p>	<p>Welsh Government in July 2013 approved a Housing Business Plan which achieves the standard by 2020.</p> <p>The continued improvement of the financial performance of the Housing Revenue Account coupled with strategic choices for certain sections of the housing stock.</p>
Joint Working with Health	<p>The performance of partnership working by BCUHB on strategic and operational planning at county level, as recognised by the independent corporate governance review of the Wales Audit Office and more locally by CSSIW in its inspections of the Council and joint work by BCUHB primarily with Social Services.</p>	<p>Ongoing governance and management changes within BCUHB, jointly agreed improvements to regional and county level joint working, and an inclusive approach by BCUHB to current and ongoing service reviews of acute, specialist and community services.</p>
Leisure	<p>The sustainability of the leisure service and its portfolio of facilities.</p>	<p>Decisions on a scale of facilities and services which can be sustained longer-term.</p>
School Modernisation	<p>The scale and complexity of the 21st Century Schools programme. Plus until there are formal Ministerial decisions (awaited) and finalised plans for the preferred options, then future delays in the programme may occur.</p>	<p>Prioritising capital resources to meet need.</p> <p>Continuing to implement the school modernisation strategy including the review of assets and primary and secondary school organisation.</p>

## ANNUAL GOVERNANCE STATEMENT

Welfare Reform	Protect the vulnerable from the impacts of Welfare Reforms	<p>Implementing the partnership programme of Welfare Reform protective measures</p> <p>Maintaining welfare reform support, advice and protection as a Council Priority.</p> <p>Providing specific and targeted support through housing, social care welfare rights and benefits services.</p>
Collaboration Governance	<p>Failing to sufficiently hold services to account which may be managed under new and less immediate collaborative governance arrangements.</p> <p>Business continuity and performance failure during the transition from old to new service delivery models.</p>	<p>Ensuing agreed and supported governance models for new collaborations.</p> <p>Fully applying the Council protocol on performance reporting for new collaborative services.</p>
National Reviews of the Public Sector	<p>As a result of the report by the Public Services Commission the potential for major local government reorganisation and change in local government responsibilities and functions.</p> <p>The risks of uncertainty in forward planning, impacts on resources and disruptions to business continuity in planning and transition for any change set by Welsh Government are significant.</p>	<p>Active involvement in the negotiation and planning over any agreed changes both politically and professionally at both national and regional level.</p> <p>Prioritisation of time and resources for planning any local change which is required to implement any directed change from Welsh Government.</p>
Review of the Council operating Model and Senior Management Structure	Disruption etc. as per the 25 March Council report.	Effective management of the risk transition plan.
North Wales Residual Waste Treatment Programme	Lead Authority for the programme, in partnership with four other Local Authorities, and site of the proposed plant.	Strong governance through Joint Committee, Inter Authority Agreement being drawn up for the next phase.
Additional Improvement Plan 2013/14 risks status RED at year end.		
Modern, Efficient and Adapted Homes	<p>Maximising our joint resources with our partners.</p> <p>The uncertainty created by the potential review of local government as a consequence of the Public Services Commission has made progress over possible new collaborations a significant challenge.</p>	Influencing national decision-makers and our partners through consultation and negotiation.

## ANNUAL GOVERNANCE STATEMENT

<p>Town and Rural Regeneration</p>	<p>Maximising funding opportunities through external programmes to invest in our urban and rural areas.</p> <p>The Council is seeking external funding to support urban and rural regeneration. The main sources of funding are still in transition from the 2007-2013 to the 2014-2020 period, so there is reasonable certainty in planning programmes. The amount of resources available for programmes including town centre regeneration is unlikely to be sufficient to meet need and expectation for investment.</p>	<p>Actively seeking every source of external funding to support urban and rural regeneration.</p>
<p>Matching Resources to Priorities</p>	<p>Gaining political agreement to a business approach for fees and charges which may have public opposition.</p>	<p>Work is underway on a corporate and more commercial policy for fees and charges – not yet completed.</p>

Signed.....Leader of the Council

Signed.....Chief Executive

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# Audit of Financial Statements Report

## Flintshire County Council

**Audit year:** 2013-14

**Issued:** September 2014

**Document reference:** 563A2014

# Status of report

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This document has been prepared for the internal use of Flintshire County Council as part of work performed in accordance with the statutory functions.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

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The team who delivered the work comprised John Herniman, Amanda Hughes, Ron Parker, Sue Bethell, Paul Jones and Diane Jones

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The Appointed Auditor intends to issue an unqualified audit report on the financial statements of Flintshire County Council. There are some issues to report to you prior to their approval.

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# Summary report

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## Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Flintshire County Council at 31 March 2014 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for Flintshire County Council are £4.881 million for income and expenditure items and working capital balances, and £7.651 million for other balances. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Flintshire County Council, for 2013-14, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014, the agreed deadline, and have now substantially completed the audit work.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with Gary Ferguson, Corporate Finance Manager.

## Proposed audit report

8. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
9. The proposed audit report is set out in [Appendix 2](#).



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## Significant issues arising from the audit

### Uncorrected misstatements

10. There are no misstatements identified in the financial statements, which remain uncorrected.

### Corrected misstatements

11. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

### Significant audit risks

12. In our Financial Audit Strategy, we set out information regarding the significant and elevated audit risks that were identified during the audit planning process. [Exhibit 1](#) below sets out the outcome of our audit procedures in respect of those risks:

#### Exhibit 1: Summary of main risks and action taken

Risks	Action taken
<b>Control environment risks</b>	
<b>Management override of controls</b> The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk. In addition, the Council continues to face significant financial pressures, including funding cuts. The current financial pressures on the Council increase the risk that management judgements and estimates could be biased in an effort to meet its financial challenges.	<ul style="list-style-type: none"><li>• We understood and evaluated internal control processes and procedures as part of our planning work.</li><li>• We reviewed and tested the appropriateness of a sample of manual journals processed during the year.</li><li>• We looked carefully at management estimations and considered if they were subject to bias.</li><li>• We understood the business rationale for significant transactions which appeared out of the normal course of business.</li><li>• Our audit procedures also included an unpredictable element that varies year on year.</li></ul> We have not identified any misstatements as a result of our testing to date.

Risks	Action taken
<p><b>Revenue and expenditure recognition</b></p> <p>There is a risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</p>	<ul style="list-style-type: none"> <li>• We have evaluated key controls to confirm our understanding of the design of the control; tested key reconciliations, and, tested that transactions that occurred around year-end were appropriately classified within the financial year to which they related.</li> <li>• We have considered the accounting policies adopted by the Council and subjected income and expenditure to the appropriate level of testing to identify any material misstatement.</li> <li>• We have also considered the work we undertook in relation to the risk of management override of controls (see above).</li> </ul> <p>We did not identify any misstatements as a result of our work.</p>

#### Financial statements risks

<p><b>Property, plant and equipment (PPE)</b></p> <p>Risk of material misstatement in the financial statements arising from the accounting for Non-Current Assets.</p> <p>We have identified a number of issues in previous years which have resulted in material adjustments to the draft financial statements.</p>	<ul style="list-style-type: none"> <li>• We have considered the accounting treatment and disclosure of non-current assets to ensure that issues identified in previous years have now been addressed.</li> <li>• We have tested a sample of transactions to ensure that noncurrent assets are appropriately valued and correctly reflect depreciation and impairment.</li> </ul> <p>As a result of our work, some amendments to the financial statements were made and matters reported (see below and <a href="#">Appendix 3</a>).</p>
<p><b>Notes relating to remuneration, exit packages and related parties</b></p> <p>We have identified a number of disclosures as being material by nature. These include the above notes.</p>	<ul style="list-style-type: none"> <li>• We have tested a sample of the detailed transactions contained within these notes to ensure that they are fairly stated.</li> <li>• We have confirmed that the accounting treatment and disclosure requirements have been met.</li> </ul> <p>We did not identify any misstatements as a result of our work.</p>

Risks	Action taken
<p><b>Provisions including single status</b> The preparation of the Statement of Accounts will involve the estimation of a number of account figures such as provisions for the Council's liabilities (eg equal pay claims, legal disputes).</p>	<ul style="list-style-type: none"> <li>We assessed the reasonableness of the accounting estimates made by officers in light of the latest information available to them and considered the documentation held to support the estimates and the judgements made.</li> <li>We have considered the accounting treatment and disclosure of provisions and associated entries, eg single status/equal pay reserve.</li> </ul> <p>As a result of our work some amendments to the financial statements were made and matters reported (see below and <a href="#">Appendix 3</a>).</p>

### Other significant issues arising from the audit

13. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

#### We have some concerns about the qualitative aspects of your accounting practices and financial reporting.

14. We have the following concerns about the qualitative aspects of your accounting practices and financial reporting:

#### Non-current assets are not sufficiently detailed within the Council's asset register to allow the identification of individual assets across all asset categories

15. Historically the Council has not ensured that all assets are recorded in its asset register in sufficient detail to allow for the easy recognition of individual assets. This is particularly the case for infrastructure, vehicles, plant and equipment. There are potential implications, both in terms of ensuring that the assets are accounted for correctly in respect of depreciation and impairment, but also in allowing the Council to easily confirm that the assets are still in existence and use.
16. In order for us to obtain sufficient assurance that assets are materially stated, it has been necessary for the finance team to recreate detailed asset listings which has been time consuming. It is essential that the Council ensures that individual assets are recorded within the asset register in sufficient detail in the future. It may also be necessary to consider improving the existing records of assets.
17. As part of our sample testing on Council dwellings, we identified that two council house properties had been valued as one-bedroom properties when they were in fact three-bedroom properties. We are satisfied that the overall valuation of the council house

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stock is materially stated, but the Council needs to ensure that it correctly classifies and therefore correctly values its assets.

**The Council continues to make improvements in the quality of its accounts although there are still some outstanding matters**

18. The general quality of the accounts continues to improve and there are fewer adjustments in numbers than there has been previously.
19. However, there are two areas where further work is required:
  - As part of this year's audit we have identified a number of transactions which have been accounted for in the wrong financial year, despite the finance department issuing clear instructions to the Council departments. Of particular concern is that the decision, in some instances, behind whether or not to accrue has been as a result of whether a budget was under or over spent. However, it is an underlying requirement in the preparation of accounts that transactions are recorded in the correct period based on whether goods and services have been received by 31 March. Whilst we are satisfied that the cumulative value of these errors is not material, it is essential that both the procedures and the understanding by budget holders is strengthened.
  - The Council has a number of highways, environmental and s106 deposits which it holds as part of the short-term creditors (£912,000) and receipts in advance (£793,000) balances. The accounting treatment of a deposit is dependent upon the substance of the specific agreements which will differ from one to another. Currently, the Council is unable to demonstrate that the classification of these deposits (between creditors and receipts in advance and between non-current and current balances) is correct, although we are satisfied that any misstatement (which has a nil effect overall) is not material. The Council needs to undertake an exercise, with reference to the individual agreements, to determine the appropriate accounting treatment of deposits.

**The Authority has not recognised a liability for pension contributions on its equal pay liabilities and an element of its provision was based on historic information when more current data should have been available**

20. The Council is in the process of agreeing equal pay and single status settlements with employees and the accounts include a provision in respect of this liability. The authority has, on the basis of legal advice available to it, not provided for pension contributions on this liability. However, it has included a nominal sum to buy out any pension obligations.
21. The Appointed Auditor has been provided with legal advice which suggests that pension contributions should be made on the payments to resolve the equal pay claims and the single status implementation payments.
22. In light of the diverging legal views and the uncertainty regarding the need to recognise a provision in respect of pension contributions on equal pay and single status

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- settlements, the Appointed Auditor has concluded that he is not required to undertake any further action regarding this matter as part of the 2013-2014 audits of accounts.
23. The Council needs to be alert to any future court decisions on this issue that could clarify the legal position and impact on need for a provision. In the event of any such decisions, the Appointed Auditor will also need to reconsider his position.
  24. The equal pay provision provides for potential costs relating to settlement of historic equal pay cases and for the cost of the one-off single status implementation and incentive payments. We are satisfied that the element of the provision for the settlement of the equal pay cases is a reasonable estimate of the likely costs. However, the estimate for the single status implementation and incentive payments was based on data from 2012. Given that payments to individuals were imminent at the time the accounts were prepared, we would have expected more current information to be available for estimation purpose.
  25. In addition, this element of the provision did not include an estimate for the cost of employer national insurance costs even though it is payable. As a result, an adjustment has been made to increase the provision by £484,000.
  26. It was also necessary for the Council to reconsider the single status/equal pay reserve, which was created to defer the cost of equal pay until the point the payments are actually made. However, this accounting treatment is only permissible in relation to the equal pay element. Consequently, this reserve has been adjusted by the sum relating to the single status implementation payments which have now been funded by earmarked reserves.

**There are two matters relevant to the financial reporting process that we need to report to you**

27. Firstly, whilst the Council can demonstrate that it considers the use of its earmarked and general reserves in its budget decision making, it does not have a clear protocol that sets out the arrangements for the establishment, discharge and review of reserves to support the Council's financial strategy and plan.
28. Secondly, International Accounting Standard 19 (Employee Benefits) requires bodies to disclose in their accounts the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits.
29. The actuary prepares both a triennial funding valuation and an annual valuation of the pension fund liabilities, on an IAS 19 basis, which provides both revenue and balance sheet disclosures for inclusion in the financial statements. This is prepared using a range of data, provided by the administering authority (Clwyd Pension Fund), and actuarial assumptions.
30. It is critical therefore that the administering authority's membership records are up to date and accurately record data for active, deferred and pensioner records. Both the employer body (via its payroll team) and the administering authority need to work together to ensure that membership records are kept up to date. This not only has

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implications for the IAS19 disclosures in the financial statements, but also for the individuals concerned.

31. Whilst the administering authority process changes notified to them by the employer throughout the year, the employer also submits an annual contributions return. This allows for the data to be reconciled and often identifies changes, e.g. starters, leavers or additional roles, for which the administering authority has not been notified.
32. In 2013-14, Flintshire's annual contribution return was submitted to the administering authority in the wrong format. Consequently, delays occurred in reconciling the membership data which has resulted in annual pension information being sent to the employees late.
33. The administering authority are keen to move to a monthly process and whilst we appreciate that there are resource implications for both the administering authority and the employer bodies, we would encourage this move as it is critical that membership data is accurate.

#### There are no other matters that we need to report to you

34. There are no other matters to report to you. In particular:
  - we did not encounter any significant difficulties during the audit;
  - there were no significant matters discussed and corresponded upon with management which we need to report to you;
  - we did not identify any material weaknesses in your internal controls that we have not reported to you already; and
  - there are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

## Independence and objectivity

35. As part of the finalisation process, we are required to provide you with representations concerning our independence.
36. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Flintshire County Council that we consider to bear on our objectivity and independence.

# Appendix 1

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## Final Letter of Representation

[Audited body's letterhead]

Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

24 September 2014

## Representations regarding the 2013-14 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Flintshire County Council for the year ended 31 March 2014 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

### Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- 
- additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
  - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - Our knowledge of fraud or suspected fraud that we are aware of and that affects Flintshire County Council and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements.
  - Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
  - Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - The identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



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## Representations by Flintshire County Council

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Flintshire County Council on 24 September 2014.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

**Gary Ferguson**  
**Corporate Finance Manager (Chief**  
**Finance Officer)**

**Glenys Diskin**  
**Chair to the Council**

Date: 24 September 2014

Date: 24 September 2014

# Appendix 2

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## Proposed audit report of the Appointed Auditor to Flintshire County Council

### Independent auditor's report to the Members of Flintshire County Council

I have audited the accounting statements and related notes of:

- Flintshire County Council
- Clwyd Pension Fund

for the year ended 31 March 2014 under the Public Audit (Wales) Act 2004.

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

The Clwyd Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 based on International Financial Reporting Standards (IFRSs).

### Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, Flintshire County Council's accounting statements, which gives a true and fair view.

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

### Scope of the audit of the accounting statements

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

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially

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inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

### **Opinion on the accounting statements of Flintshire County Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Flintshire County Council as at 31 March 2014 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

### **Opinion on the accounting statements of Clwyd Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Clwyd Pension Fund during the year ended 31 March 2014 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

### **Opinion on other matters**

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

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

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

### **Certificate of completion of audit**

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

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

**30 September 2014**

## Appendix 3

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### Summary of corrections made to the draft financial statements which should be drawn to the attention of Flintshire County Council

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
-£51,000	<b>Note 38</b> This resulted from a number of different adjustments, which related to some calculation errors in revaluation. This also had an effect on the Comprehensive Income and Expenditure Statement.	To ensure the note and prime statement reflected the correct figure.
£949,000	<b>Note 5</b> to the HRA was an additional disclosure related to HRA share of contributions to/from the pension reserve.	To comply with the Code disclosure requirements.
£623,113	<b>Note 41 Capital Commitments</b> A contract had been omitted from the disclosure note.	To reflect the actual position.
£3,795,000	<b>Note 18 Grant Income</b> A number of errors had been identified, including understated grant income.	To reflect the actual position.
£72,000	<b>Note 30 Audit Fees</b> Included a footnote to explain redistribution of reserves to the Council.	For completeness.
£272,000	<b>HRA Income and Expenditure Statement</b> In the original draft accounts the non-dwelling rents were included within the Dwelling rents. This amendment splits them but has no effect on the accounts overall.	To comply with the Code disclosure requirements.
£28,158	<b>Note 29 Related Parties</b> The amounts owed to the Council by the BCHLHB, were understated.	To reflect the actual position.

Value of correction	Nature of correction	Reason for correction
£20,230,000	<p><b>Note 6 PPE</b></p> <p>The additions figure did not agree to Note 40 amount for capital investment, as it did not include £20 million on non-enhancing capital expenditure. This amount should also be reflected in the impairments line of Note 6.</p>	To comply with the Code accounting guidance.
£484,000	<p><b>Note 20 Provisions</b></p> <p>The Equal Pay provision was increased to better reflect the estimate of the liability.</p>	To reflect the full amount of provision required.
-£3,768,000	<p><b>Note 23 Equal Pay Account</b></p> <p>Reduction in the Equal pay in the single status/equal pay reserve in Unusable Reserves and in the Earmarked Reserves in Usable Reserves.</p>	To correctly fund the implementation payments from earmarked reserves.
Narrative disclosures	There were a number of narrative amendments to disclosure notes that have all been actioned.	To comply with guidance and to amend errors identified.

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# Audit of Financial Statements Report

## **Clwyd Pension Fund**

**Audit year:** 2013-14

**Issued:** September 2014

**Document reference:** 560A2014

# Status of report

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This document has been prepared for the internal use of Flintshire County Council as part of work performed in accordance with the statutory functions.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales, the Wales Audit Office and, where applicable, the appointed auditor are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@wao.gov.uk](mailto:infoofficer@wao.gov.uk).

The team who delivered the work comprised John Herniman, Amanda Hughes, Ron Parker, Simon Monkhouse and Jessica Hamilton



# Contents

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The Appointed Auditor intends to issue an unqualified audit report on the financial statements of Clwyd pension fund. There are some issues to report to you prior to their approval.

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# Summary report

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## Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Clwyd Pension Fund at 31 March 2014 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for Clwyd Pension Fund is £11.814 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Clwyd Pension Fund, for 2013-14, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014, the agreed deadline, and have now substantially completed the audit work.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with Gary Ferguson, Corporate Finance Manager.

## Proposed audit report

8. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#). The proposed audit report is included within the full audit report on the Council's financial statements which is set out in [Appendix 2](#),

## Significant issues arising from the audit

### Uncorrected misstatements

9. There are no misstatements identified in the financial statements, which remain uncorrected.

## Corrected misstatements

10. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out in [Exhibit 1](#) below:

### Exhibit 1: Summary of corrections

Value of correction	Nature of correction	Reason for correction
£905,000	The Fund Accounts included this amount in the Pensions figure but it should have been in Lump Sums (Retirement).	To ensure correct classification.
£515,000	Difference in Private equity holdings from valuations at the time the draft accounts complied, to year-end valuations received during the audit. This affects a number of notes in the accounts.	To ensure Private Equity balances reflected the most up to date valuations.
£935,000	<b>Note 9 Creditors</b> Increase in lump sum accruals based on more recent information than was available at year-end.	To correctly accrue for retirement liabilities up to 31 March.
£172,000	<b>Note 9 Creditors</b> Increase in death grant accruals based on more recent information than was available at year-end.	To correctly accrue for death benefit liabilities up to 31 March.

## Significant audit risks

11. In our Financial Audit Strategy, we set out information regarding the significant and elevated audit risks that were identified during the audit planning process. [Exhibit 2](#) below sets out the outcome of our audit procedures in respect of those risks:

### Exhibit 2: Summary of main audit risks and action taken

Risks	Action taken
<b>Control environment risks</b>	
<b>Management override and estimation</b> The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant	<ul style="list-style-type: none"> <li>We understood and evaluated internal control processes and procedures as part of our planning work.</li> <li>We reviewed and tested the appropriateness of a sample of manual</li> </ul>

Risks	Action taken
<p>risk.</p> <p>In addition, the preparation of the Statement of Accounts will involve the estimation of a number of account figures which could be subject to bias.</p>	<p>journals processed during the year.</p> <ul style="list-style-type: none"> <li>• We looked carefully at management estimations and considered if they were subject to bias.</li> <li>• We understood the business rationale for significant transactions which appeared out of the normal course of business.</li> <li>• Our audit procedures also included an unpredictable element that varies year on year.</li> </ul> <p>We have not identified any misstatements as a result of our testing to date.</p>
<p><b>Revenue and expenditure recognition</b></p> <p>There is a risk that the Pension Fund could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the financial Statements.</p>	<ul style="list-style-type: none"> <li>• We have evaluated key controls to confirm our understanding of the design of the control; tested key reconciliations, and, tested that transactions that occurred around year-end were appropriately classified within the financial year to which they related.</li> <li>• We have considered the accounting policies adopted by the Pension Fund and subjected income and expenditure to the appropriate level of testing to identify any material misstatement.</li> <li>• We have also considered the work we undertook in relation to the risk of management override of controls (see above).</li> </ul> <p>We did not identify any misstatements as a result of our work.</p>
<p>In 2012-13 we were aware that there were staffing shortages within the pensions' administration section. Whilst we believe that this has now been resolved there is a risk that this had an impact on the timely processing of pensions' administration tasks which may affect the transactions within the financial statements.</p>	<p>We reviewed the Council's closedown procedures and liaised with the Head of Pensions to consider whether previous capacity issues gave rise to specific accounts risks. We did not identify any risks of material misstatement.</p>
<p><b>Financial systems risks</b></p>	
<p>As part of its portfolio, the Pension Fund has substantial holdings in unquoted investments (approximately £262.5 million in 2012-13).</p> <p>These are accounted for at fair value determined by valuations provided by fund managers.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• obtained direct confirmation from Fund managers of the year-end investment balances;</li> <li>• reviewed and assessed investment manager's internal control reports to establish whether they are indicative of</li> </ul>

Risks	Action taken
<p>In addition, external investment managers are appointed to manage the investment portfolio. Their own systems and records will generate account entries made to the Pension Fund account and net assets statement.</p>	<p>specific risks to the balances; and</p> <ul style="list-style-type: none"> <li>obtained the Investment fund's audited financial statements and considered relevant issues raised by the auditor.</li> </ul> <p>We did not identify any material misstatement as a result of our work.</p>

### Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

#### We have one concern about the qualitative aspects of your accounting practices and financial reporting.

13. As a result of our audit work we identified that the Pension Fund had under estimated the accrual for the lump sum and death benefit liabilities for former employees who had either retired or passed away up to and including 31 March 2014. As a result, an amendment was made to accrue an additional £1.107 million of expenditure.
14. The Council needs to strengthen its arrangements to ensure that it identifies all retirements (and deaths) up to 31 March 2013 in order to accrue for the liability in the correct financial period.

#### There is one matter relevant to the oversight of the financial reporting process that we need to report to you

15. International Accounting Standard 19 (Employee Benefits) requires Employer bodies to disclose in their accounts the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits.
16. The actuary prepares both a triennial funding valuation and an annual valuation of the pension fund liabilities, on an IAS19 basis, which provides both revenue and balance sheet disclosures for inclusion in the financial statements. This is prepared using a range of data, provided by the administering authority, and actuarial assumptions.
17. It is critical therefore that the administering authority's membership records are up to date and accurately record data for active, deferred and pensioner records. Both the employer body (via its payroll team) and the administering authority need to work together to ensure that membership records are kept up to date. This not only has implications for the IAS19 disclosures in the financial statements, but also for the individuals concerned.
18. Whilst the administering authority process changes notified to them by the employer throughout the year, the employer also submits an annual contributions return. This

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allows for the data to be reconciled and often identifies changes, eg starters, leavers or additional roles, for which the administering authority has not been notified.

19. The administering authority are keen to move to a monthly process and whilst we appreciate that there are resource implications for both the administering authority and the employer bodies, we would encourage this move as it is critical that membership data is accurate.
20. Other than the actuarial present value of promised retirement benefits being disclosed in Note 15, it is worth noting that this issue does not directly impact on the financial statements of the pension fund.

### There are no other matters that we need to report to you

21. There are no other matters to report to you. In particular:
  - we did not encounter any significant difficulties during the audit;
  - there were no significant matters discussed and corresponded upon with management which we need to report to you;
  - we did not identify any material weaknesses in your internal controls that we have not reported to you already; and
  - there are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

### Independence and objectivity

22. As part of the finalisation process, we are required to provide you with representations concerning our independence.
23. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Flintshire County Council that we consider to bear on our objectivity and independence.

# Appendix 1

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## Final Letter of Representation

[Audited body's letterhead]

Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

24 September 2014

Dear Sir,

### Representations Regarding the 2013/14 Financial Statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund for the year ended 31 March 2014 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

### Management Representations

#### Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

#### Information Provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and

- 
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
  - The identity of all related parties and all the related party relationships and transactions of which we are aware.
  - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - In the period relating to this audit we do not have any knowledge of the following:
    - fraud or suspected fraud that we are aware of and that affects Clwyd Pension Fund and involves management; employees who have significant roles in internal control; or others where the fraud could have a material effect on the financial statements;
    - any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others; and
    - known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

### Financial Statement Representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In terms of the recommendations made in the audit report:

1. Consideration will be given on how to strengthen the process for estimating the accrual for the lump sum and death benefit liabilities; and
2. improving the process for the flow of member information from employers to the administering authority is included in the Clwyd Pension Fund Service Plan 2014/15 and progress will be monitored by the Clwyd Pension Fund Committee.



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### Representations by Flintshire County Council

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Flintshire County Council on 24 September 2014.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

**Gary Ferguson**  
**Corporate Finance Manager (Chief**  
**Finance Officer)**

**Glenys Diskin**  
**Chair to the Council**

Date: 24 September 2014

Date: 24 September 2014

# Appendix 2

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## Proposed audit report of the Appointed Auditor to Flintshire County Council

### Independent auditor's report to the Members of Flintshire County Council

I have audited the accounting statements and related notes of:

- Flintshire County Council; and
- Clwyd Pension Fund

for the year ended 31 March 2014 under the Public Audit (Wales) Act 2004.

Flintshire County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, and the Cash Flow Statement.

Clwyd Pension Fund accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 based on International Financial Reporting Standards (IFRSs).

### Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, Flintshire County Council's accounting statements, which gives a true and fair view.

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

### Scope of the audit of the accounting statements

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

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I

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become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

### **Opinion on the accounting statements of Flintshire County Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Flintshire County Council as at 31 March 2014 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

### **Opinion on the accounting statements of Clwyd Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Clwyd Pension Fund during the year ended 31 March 2014 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

### **Opinion on other matters**

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

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

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

### **Certificate of completion of audit**

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

**Anthony Barrett**  
**Appointed Auditor**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**  
**30 September 2014**

Wales Audit Office  
24 Cathedral Road  
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Gary Ferguson  
Chief Finance Officer  
Prif Swyddog Cyllid



Appointed Auditor,  
Wales Audit Office,  
24 Cathedral Road,  
Cardiff.  
CF11 9LJ

Your Ref/Eich Cyf  
Our Ref/Ein Cyf  
Date/Dyddiad  
Ask for/Gofynner am  
Direct Dial/Rhif Union  
Fax/Ffacs

LOR 13.14  
24 September 2014  
Liz Thomas  
01352 702289  
01352 700149

Dear Sir,

### **Representations Regarding the 2013/14 Financial Statements**

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Flintshire County Council for the year ended 31 March 2014 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

### **Management Representations**

#### **Responsibilities**

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Local Government Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

County Hall, Mold. CH7 6NB  
[www.flintshire.gov.uk](http://www.flintshire.gov.uk)  
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[www.siryfflint.gov.uk](http://www.siryfflint.gov.uk)

## **Information Provided**

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects Flintshire County Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

## **Financial Statement Representations**

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### **Representations by Flintshire County Council**

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Flintshire County Council on 24<sup>th</sup> September 2014.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

**Gary Ferguson**  
**Corporate Finance Manager (Chief**  
**Finance Officer)**

**Glenys Diskin**  
**Chair to the Council**

Date: 24<sup>th</sup> September 2014

Date: 24<sup>th</sup> September 2014

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**Gary Ferguson**  
Chief Finance Officer  
Prif Swyddog Cyllid



Appointed Auditor,  
Wales Audit Office,  
24 Cathedral Road,  
Cardiff.  
CF11 9LJ

Your Ref/Eich Cyf  
Our Ref/Ein Cyf  
Date/Dyddiad  
Ask for/Gofynnwr am  
Direct Dial/Rhif Union  
Fax/Ffacs

LOR 13.14  
24 September 2014  
Liz Thomas  
01352 702289  
01352 700149

Dear Sir,

### **Representations Regarding the 2013/14 Financial Statements**

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund for the year ended 31 March 2014 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

### **Management Representations**

#### **Responsibilities**

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

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## **Information Provided**

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
  
- The identity of all related parties and all the related party relationships and transactions of which we are aware.
  
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  
- In the period relating to this audit we do not have any knowledge of the following:
  - fraud or suspected fraud that we are aware of and that affects Clwyd Pension Fund and involves management; employees who have significant roles in internal control; or others where the fraud could have a material effect on the financial statements
  - any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
  - known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **Financial Statement Representations**

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In terms of the recommendations made in the audit report:

1. Consideration will be given on how to strengthen the process for estimating the accrual for the lump sum and death benefit liabilities.
2. Improving the process for the flow of member information from employers to the administering authority is included in the Clwyd Pension Fund Service Plan 2014/15 and progress will be monitored by the Clwyd Pension Fund Committee.

### **Representations by Flintshire County Council**

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Flintshire County Council on 24<sup>th</sup> September 2014.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

**Gary Ferguson**  
**Corporate Finance Manager (Chief**  
**Finance Officer)**

**Glenys Diskin**  
**Chair to the Council**

Date: 24<sup>th</sup> September 2014

Date: 24<sup>th</sup> September 2014

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## FLINTSHIRE COUNTY COUNCIL

**REPORT TO:** COUNCIL

**DATE:** 24 SEPTEMBER 2014

**REPORT BY:** CORPORATE FINANCE MANAGER

**SUBJECT:** SUPPLEMENTARY FINANCIAL INFORMATION TO  
STATEMENT OF ACCOUNTS 2013/14

### **1.00 PURPOSE OF REPORT**

- 1.01 To provide Members with requested supplementary financial information to accompany the Statement of Accounts 2013/14.

### **2.00 BACKGROUND**

- 2.01 Flintshire County Council approved the following notice of motion on 29<sup>th</sup> January 2013:

*In the interests of openness and transparency, this Motion calls for the Council to publish a separate supplementary report to coincide with and accompany the presentation to Council of the Annual Statement of Accounts.*

*This supplementary report to contain, in the same style and presentation as the existing 'Senior Employee Emoluments – Salary over £150,000' and 'Salary over £60,000 per year', the same financial information for ALL council employees, consultants and 'non-permanent posts' with a salary over £60,000 per year who are NOT listed within the existing framework of the Annual Statement of Accounts.*

*In instances where those employees are in post for less than the financial year, then both their actual salary and equivalent annualised salary are to be shown.*

- 2.02 This information was presented as an accompaniment to the 2012/13 Statement of Accounts and Members requested that the report became an annual report presented in conjunction with the Statement of Accounts.

This report contains the information requested above in respect of financial year 2013/14.

### **3.00 CONSIDERATIONS**

- 3.01 The information requested is shown in Appendix 1 to this report. For clarity the information has been split into 3 categories described in paragraphs 3.02 – 3.04 below:
- Table 1 – Council Employees
  - Table 2 – Posts covered by interim or temporary arrangements
  - Table 3 – Consultants and Non-Permanent Posts

- 3.02 Table 1 contains information for council employees only. For the purpose of this report council employees have been defined as permanent members of staff paid via Flintshire County Council's payroll system.

As the notice of motion requests, the detail of any council employee already included in the 'Senior Employee Emoluments' note in the Statement of Accounts 2013/14 has not been included.

- 3.03 Table 2 shows the number of interim or temporary arrangements in place to cover posts during 2013/14, which has reduced from the previous year. Where such arrangements are in place, the Council has procured the services of individuals to fulfil the requirements of the post through a contract with another organisation. The Council paid the organisation, and that organisation employed and paid a salary to the individual. Table 2 shows the amounts paid to those organisations for such arrangements in 2013/14. Please note these amounts DO NOT reflect the individuals' salaries.

- 3.04 Table 3 contains information for consultants and non-permanent posts, which again has reduced from the previous year.

It is important that Members note that actual costs incurred by the Council in 2013/14 on consultants and non-permanent posts are in bold in the third column in table 3.

The fourth column, theoretical annual costs, has been supplied to provide an equivalent annualised salary as requested by the notice of motion. Figures have been calculated by taking the daily (or hourly costs in some cases) and grossing up assuming a 37 hour standard week and that 48 weeks per year are worked. As is clear from the difference between both columns the majority were in post for significantly less than a year.

- 3.05 Flintshire County Council led in 2013/14 on 2 collaborative projects governed by a joint committee of elected members of the partner Local Authorities; the North Wales Regional Waste Treatment Project and TAITH (regional transport consortia). Members are advised that the information supplied in appendix 1 does not include the costs of any individual working for a joint committee, given that the expenditure has been incurred by the joint committee and not Flintshire.

Joint committees publish their own separate accounts.

**4.00 RECOMMENDATIONS**

4.01 Members note the contents of this report.

**5.00 FINANCIAL IMPLICATIONS**

5.01 None as the report is retrospective.

**6.00 ANTI POVERTY IMPACT**

6.01 None

**7.00 ENVIRONMENTAL IMPACT**

7.01 None

**8.00 EQUALITIES IMPACT**

8.01 None

**9.00 PERSONNEL IMPLICATIONS**

9.01 None

**10.00 CONSULTATION REQUIRED**

10.01 None

**11.00 CONSULTATION UNDERTAKEN**

11.01 None

**12.00 APPENDICES**

Appendix 1 – Supplementary financial information to Statement of Accounts 2013/14

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985  
BACKGROUND DOCUMENTS**

Various final accounts working papers

**Contact Officer:** Liz Thomas  
**Telephone:** 01352 702289  
**Email:** liz.thomas@flintshire.gov.uk

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## SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2013/14

TABLE 1 - COUNCIL EMPLOYEES

Post Title	Note	Pensionable Pay £	Expense allowances £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £	Annualised Pay (where applicable) £
Head of Culture and Leisure		66,593	0	66,593	14,983	81,576	
Head of Development and Resources		71,715	0	71,715	16,136	87,851	
Principal Learning Advisor - Secondary		60,064	0	60,064	13,514	73,578	
Head of Social Services for Adults		63,519	0	63,519	14,292	77,811	
Head of Social Services for Children		65,900	0	65,900	14,828	80,728	
Head of Housing	1	82,600	0	82,600	18,585	101,185	
Head of Regeneration		71,715	0	71,715	16,136	87,851	
Head of Assets and Transportation		71,715	0	71,715	16,136	87,851	
Head of Planning	2	76,325	0	76,325	17,173	93,498	
Head of Streetscene		71,715	0	71,715	16,136	87,851	
Principal Accountant (Waste)		69,309	0	69,309	15,595	84,904	

**Note 1:** Pensionable pay includes remuneration relating to additional responsibilities (Organisational Change).

**Note 2:** Pensionable pay includes remuneration relating to additional management responsibilities.

TABLE 2 - POSTS COVERED BY INTERIM / TEMPORARY ARRANGEMENTS / CONTRACT

Post Title	Note	Cost £	Annualised Cost (where applicable) £
Internal Audit Manager	1	14,180	82,915
Interim Benefits Manager	2	13,156	118,800
Interim Facilities Manager		110,240	124,800

**Note 1:** Employed directly by the Council from June 2013.

**Note 2:** Arrangement ceased May 2013.

**Please note: Payments shown are made to the organisations employing these individuals. These payments DO NOT reflect the salaries those individuals have been paid by their respective organisations.**

## SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2013/14

TABLE 3 - CONSULTANTS AND NON-PERMANENT POSTS 2013/14

Directorate	Description	Actual Cost Incurred £	Theoretical Annual Costs £
Lifelong Learning	Education Psychologist	12,981	93,600
Lifelong Learning	Family Learning Tutor	12,678	71,040
Corporate Services - Finance	Schools Formula Review	31,640	62,160
Corporate Services - HR & OD	Project Manager Single Status	11,600	96,000
Corporate Services - HR & OD	Emergency Planning Consultant	19,176	108,000
Corporate Services - HR & OD	HRMIS Project Consultant (Trent system development)	7,143	156,000
Corporate Services - HR & OD	HRMIS Project Consultant (Trent system development)	7,664	156,000
Corporate Services - HR & OD	Doctor - Occupational Health Physician	39,262	228,000
Corporate Services - HR & OD	Occupational Health Service, Lead Practitioner	7,150	132,000
Corporate Services - All	Single Status Implementation / Legal Services Review	36,800	96,000
Corporate Services - ICT & CS	P2P Project Management	95,914	108,000
Corporate Services - ICT & CS	eSourcing Project Management	44,286	73,200
Community Services	Independent Reviewing Officer (complaints)	5,424	204,000
Community Services	Person Centred Planning - Physical Disability & Sensory Impairment	9,225	108,000
Community Services	Paris System Consultancy & Support	18,582	240,000
Community Services	Change management lead ('Family & Adolescent Support' to 'Child in Need' team)	6,635	88,445
Community Services	Work associated with the elderly mental infirm VFM review and unit costing contract	5,400	108,000
Community Services	Independent Consultant Social Worker - workshop facilitation	5,667	60,000
<b>Total</b>		<b>377,227</b>	

Please note: Payments shown are made to the organisations employing these individuals. These payments DO NOT reflect the salaries those individuals have been paid by their respective organisations.

## FLINTSHIRE COUNTY COUNCIL

**REPORT TO:** FLINTSHIRE COUNTY COUNCIL

**DATE:** WEDNESDAY, 24 SEPTEMBER 2014

**REPORT BY:** CORPORATE FINANCE MANAGER

**SUBJECT:** TREASURY MANAGEMENT ANNUAL REPORT  
2013/14

### **1.00 PURPOSE OF REPORT**

1.01 To present to Members the Annual Treasury Management Report for 2013/14.

### **2.00 BACKGROUND**

2.01 The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice, which requires Council to approve a treasury management strategy before the start of each financial year, a mid year report, and an annual report at the end of each financial year.

2.02 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Corporate Finance Manager, who acts in accordance with the Council's Treasury Management Policy Statement, Strategy and Practices

2.03 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies.

2.04 On 1<sup>st</sup> March 2013, the Council approved the Treasury Management Policy Statement 2013-2016, Treasury Management Strategy 2013/14 and Treasury Management Practices 2013-2016. The Annual Report reviews the activities and performance of the treasury management operations during 2013/14 and compares this with the Policy, Strategy and Practices.

### **3.00 CONSIDERATIONS**

3.01 The Annual Treasury Management Report 2013/14 is attached as Appendix 1. As required by the Council's Financial Procedure Rules, the Annual Report was reviewed by Audit Committee on the 16<sup>th</sup> July 2014 and considered by Cabinet on 16<sup>th</sup> September 2014 for

recommendation to Council. The Council will be updated verbally with any decisions or comments made by Cabinet.

### **Summary of Key Points**

- 3.02 The UK bank base rate remained at its historic low of 0.5% throughout the year. This was reflected in the low level of interest that the Council was able to generate on its investments; the average interest rate for investments during the year was 0.58%. Section 2 of the annual report provides a review of the economy and interest rates, and Section 4 provides further details of the Council's investment activity during the year.
- 3.03 No new borrowing was undertaken during the year; the Council continued to use cash reserves to fund capital expenditure in place of new borrowing. Debt rescheduling opportunities were considered by officers and the Council's Treasury Management Advisors. However, the premia charged for repaying high interest rate debt or replacing it with debt at a lower interest rate was deemed too expensive and therefore made any debt rescheduling unattractive. Section 3 of the annual report provides more information on borrowing and debt management during the year.
- 3.03 During quarter 4, the Council sold its claims against the insolvent estate of LBI (Landsbanki) through a competitive auction process. The Council recovered 92% of the amounts that were originally deposited, representing a very large portion of the LBI deposits. The sale of the claims represents a clean break and with the administration of the insolvent estate of LBI likely to continue for several years, removed uncertainty around the timing of future recoveries. Section 5 provides further details.
- 3.04 The treasury function operated within the limits detailed in the Treasury Management Strategy 2013/14 with one exception; an investment made in early April exceeded the limit with a particular counterparty. The error was identified promptly and immediate action taken to reduce the total invested in accordance with the policy limit. Section 6 provides further details.

### **4.00 RECOMMENDATIONS**

- 4.01 That the Council approves the Annual Treasury Management Report for 2013/14.

### **5.00 FINANCIAL IMPLICATIONS**

- 5.01 As set out in the Annual Report.

**6.00 ANTI POVERTY IMPACT**

6.01 None directly as a result of this report.

**7.00 ENVIRONMENTAL IMPACT**

7.01 None directly as a result of this report.

**8.00 EQUALITIES IMPACT**

8.01 None directly as a result of this report.

**9.00 PERSONNEL IMPLICATIONS**

9.01 None directly as a result of this report.

**10.00 CONSULTATION REQUIRED**

10.01 Arlingclose Ltd. as Treasury Management Advisors.

**11.00 CONSULTATION UNDERTAKEN**

11.01 Arlingclose Ltd. as Treasury Management Advisors.

**12.00 APPENDICES**

12.01 Annual Treasury Management Report 2013/14.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985  
BACKGROUND DOCUMENTS**

Treasury Management Policy Statement 2013-2016  
Treasury Management Investment Strategy 2013/14  
Treasury Management Practices 2013-2016  
Schedule of temporary investment transactions 2013/14  
Approved Counterparty list as at 31<sup>st</sup> March 2014.

**Contact Officer:** Liz Thomas, Finance Manager  
- Technical Accountancy.

**Telephone:** 01352 702289

**Email:** liz.thomas@flintshire.gov.uk

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**FLINTSHIRE COUNTY COUNCIL**

**TREASURY MANAGEMENT**

**ANNUAL REPORT 2013/14**

## **1.00 INTRODUCTION**

- 1.01 The Council approved the Treasury Management Strategy (Strategy) 2013/14 including key indicators, limits and an annual investment strategy on 1<sup>st</sup> March 2013.
- 1.02 The Strategy was produced based on the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice.
- 1.03 The purpose of this report is to review the outcomes from 2013/14 treasury management operations and compare with the Strategy.
- 1.04 Treasury management comprises the management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

## **2.00 ECONOMIC & INTEREST RATE REVIEW 2013/14**

*Provided by Arlingclose Ltd the Council's Treasury Management advisors.*

**Economic background:** At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) and the paucity of business investment were a concern for the Bank of England's Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The Eurozone had navigated through a turbulent period for its disparate sovereigns and the likelihood of a near-term disorderly collapse had significantly diminished. The US government had just managed to avoid the fiscal cliff and a technical default in early 2013, only for the problem to re-emerge later in the year.

With new Governor Mark Carney at the helm, the Bank of England unveiled forward guidance in August pledging to not consider raising interest rates until the ILO unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. Although the Bank stressed that this level was a **threshold** for consideration of rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

The recovery in the UK surprised with strong economic activity and growth. Q4 2014 GDP showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions which were driven by higher



consumer confidence, greater availability of credit and strengthening house prices which were partly boosted by government initiatives such as Help-to-Buy. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth. Worries of a housing bubble were tempered by evidence that net mortgage lending was up by only around 1% annually.

CPI fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009, helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates. Although the fall in unemployment (down from 7.8% in March 2013 to 7.2% in January 2014) was faster than the Bank of England or indeed many analysts had forecast, it hid a stubbornly high level of underemployment. Importantly, average earnings growth remained muted and real wage growth (i.e. after inflation) was negative. In February the Bank stepped back from forward guidance relying on a single indicator – the unemployment rate – to more complex measures which included spare capacity within the economy. The Bank also implied that when official interest rates were raised, the increases would be gradual – this helped underpin the ‘low for longer’ interest rate outlook despite the momentum in the economy.

The Office of Budget Responsibility’s 2.7% forecast for economic growth in 2014 forecast a quicker fall in public borrowing over the next few years. However, the Chancellor resisted the temptation to spend some of the proceeds of higher economic growth. In his 2013 Autumn Statement and the 2014 Budget, apart from the rise in the personal tax allowance and pension changes, there were no significant giveaways and the coalition’s austerity measures remained on track.

The Federal Reserve’s then Chairman Ben Bernanke’s announcement in May that the Fed’s quantitative easing (QE) programme may be ‘tapered’ caught markets by surprise. Investors began to factor in not just an end to QE but also rapid rises in interest rates. ‘Tapering’ (a slowing in the rate of QE) began in December 2013. By March 2014, asset purchases had been cut from \$75bn to \$55bn per month with expectation that QE would end by October 2014. This had particular implications for global markets which had hitherto benefited from, and got very accustomed to, the high levels of global liquidity afforded by QE. The impact went further than a rise in the dollar and higher US treasury bond yields. Gilt yields also rose as a consequence and emerging markets, which had previously benefited as investors searched for yield through riskier asset, suffered large capital outflows in December and January.

With the Eurozone struggling to show sustainable growth, the European Central Bank cut main policy interest rates by 0.25% to 0.25% and the deposit rate to zero. Markets were disappointed by the lack of action by the ECB despite CPI inflation below 1% and a looming threat of deflation. Data pointed to an economic slowdown in China which, alongside a weakening property market and a highly

leveraged shadow banking sector, could prove challenging for its authorities.

Russia's annexation of the Ukraine in March heightened geopolitical tensions and risk. The response from the West which began with sanctions against Russia which is the second largest gas producer in the world and which supplies nearly 30% of European natural gas needs and is also a significant supplier of crude oil – any major disruption to their supply would have serious ramifications for energy prices.

### **3.00 BORROWING REQUIREMENTS AND DEBT MANAGEMENT**

#### 3.01 PWLB (Public Works Loans Board) Certainty Rate

The Council again qualified for the PWLB Certainty Rate, allowing the authority to borrow at a reduction of 20bps on the Standard Rate.

#### 3.02 Borrowing Activity in 2013/14

The total long term borrowing outstanding, brought forward into 2013/14 totalled £172.1 million. Loans with the Public Works Loans Board were in the form of fixed rate (£143.2m) and variable rate (£10m). The remaining £18.95m was variable in the form of Lobo's (Lender's Option, Borrower's Option). The Council's average borrowing rate throughout the year was 5.41%.

	<b>Balance 01/04/2013 £m</b>	<b>Debt Maturing £m</b>	<b>New Debt £m</b>	<b>Balance 31/03/2014 £m</b>
<b>Capital Financing Requirements</b>	<b>184.6</b>			<b>186.7</b>
<b>Short Term Borrowing</b>	0.00	0.00	0.00	0.00
<b>Long Term Borrowing</b>	172.1	0.00	0.00	172.1
<b>TOTAL BORROWING</b>	<b>172.1</b>	<b>0.00</b>	<b>0.00</b>	<b>172.1</b>
<b>Other Long Term Liabilities</b>	8.1	0.5	0.00	7.6
<b>TOTAL EXTERNAL DEBT</b>	<b>180.2</b>	<b>0.5</b>	<b>0.00</b>	<b>179.7</b>
<b>Increase/ (Decrease) in Borrowing £m</b>				<b>(0.5)</b>

3.03 The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/3/2014 was £186.7m. The Council's total external debt was £179.7m.

3.04 No new long term Public Works Loan Board (PWLB)/financial institution borrowing was undertaken during 2013/14 - the Council continues to use cash reserves to fund capital expenditure in place of new borrowing.

### 3.05 Loans at Variable Rates

The extent of variable rate borrowing the Council can potentially undertake is influenced by the level of Reserves and Balances. The interest rate on the Council's £10m variable rate loans averaged 0.56%.

The uncertain interest rate outlook further supported the case for maintaining variable rate debt. As the economy still appeared susceptible to economic shocks, growth remained insipid and official interest rates were forecast to remain low for much longer, the Council determined that exposure to variable rates was warranted. It also made sense from an affordability and budgetary perspective in the short-to-medium term.

Any upward move in interest rates and interest paid on variable rate debt would be 'hedged' by a corresponding increase in interest earned on the Council's variable rate investments. The interest rate risk associated with the Council's strategic exposure of £10m is regularly reviewed with our treasury advisor against clear reference points, this being a narrowing in the gap between short and longer term interest rates by 0.5%. When appropriate this exposure will be reduced by replacing the variable rate loans with fixed rate loans.

### 3.06 Internal Borrowing

Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio. The differential between the cost of new longer-term debt and the return generated on the Council's temporary investment returns was significant at around 3.9%. The use of internal resources in lieu of borrowing was judged to be the most cost effective means of funding £10.23m of capital expenditure. This has, for the time being, lowered overall treasury risk by reducing both external debt and temporary investments. Whilst this position is expected to continue in 2014/15, it will not be sustainable over the medium term. The Council expects it will need to borrow for capital purposes from 2015/16 onwards.

### 3.07 Lender's Option Borrower's Option Loans (LOBOs)

The option to change the terms on £18.95m of the Council's LOBOs was not exercised by the lender.

### 3.08 Debt Rescheduling

No debt-restructuring opportunities arose. However, The Head of Finance, along with its Treasury Management Advisors, keeps under review any opportunities which may arise for restructuring the Council's debt in order to take advantage of potential savings as interest rates change and to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility).

## 4.00 INVESTMENT ACTIVITY

4.01 The Welsh Assembly Government's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

4.02 Investment Activity in 2013/14

### Summary of investments as at 31<sup>st</sup> March 2014.

Country	Total	<1 month	1 –12 months	>12 months
	£m	%	£m	£m
UK BANKS	12.1	6.4	5.7	
UK BUILDING SOCIETIES	3.0	3.0		
OVERSEAS	4.6	4.6		
MMF's				
LOCAL AUTHORITIES	13.5	6.5	5.0	2.0
DMO	14.6	14.6		
<b>TOTAL</b>	<b>47.8</b>	<b>35.1</b>	<b>10.7</b>	<b>2.0</b>
<b>% OF PORTFOLIO</b>		73.4%	22.4%	4.2%
<b>TARGET 2013</b>		35%	55%	10%

4.03 Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Strategy for 2013/14. Investments during the year included:

- Deposits with the Debt Management Office
- Deposits with other Local Authorities
- Investments in AAA-rated Constant Net Asset Value Money Market Funds
- Call accounts and deposits with Banks and Building Societies

#### 4.04 Credit Risk

The Authority assessed and monitored counterparty credit quality with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP and share price. The minimum long-term counterparty credit rating determined by the Authority for the 2013/14 treasury strategy was A-/A-/A3 across rating agencies Fitch, S&P and Moody's.

The material changes to UK banks' creditworthiness were (a) the strong progress made by the Lloyds Banking Group in strengthening its balance sheet, profitability and funding positions and the government reducing its shareholding in the Group to under 25%, (b) the announcement by Royal Bank of Scotland of the creation of an internal bad bank to house its riskiest assets (this amounted to a material extension of RBS' long-running restructuring, further delaying the bank's return to profitability) and (c) substantial losses at Co-op Bank which forced the bank to undertake a liability management exercise to raise further capital and a debt restructure which entailed junior bondholders being bailed-in as part of the restructuring.

In July Moody's placed the A3 long-term ratings of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Council reduced its duration to overnight for new investments with the bank(s). In March Moody's downgraded the long-term ratings of both banks to Baa1. As this rating is below the Council's minimum credit criterion of A-, the banks were withdrawn from the counterparty list for further investment. NatWest is the Council's banker and will continue to be used for operational and liquidity purposes.

#### 4.05 Liquidity

In keeping with the WG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed.

#### 4.06 Yield

The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels which continued to have a significant impact on investment income. The low rates of return on the Council's short-dated money market investments reflect prevailing market conditions and the Council's objective of optimising returns commensurate with the principles of security and liquidity.

Income earned on £2m of longer-dated investments made in 2013/14 at a rate of 0.95% provided some cushion against the low interest rate environment.

The Council's budgeted investment income for the year had been estimated at £382k. The average cash balances were £69.4m during the period and interest earned was £455k, at an average interest rate of 0.58%.

## **5.00 UPDATE ON INVESTMENTS WITH ICELANDIC BANKS**

5.01 On the 3<sup>rd</sup> February 2014, the Council sold its claims against the insolvent estate of LBI (Landsbanki). All Members were notified of the sale by letter on 4<sup>th</sup> February 2014.

The claims were sold through a competitive auction process. The price at which the claims were sold was based on a reserve price set by the Council on the basis of legal advice received from Bevan Brittan, financial advice procured by the Local Government Association (LGA) and our own analysis of the financial position.

A number of other priority creditors/UK local authorities sold their claims through the same auction process. Each creditor who participated in that process achieved exactly the same auction price.

The Council had £3.7m invested with LBI when the bank became insolvent in 2008, and that £1.947m had already been returned. The proceeds of the sale were paid in cash in Pounds Sterling and the sale means that the Council recovered 92% of the amounts that were originally deposited, representing a very large portion of the LBI deposits.

The sale of the claims represents a clean break and with the administration of the insolvent estate of LBI likely to continue for several years, removes the uncertainty around the timing of future recoveries. Future distributions could have been made in a number of currencies, including Icelandic Krona, which would have been less advantageous to the Council. As a result of the sale of the claims the Council is now no longer a creditor of LBI.

In order to maximise the position of those creditors taking part in the auction, the arrangements were made, with advice as set out above, by the Head of Finance and the Monitoring Officer. The sale of the claims was undertaken under delegated powers by the Head of Finance under Financial Procedure Rule 9.5, which is to agree the arrangements for the collection of all income due to the Council.

## **6.00 COMPLIANCE**

- 6.01 The Council can confirm that it has complied with its Prudential Indicators for 2013/14, which were approved on 1<sup>st</sup> March 2013 as part of the Council's Treasury Management Strategy.
- 6.02 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2013/14. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 6.03 The treasury function operated within the limits detailed in the Treasury Management Strategy 2013/14 with one exception; the 2013/14 strategy permitted investments with counterparties rated A- or above for a maximum period of 6 months and a limit of £5m per counterparty (in 2012/13 the strategy was to invest with counterparties rated A or above with a limit of £7m). On the 3rd April 2013 an 'on-call account' investment of £7m was made with a counterparty (the Council's own bank) rated at A-, which therefore breached the investment criteria. This was a procedural issue and no loss was incurred by the Council as a consequence. Once the error was discovered action was taken immediately to reduce the investment to the agreed limit of £5m.

## **7.00 OTHER ITEMS**

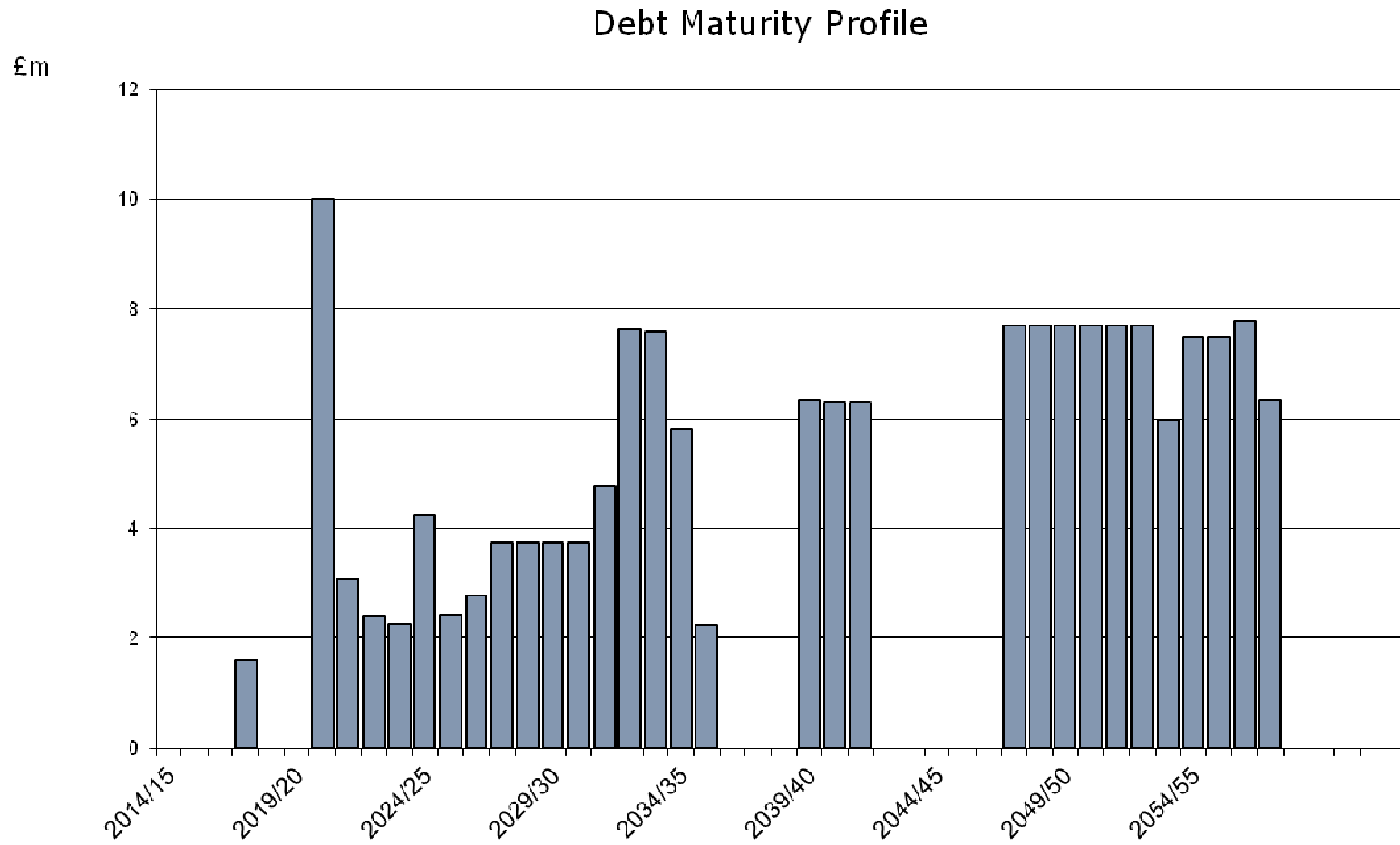
- 7.01 The following were the main treasury activities during 2013/14:
- The Head of Finance received a monthly update on treasury activities.
  - The Council received a Mid Year Report on 18<sup>th</sup> December 2013.
  - Quarterly updates reports were presented to the Audit Committee.
  - All Members were invited to a training session undertaken by Arlingclose Ltd on 27<sup>th</sup> January 2014, which was hosted by Audit Committee.
  - The 2014/15 Statement was approved by Council on 18<sup>th</sup> February 2014.
  - The Council continues to be an active member of the CIPFA Treasury Management Network.
  - The Council's cash flow was managed on a daily basis. During the year the Authority acted both as a borrower and as a lender and was a net borrower over the year in question. The maximum investments the Authority had on deposit at any one time was £83.3m and the maximum long-term borrowing at any one time was £172.1m.

## **8.00 CONCLUSION**

- 8.01 The treasury management function has operated within the statutory and local limits detailed in the 2013/14 Treasury Management Strategy with one exception.

8.02 The Policy was implemented in a pro-active manner with security and liquidity as the focus.







By virtue of paragraph(s) 15 of Part 1 of Schedule 12A of the Local Government Act 1972.

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