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**Report to Clackmannanshire Council**

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**Date of Meeting: 26 June 2014**

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**Subject: Draft Financial Statements 2013/14**

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**Report by: Depute Chief Executive**

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**1.0 Purpose**

- 1.1. The Council is required by law to prepare a statement of accounts in accordance with 'proper practices' which set out its financial position at the end of each financial year. This is defined as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom prepared by the CIPFA/LASAAC Joint Committee.
- 1.2. The Code specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council, including group financial statements where Councils have material interests in subsidiaries, associates or joint ventures. The financial statements aim to identify the key factors affecting the finances of the Council and that affect the physical resources that the Council can control to provide services.
- 1.3. The Local Authority Accounts (Scotland) 1985 Regulations require the Depute Chief Executive, as the Council's s95 officer, to prepare the Statement of Accounts as soon as practicable after the end of each financial year and to submit these to the Council and to the Controller of Audit by 30 June of the next financial year. The draft Financial Statements continue to be finalised for audit and have been made available in advance of the Council meeting in councillors rooms and on the portal. In addition to this all elected members have had the opportunity to attend a specific briefing on the draft Financial Statements on 23 June 2014.
- 1.4. As a result of a change in legislation, Local Authorities must now prepare a Trustees Report and Financial Statement for Sundry Trust Funds where the Council is the sole trustee. A fuller briefing on this has also been provided as part of the elected member briefing on 23 June 2014.
- 1.5. Work continues to finalise the draft Financial Statements for audit purposes. This year, this work may result in changes to the outturn position. In particular, a significant review of commissioning and contracts has been undertaken by Social Services with a view to securing efficiencies and/or better accommodating the cost of increasing demand for services. Discussions are currently taking place with suppliers, once these are concluded, the outturn position can be finalised for the service and reflected into the Council's final statements.
- 1.6. The Council's Draft Financial Statements also include the annual Remuneration Report, and the Annual Governance Statement (AGS) which is signed on behalf of the Council by the Leader of the Council and the Chief Executive. Improvement

actions associated with the AGS are incorporated within the routine Service Committee performance reporting using the Covalent system.

- 1.7. In line with the draft Financial Statements, this report also incorporates a summary of the financial outlook for the Council. This replaces the usual update provided as part of the separate Budget Strategy update report.

## **2.0 Recommendations**

Council is asked to:

- 2.1. approve the 2013/14 draft Financial Statements as presented to 23 June 2014 elected member briefing and summarised in this report
- 2.2. approve the 2013/14 Clackmannanshire Council Sundry Trust Funds draft Report and Financial Statements as presented to 23 June 2014 elected member briefing and summarised in this report
- 2.3. approve the submission of these draft Financial Statements to the Controller of Audit no later than 30th June
- 2.4. otherwise note the contents of the report.

## **3.0 Considerations**

- 3.1. The accounts have been prepared in accordance with proper practices as set out in the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13*. The Financial Statements show the actual figures for 2013/14 and the comparable figures for 2012/13.

### **Revenue Outturn**

- 3.2. The financial results for 2013/14 are positive and provide a platform from which to address the challenging times ahead. Against the background of reducing resources the Council has successfully delivered savings in the year in excess of its budgeted requirement, and as a result increased its reserves to support service delivery in future years.
- 3.3. Gross revenue expenditure for the year was £164m. This represents the running costs of the Council and indicates the significant size and complexity of the organisation.
- 3.4. The General Fund started the year with a balance of £14.004m. The balance at 31 March 2014 is £12.015m, a net reduction of £1.989m.
- 3.5. Of the £12.015m balance at 31 March 2014, £5.661m is earmarked for specific purposes, much of which is for use either by individual services or to meet corporate liabilities. This committed balance can be summarised as follows:

|                              |         |
|------------------------------|---------|
| Service Improvement Contract | £0.253m |
| Hallpark development         | £0.215m |
| Change Funds                 | £0.640m |
| Spend to Save Fund           | £0.700m |

|   |                |
|---|----------------|
| Business Rates Incentivisation income     | £1.250m        |
| Other Miscellaneous commitments           | £0.828m        |
| Welfare Reform                            | £0.366m        |
| Sum approved in support of 2013/14 budget | £1.409m        |
| <b>Total</b>                              | <b>£5.661m</b> |

- 3.6 The earmarked balance also reflects the approval by Council in February 2014 to support its 2014/15 General Services Revenue Budget through the utilisation of £1.409m from reserves.
- 3.7 The un-committed reserve as at 31 March 2014 stands at £6.354m. The surplus achieved in the year compared to budget was £0.254m which is a reduction in the surplus of £0.907m reported to Resources and Audit Committee in May. Across Council services this net position is reflecting both under and overspend vacancies. However, the main reason for this variance is the reduction in the value of our investment with Central Scotland Business Parks of £769K, which was revalued and not confirmed until late in the financial year, and therefore not reflected in previous outturns.
- 3.8 It is important to reiterate that, unlike in recent years, this outturn may yet change to reflect the ongoing discussions within Social Services detailed at paragraph 1.5. It is intended that the outcome of these discussions should be known within a timescale that allows it to be reflected in the finalised audited accounts which will be presented to the Resources and Audit Committee in September 2014.
- 3.9 The Council's Reserves Strategy stipulates that it should retain uncommitted reserves at a minimum level of 3% of net expenditure, which as at March 2014 would translate to a figure of £3.464m. The outturn position is therefore £2.89m in excess of this minimum reserve figure and represents a level of 5.5%.
- 3.10 The Housing Revenue Account achieved a surplus within the year of £3.960m compared to the forecast figure of £3.884m reported to Resources and Audit Committee in May. In accordance with the Business Plan for the Clackmannanshire Council Housing stock a sum of £5.752 m has been applied from reserves in 2013/14. An additional £790K was also applied from ear marked general fund reserves to fund the Hallpark Capital build. The outcome of these results are that the opening housing reserve balance of £4.883m has reduced to £3.093m as at 31st March 2014.

#### **Other Reserves**

- 3.11 The Council utilised £1.562m of the £4.985m opening balance within the capital receipts reserve. An additional £0.283m was received due to further asset sales in the year. This sum of £3.706m is therefore available going forward, either to be applied to reduce future capital borrowing requirements or alternatively can be used to finance in-year loan principal repayments.
- 3.12 There is no balance in the capital grants unapplied account at the end of this financial year.

#### **Pensions Liability**

- 3.13 The estimation of the Council's net liability in respect of pensions payable is a complex set of judgements. It requires estimates of the life expectancy of scheme

members, assumptions about changes in retirement ages and expected returns on pension fund assets such as stock market investments. The Council engages actuaries to provide expert advice about prevailing assumptions.

- 3.14 As a result of the latest valuation of our Pension accounts in accordance with International Accounting Standard 19 (IAS19), we have witnessed a deterioration in our Balance Sheet position, with our net liability now standing at £89.839m compared to £78.887m at March 2013.

### **Provisions**

- 3.15 The Council has made good progress in settling equal pay claims during the year with claims totalling £0.041m settled. The Council's provision for equal pay has consequently been re-assessed at £0.301m at 31 March 2014. It is considered that this sum will be sufficient to meet the outstanding liabilities on existing claims which are expected to be concluded in the current financial year.
- 3.16 The accounts reflect a provision of £0.060m to cover approved voluntary severances agreed before the year end in support of budget savings for 2014/15.
- 3.17 A provision of £178K has been established to cover the claim from Pyramid, a Bathroom and Kitchen contractor. This provides for arbitration loss and expenses in respect of Phase 1 of the works which is currently at arbitration.
- 3.18 A provision of £153K was established last year on the advice of our insurers to cover a potential 30% levy triggered under the Scheme of Arrangement in respect of the winding down of the former Municipal Mutual Insurance Limited (MMI). This exposure relates back to former District and Regional Council operations. Claims of £79K have been paid to date from the original provision and the balance of £74K has been carried forward to meet further claims.

### **Contingent Liability**

#### **think Where (formerly Forth Valley GIS)**

- 3.19 In order to reflect as yet potential uncertain and unquantified timing and liabilities issues, aspects of those matters referenced in respect of Equal Pay, the Kitchen and Bathroom contract and MMI Ltd, set out in paragraphs 3.16 to 3.18, are also reflected in the draft Financial statements as contingent liabilities. A new contingent liability in respect of thinkWhere is also included and further information on this is set out in paragraph 3.20.
- 3.20 The Council is a shareholder in thinkWhere, a Private Limited Company, along with Stirling and Falkirk Councils. A separate report on this Council agenda provides an update on the Company's current operating position. The Council is, under the terms of the Shareholder Agreement, responsible for meeting a share of the Company's liabilities and the Company's current operating position suggests it is prudent that Clackmannanshire Council reflects this responsibility in its draft Financial Statements for 2013-14. The responsibility is currently referenced as a contingent liability, though this position will be reviewed in the light of the Council discussion later on this agenda.
- 3.21 Further details of the provisions and contingent liabilities summarised in this report were provided to elected members at the briefing which was held on Tuesday, 23 June 2014.

## **Capital Expenditure and Financing**

- 3.22 During 2013/14 the Council invested £25.703m of capital expenditure on its assets. This reflects an underspend of £9.527m on the budgeted programme, and an increase in the projected underspend of £9.216m reported to Resources and Audit Committee in May 2014.
- 3.23 Capital expenditure in the year has been financed by capital receipts (£0.781m), government grants and contributions (£10.431m) and direct revenue funding (£5.832m) leaving a balance of £8.659m requiring to be financed from borrowing. Comparing this new borrowing requirement with the sum set aside in the year of £6.374m for repayments, the balance was funded through cash reserves and there was therefore no need to incur further external borrowing.
- 3.24 The Councils external debt as at March 2014 stands at £161.97m, a reduction of £5.232m from the position as at March 2013. This outcome is in line with our approved Investment Strategy which focuses on reducing the overall level of debt liabilities carried by the Council.

## **Trading Operations**

- 3.25 Although The Council's significant Trading Organisation, Property Contracts produced a deficit in the year of £66K it still achieved its statutory requirement to break even over a three year rolling period.

## **Sundry Trust Funds**

- 3.26 Paragraph 1.4 indicated the change in legislation which requires that the Council now prepares a Trustees' Report and Financial Statements for Sundry Trust Funds. The Council currently acts as sole trustee for the Trust Funds of five organisations which have charitable status and are registered with the Office of the Scottish Regulator (OSCR). The Objectives and activities of each of the five Sundry Trust Funds are set out at Appendix A to this report.
- 3.27 The full Trustees Report and Draft Financial Statements were discussed in greater detail, along with Clackmannanshire Council's Draft Financial Statements, as part of the elected member briefing held on the 23 June 2014. Copies of both sets of the Draft financial Statements were made available to elected members in advance of the Council meeting today and the briefing on the 23 June 2014.

## **Public Inspection**

- 3.28 The Financial Statements, once submitted to the Controller of Audit will, at his request, be made available for public inspection and will be subject to an audit period of up to three months.
- 3.29 The Council's final audited Financial Statements will be presented to Resources and Audit Committee along with the External Auditors Key Issues Memorandum in September 2014.

## **4.0 Financial Outlook**

- 4.1 The draft Financial Statements also incorporate commentary on the financial outlook. Some of the key factors are set out in the following paragraphs.
- 4.2 Recent national debate has focused on UK inflation and interest rates. In April, UK inflation as measured by the Consumer Price Index or CPI, remained below its 2% target for the fourth consecutive month. This means that inflation has fallen from 5.2% in September 2011 and from 2.9% in June 2013, to 1.8% in April 2014.

- 4.3 Normally the downward trend in inflation would suggest that the Bank of England might consider raising the Bank (interest) rate. Currently the low Bank rate has been in place for almost five years, as a means of encouraging growth.
- 4.4 Forecasters have been expecting the first increases to come in early 2015. However, just recently there has been speculation that this may now come earlier and interests rates could start to rise gradually before settling at around 3% in three to five years time.
- 4.5 The actual timing of increases is in reality likely to be influenced by the rate of economic growth delivered and sustained in the short term and the UK General Election in May 2015.
- 4.6 The Organisation for Economic Co-operation and Development (OECD) recently published research titled "Growth Prospects and Fiscal Requirements over the long term". This highlighted that, excluding Japan, the UK had the furthest to move in order to reduce government debt to 60% of GDP by 2030.
- 4.7 Overall the OECD's analysis suggests that it will be some time yet before the impact on public service budgets is stabilised. This is in line with the UK Government's stated plans to continue with "austerity measures" until at least 2018/19.
- 4.8 The Council's indicative funding gap remains unchanged since the update to Council on 1 May 2014. This Budget Strategy update report forecasts an indicative funding gap of £19.3m over the three year period to 2017/18 and £6.9m for 2015/16.

## **5.0 Conclusion**

- 5.1 The results for the year are positive against the backdrop of the current economic climate. A surplus has been achieved in the year on General Fund which ensures our uncommitted reserves remain in excess of the Council's approved level. This provides a sound financial platform from which to manage the Council's finances in the future.
- 5.2 Managers across the Council have sustained a clear focus on managing expenditure pressures and ensuring overall spend remains within budget throughout the year. This corporate approach is an important feature of the Council's arrangements. Elected members have received regular updates on progress in implementing the Budget Strategy through Council and performance monitoring reports during the year.
- 5.3 In summary, the Council has consistently applied its agreed budget, finance and investment strategies throughout 2013/14 and this places us in a strong position as we move into next years budget deliberations.

## **6.0 Sustainability Implications**

- 6.1 Not applicable

## **7.0 Resource Implications**

### *7.1 Financial Details*

- 7.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where

appropriate.

Yes

7.3 Finance have been consulted and have agreed the financial implications as set out in the report. Yes

7.4 *Staffing*

## 8.0 Exempt Reports

8.1 Is this report exempt? Yes  (please detail the reasons for exemption below) No

## 9.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box )

- The area has a positive image and attracts people and businesses
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- The Council is effective, efficient and recognised for excellence

(2) **Council Policies** (Please detail)

## 10.0 Equalities Impact

10.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?  
Yes  No

## 11.0 Legality

11.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

## 12.0 Appendices

12.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A Sundry Trust Funds Trustees' Report and Draft Financial Statements 2013/2014

### 13.0 Background Papers

13.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes  (please list the documents below) No

**Draft Statement of Accounts 2013/14**  
**Draft Sundry Trustee's Report and Financial Statements 2013/14**

#### Author(s)

| NAME         | DESIGNATION            | TEL NO / EXTENSION |
|--------------|------------------------|--------------------|
| Liz Shaw     | Chief Accountant       | 2072               |
| Nikki Bridle | Depute Chief Executive | 2373               |

#### Approved by

| NAME             | DESIGNATION            | SIGNATURE  |
|------------------|------------------------|--|
| Nikki Bridle     | Depute Chief Executive |  |
| Elaine McPherson | Chief Executive        |  |



### Clackmannanshire Council Sundry Trust Funds

#### OBJECTIVES AND ACTIVITIES

Income to the Sundry Trust Funds is solely from investment returns and bank interest - no donations to the Funds are solicited.

| Name  | Objective  | Activities  |
|---|--|---|
| Alloa Day Home Trust                          | To provide accommodation, advice, support or training to children or young people between the ages of sixteen and twenty five who reside within Clackmannanshire and who are in necessitous circumstances.   | No activities during this financial year.   |
| Clackmannan District Council Charitable Trust | The income of the Trust Fund capital may be applied at the discretion of the Trustees for the benefit of the poor, sick aged and handicapped persons and generally all persons in necessitous circumstances who normally reside within the boundary of Clackmannanshire.   | The Trustees generally meet twice in a year (September and March) to consider applications. In recent years it is noted that the benefits from the trust have been to grant assistance in the form of essential household goods e.g. electric cooker, fridge, washing machine, beds and bedding |
| Clackmannanshire Educational Trust            | The income of the trust may be applied to supplementary bursaries for Students attending Universities, Central Institutions etc. Assistance in obtaining practical experience of trades etc. Grants for student apprentices, travel grant, educational excursions, educational travel, adult education and educational | The main activities under taken this year has been the assistance of University students, in relation to course fees and travel expenses, with an award of £450 in this area. A further £100 was awarded to a High School student to aid with travel expenses.                                  |

## Appendix A

|   |  |   |
|---|--|---|
|   | experiments and research.  |   |
| Tillicoultry Old Age Pensioners Outing Fund | To meet the cost of the annual excursion to old age pensioners and others.   | This year as in previous year the charity met the cost of the coach hire.   |
| Old Folks Welfare Fund                      | Bequest from Tillicoultry and District Nursing Association. Income to be applied by Clackmannanshire Council for the welfare of the old people of Tillicoultry and District. | This year as in recent years the income has been used to fund the hire of a coach for the benefit of the old people of Tillicoultry and District. |