
Report to: Clackmannanshire Council

Date of Meeting: 25 June 2015

Subject: Draft Financial Statements 2014/15

Report by: Depute Chief Executive

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 19 June 2015.
- 1.4. As for last year, we have also prepared a Trustees Report and Financial Statement for Sundry Trust Funds where the Council is the sole trustee.
- 1.5. For the first time, this year, the Council has prepared a management commentary to ensure compliance with changes specified within The Local Authority Accounts (Scotland) Regulations 2014. The Management Commentary is required to present the collective view of those charged with governance and apply relevant sections of the Companies Act 2006 in respect of the preparation of a Strategic Report. This new requirement sets aside the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK (the Code) requirement for an Explanatory Foreword. The new Management Commentary is signed by the Leader of the Council, Chief Executive and Depute Chief Executive (as s95 officer).
- 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. Usually this report also incorporates a summary of the financial outlook for the Council. However whilst this is covered within the Management Commentary alongside the draft financial statements, there is also a separate Budget Strategy report on this Council meeting agenda to provide for a fuller consideration of recent information.

2.0 Recommendations

Council is asked to:

- 2.1. note the new requirement to produce a Management Commentary in place of the Explanatory Foreword as an introduction to the Council's financial statements
- 2.2. approve the 2014/15 draft Financial Statements as presented to 19 June 2015 elected member briefing and summarised in this report
- 2.3. approve the 2014/15 Clackmannanshire Council Sundry Trust Funds draft Report and Financial Statements as presented to 19 June 2015 elected member briefing and summarised in this report
- 2.4. approve the submission of these draft Financial Statements to the Controller of Audit no later than 30th June
- 2.5. note that finalised audited financial statements will be presented to the Resources and Audit Committee in September 2015
- 2.6. 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 2014/15*. The Financial Statements show the actual figures for 2014/15 and the comparable figures for 2013/14.

Revenue Outturn

- 3.2. The financial results for 2014/15 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 £179.937m. This represents the running costs of the Council and indicates the significant size and complexity of the organisation.
- 3.4. A favourable prior year adjustment has been made to the General Fund opening reserve balance of £276k. This is to reflect income received during the year in connection with Council Tax Statutory penalties. The General Fund, therefore started the year with a revised balance of £12.293m. The balance at 31 March 2015 is £11.335m, a net decrease of £0.958m.

3.5 Of the £11.335m balance at 31 March 2015, £5.230m 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:

Devolved School Management	£0.216m
Change Funds	£0.288m
MCB (previously Spend to Save Fund)	£0.555m
Corporate Miscellaneous	£0.560m
Employment Fund	£1.000m
Sum approved in support of 2015/16 budget	£1.801m
Other Miscellaneous commitments	£0.810m
Total	£5.230m

3.6 The earmarked balance also reflects the approval by Council in February 2015 to support its 2015/16 General Services Revenue Budget through the utilisation of £1.801m from reserves.

3.7 The un-committed reserve as at 31 March 2015 stands at £6.105m. The surplus achieved in the year compared to budget was £0.955m which is a reduction in the surplus of £1.207m reported to Resources and Audit Committee in April. There had been a more significant variation in the reported outturn position during this year and significant priority has been given to minimise this for the future.

3.8 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 2015 would translate to a figure of £3.331m. Uncommitted reserves are therefore £2.774m in excess of this minimum reserve figure and represents a level of 5.5%.

3.9 The Housing Revenue Account achieved a surplus within the year of £4.745m compared to the forecast figure of £4.766m reported to Resources and Audit Committee in April. In accordance with the Business Plan for the Clackmannanshire Council Housing stock a sum of £1.144m has been applied from reserves in 2014/15 along with the surplus in the year. As a result there was no borrowing required to be undertaken. The outcome of these results is that the opening housing reserve balance of £3.093m has reduced to £1.949m as at 31st March 2015.

Other Reserves

3.10 The opening balance on the Capital Receipts Reserve was £3.706m with an additional £1.215m received as a consequence of asset sales during the year. During 2014/15, the Council utilised £1.975m of capital receipts leaving a sum of £2.946m 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.

3.11 During the year £0.160m has been added to the Capital Grants and Contributions Unapplied account. This is the proceeds from the sale of land which is ring-fenced for future economic development.

Pensions Liability

- 3.12 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.
- 3.13 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 £135.470m compared to £89.839m at March 2014.

Provisions

- 3.14 The Council has made good progress in settling equal pay claims during the year with claims totalling £0.120m settled. The Council's provision for equal pay has consequently been re-assessed at £0.181m at 31 March 2015. 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.
- 3.15 The opening provision for early retirement of £60K has been fully utilised in the year. An additional provision of £0.787m has been made to cover approved voluntary severances agreed before the year end in support of budget savings for 2015/16.
- 3.16 During 2014/15 the Council made a payment of £179K fully utilising the provision made in 2013/14 relating to the claim from Pyramid, a Bathroom and Kitchen contractor. This provided for arbitration loss and expenses in respect of Phase 1 of the works which was at arbitration. An additional provision of £61K has been established to meet the final costs to conclude this action.
- 3.17 The provision for Municipal Mutual Insurance Limited (MMI) was established in 2012/13 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. In previous years claims of £79K have been paid against the original provision. No claims have been made in the year and the balance of £74K has been carried forward to meet further claims.
- 3.18 An additional provision of £78k has also been made in respect of ongoing legal cases to cover estimated costs.

Contingent Liabilities

- 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 3.14 to 3.17, are also reflected in the draft Financial statements as contingent liabilities. A new contingent liability has also been added this year for the PPP contract to reflect disputed amounts with the contractor. A contingent liability in respect of thinkWhere is also included and further information on this is set out in paragraph 3.20.
- 3.20 **thinkWhere (formerly Forth Valley GIS)**

The Council is a shareholder in thinkWhere, a Private Limited Company, along with Stirling and Falkirk Councils. Last year, Council received separate reports on the Company's operating position. Further to Council's instruction, the process to exit shareholder responsibility and liability is underway. As this process is not yet complete, the Council remains, under the terms of the Shareholder Agreement,

responsible for meeting a share of the Company's liabilities and the ongoing position suggests it is prudent that Clackmannanshire Council reflects this responsibility in its draft Financial Statements for 2014/15. The responsibility remains referenced as a contingent liability, though this position will be reviewed should any further developments arise.

- 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 19th June 2015.

Capital Expenditure and Financing

- 3.22 During 2014/15 the Council invested £19.732m of capital expenditure on its assets. This reflects an underspend of £13.845m on the budgeted programme, and an increase in the projected underspend of £0.930m reported to Resources and Audit Committee in April 2015.
- 3.23 Capital expenditure in the year has been financed by capital receipts (£0.420m), government grants and contributions (£12.650m) and direct revenue funding (£6.369m) leaving a balance of £0.293m requiring to be financed from borrowing. The balance was funded through cash reserves and there was therefore no need to incur further external borrowing. Principal repayments against borrowing of £6.919m were made in the year.
- 3.24 The Council's gross external debt as at March 2015 stands at £163.663m, an increase of £1.694m from the position as at March 2014. As reported in the Mid Year Treasury report this increase was due to an additional investment in a Social Housing Project at Coalsnaughton that is fully underwritten by the Scottish Government. No additional borrowing was undertaken to fund Capital Financing in line with our approved Investment Strategy which focuses on reducing the overall level of debt liabilities carried by the Council.
- 3.25 During the latter part of the 2014/15 financial year, the Board of CSBP Developments Limited agreed to wind up the development company during 2015/16. The main impacts on the Council's financial statements will be seen in 2015/16 once the company is wound up. However, following receipt of the wind up intimation, the Council's long term investment has been transferred to a short term investment within the Council's draft financial statements at the carrying value.

Revaluation

- 3.26 During 2014/15 the Council's assets were revalued in line with the requirement for the five yearly revaluation of assets. The District Valuer was appointed through the Council's procurement process to value both Council Dwellings and General Fund properties. This revaluation has had a significant impact on the accounts with a net surplus of £43.733m which will be reflected in increased asset values within the balance sheet. In addition there were impairments of £8.235m charged directly to Services within the Comprehensive Income and Expenditure Statement. As this is an accounting entry similarly to depreciation this has no impact on the General Fund Balance position.

Sundry Trust Funds

- 3.27 Paragraph 1.4 indicated the change in legislation which required the Council now prepares an Annual Trustees' Report and Financial Statements for Sundry Trust Funds. The Council currently acts as sole trustee for the Trust Funds of four organisations which have charitable status and are registered with the Office of the

Scottish Regulator (OSCR). The Objectives and activities of each of the four Sundry Trust Funds are set out at Appendix A to this report.

- 3.28 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 19 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 19 June 2014.

Public Inspection

- 3.29 The Financial Statements, once submitted to the Controller of Audit will be made available for public inspection from the 1st July and will be subject to an audit period of up to three months.
- 3.30 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 2015.

4.0 Conclusion

- 4.1 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 assists the Council by ensuring the retention of a sound financial platform from which to manage the Council's finances in the future.
- 4.2 Managers across the Council have sustained a clear focus on managing expenditure pressures and ensuring overall spend remains within budget throughout the year. There has, however, been a more significant movement in financial reporting outturns during the year and work has been undertaken to ensure that sound financial management practices are applied by budget holders. 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, including management actions within services and corporately to improve the outturn position.
- 4.3 In summary, the Council has consistently applied its agreed budget, finance and investment strategies throughout 2014/15.

5.0 Sustainability Implications

- 5.1 Not applicable

6.0 Resource Implications

6.1 Financial Details

- 6.2 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
- 6.3 Finance have been consulted and have agreed the financial implications as set out in the report. Yes

6.4 Staffing

7.0 Exempt Reports

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

8.0 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 | <input type="checkbox"/> |
| Our communities are more cohesive and inclusive | <input type="checkbox"/> |
| People are better skilled, trained and ready for learning and employment | <input type="checkbox"/> |
| Our communities are safer | <input type="checkbox"/> |
| Vulnerable people and families are supported | <input type="checkbox"/> |
| Substance misuse and its effects are reduced | <input type="checkbox"/> |
| Health is improving and health inequalities are reducing | <input type="checkbox"/> |
| The environment is protected and enhanced for all | <input type="checkbox"/> |
| The Council is effective, efficient and recognised for excellence | <input checked="" type="checkbox"/> |

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

9.0 Equalities Impact

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

10.0 Legality

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

11.0 Appendices

11.1 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

12.0 Background Papers

12.1 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)

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**APPENDIX A - EXTRACT FROM SUNDRY TRUST FUNDS
DRAFT TRUSTEE'S REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD 1 APRIL TO 31 MARCH**

OBJECTIVES AND ACTIVITIES

Name	Objective	Activities
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 experiments and research.	The main activity undertaken this year has been the assistance of 3 individuals, in relation to course costs associated with adult education, with an award of £200.
Tillicoultry Old Age Pensioners Outing Fund	To meet the cost of the annual excursion for old age pensioners.	No trip was funded this year due to the timings of the previous year's trips: one at the start and one at the end of the year.
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.

