
Report to Clackmannanshire Council

Date of Meeting: 28 June 2012

Subject: Draft Financial Statements 2011/12

Report by: Director of Finance and Corporate Services

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 affect the physical resources that the Council can control to provide services.
- 1.3. The Local Authority Accounts (Scotland) 1985 Regulations require the Director of Finance and Corporate Services to prepare the Statement of Accounts as soon as practicable after the end of each financial year and to submit these to the Authority and to the Controller of Audit by 30 June of the next financial year. The draft accounts 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 accounts on 26 June 2012.
- 1.4. It is not anticipated that the underlying outturn position outlined in this report will change.

2.0 Recommendations

Council is asked to:

- 2.1. approve the 2011/12 draft Financial Statements
- 2.2. approve the submission of the draft Financial Statements to the Controller of Audit once all remaining information is available and included, but no later than 30th June.
- 2.3. 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 2011/12*. The Financial Statements show the actual figures for 2011/12 and the comparable figures for 2010/11.
- 3.2. The accounts also include a Remuneration Report which was introduced for the first time in 2010/11 as a result of amendments to the 1985 Regulations.

International Financial Reporting Standards (IFRS) Issues

- 3.2 These new reporting standards were introduced for the first time in 2010/11, but there was one standard that had been issued but not yet adopted last year, and that related to Heritage Assets. These assets are typically works of art, collections or regalia which were previously classified within other categories of Property, Plant and Equipment. The Code of Practice in 2011/12 now requires that these assets are separately reflected at current value.
- 3.3 A review of the Council's assets that fall into this new category has identified various art collections, public art, civic regalia, industrial artefacts and other items with a total value of £0.833m. These are now disclosed as a separate balance sheet entry within the Council's long term assets.

Revenue Outturn

- 3.4 The UK economy remains in recession and the 2012 UK budget maintained the top priority focus on rebalancing the budget. The latest indicators suggest that there will be little growth in Scotland this year, and this could call into question the sustainability of flat cash settlements for local government in the future.
- 3.5 The financial results for 2011/12 provides us with 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.
- 3.6 Gross revenue expenditure for the year was £155m. This represents the running costs of the Council and indicates the significant size and complexity of the organisation.
- 3.7 The General Fund started the year with a balance of £9.129m. This has increased to £12.600m as at March 2012. The movement is attributable to an increase of £3.943m in respect of unearmarked reserves, and a reduction of £0.472m as a consequence of utilising earmarked reserves.
- 3.8 Of the £12.600m balance at 31 March 2012, £5.033m is earmarked for use either by individual services such as Education or Housing, or to meet corporate liabilities such as ongoing commitments for service redesigns or single status. This committed balance can be summarised as follows:

| | |
|---------------------------------|---------|
| Secondary Schools PPP | £1.421m |
| Service Improvement Contract | £1.275m |
| Implementation of Single Status | £0.622m |
| Modernising Government | £0.164m |

| | |
|---------------------------------|----------------|
| Zero Waste Fund | £0.134m |
| Adult Care carry forward scheme | £0.250m |
| Public Sector Housing | £0.050m |
| Service redesign | £0.241m |
| Clackmannanshire Works | £0.422m |
| Spend to Save Fund | £0.279m |
| Other Miscellaneous commitments | £0.175m |
| Total | £5.033m |

- 3.9 The un-committed reserve as at 31 March 2012 stands at £7.567m. The surplus achieved in the year on un-committed reserves was £3.943m compared to a budgeted reduction in uncommitted reserves of £0.251m. This results in an overall positive variance of £4.194m which is also an increase on the last figure of £3.154m reported to Scrutiny Committee in January, and the last forecast presented to senior management in April of £3.755m.
- 3.10 Regular Budget Strategy update reports to Council and budget outturn reports to Scrutiny Committee consistently highlighted that the early achievement of 2012/13 savings, ongoing budget realignment activity and vacancy management were being managed proactively throughout the year to secure further one off cash and ongoing budget savings. These are the key factors contributing to this positive outturn, though it is unlikely that this level of performance can be sustained over the medium to long term without detrimentally impacting on the delivery of services, the outcome for the year provides a platform to meet the challenges ahead.
- 3.11 The Council reviewed its reserves strategy at its meeting in February 2012 when considering its budget for 2012/13. It was agreed that it would retain uncommitted reserves at a minimum level of 3% of net expenditure, which as at March 2012 would translate to a figure of £3.581m. The outturn position is therefore £3.986m in excess of this minimum reserve figure. However, in anticipation of this positive outcome in 2011/12 the Council also agreed to utilise £2.022m of reserves in support of its 2012/13 spending plans. So as we enter the current financial year, the net uncommitted reserves will stand at £5.545m or 4.6% of budgeted expenditure. This position compares with net uncommitted reserves of £3.624m at 31 March 2011 or 2.9% of budgeted expenditure.
- 3.12 The Housing Revenue Account achieved a surplus within the year of £3.090m. In accordance with the Business Plan for the Clackmannanshire Housing Stock, a sum of £1.884m has been applied from reserves in 2011/12. The outcome of these results are that the opening housing reserve balance of £3.575m has increased to £4.781m as at 31st March 2012. The surplus achieved in the year has increased from the figure of £2.187m reported to Scrutiny Committee in January and the last forecast presented to senior management in April of £2.242m.
- 3.13 It was reported last year that a review of the Council's PPP financing model was undertaken due to a number of the original assumptions being out of date. The result was that we moved to a straight line repayment basis with a view to reporting a wider review of the longer term PPP financing models to Council during 2012/13.
- 3.14 During 2011/12 the Council concluded the sale of the former Alloa Academy school site, and the capital receipt received together with other minor sales, totalling £4.609m currently sits in the Council's capital receipts reserve. This sum is 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. These two options will have different budget implications for future years, and these factors will be explored during our updated budget scenario planning for 2013/14 onwards. Notwithstanding this, the cash received has been used to reduce our external loan debt in 2012/13 as noted below. .

Pensions Liability

- 3.14 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.
- 3.15 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 £76.257m compared to £61.617m at March 2011. The deficit has increased due to falling real bond yields and poor asset returns. It should be noted that these results do not have a direct impact on Council tax or Housing rent payers in the year.
- 3.16 The latest long-term triennial funding valuation of the Fund for the purpose of setting employers' actual contributions was at 31 March 2011 and the actuarial advice has not resulted in any change in our planned stepped increases in contributions to the fund over the three years to March 2014.

Equal Pay Provision

- 3.17 The Council has made good progress in settling equal pay claims during the year with claims totalling £0.753m settled. The Council's provision for equal pay has consequently been reduced to £2.025m at 31 March 2012. 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. However, we are now starting to see a third wave of potential claims on the horizon, and when we have greater clarity on our exposure, we may need to re-assess the level of provision in the future. This contingent liability is covered within the notes to the accounts.

Capital Expenditure and Financing

- 3.18 During 2011/12 the Council invested £8.637m of capital expenditure on its assets. This sum is considerably less than the original gross programme approved for the year of £15.154m, representing 57% of the planned spending level. The reduction in planned expenditure is attributable to £2.470m in the general services programme, and £3.777m in the Housing programme. The main reasons for the reported slippage relate to a later than planned start date for the Speirs Centre project and some delays to the central heating and bathroom programmes
- 3.19 Capital expenditure in the year has been financed by capital receipts (£0.747m), government grants and contributions (£5.617m) and direct revenue funding (£2.210m) leaving a balance of only £0.063m requiring to be financed from borrowing. Comparing this new borrowing requirement with the sum set aside in the year of £6.339m for repayments of debt provides the flexibility to reduce our external borrowing, and in April of this year the opportunity was taken not to replace a £4m loan which matured for repayment.

- 3.20 The Council's external debt as at March 2012 stands at £176.278m, a reduction of £0.919m from the position as at March 2011. This outcome is in line with our approved Investment Strategy which focuses on reducing the overall level of debt liabilities carried by the Council. The forecast for the end of 2012/13 is a reduction to c£171m following the loan repayment referred to above and further repayment of PPP finance lease.

Debtors

- 3.21 The sums due to the Council in respect of short term debtors at March 2012 are recorded in the accounts at £10.110m compared to £10.637m in 2011. Some of this is down to improvements in collection processes and some down to timing differences between debts and accruals raised towards the end of one year and sums paid early in the new year.
- 3.22 In the case of Council Tax, Housing rents and sundry debtor accounts, the gross debts included within the above total £11.368m compared to £12.264m at March 2011, after writing-off the irrecoverable sum of £1.484m approved at the Council meeting on 1st June 2012. Building on the work undertaken by Revenues and Payments Service last year, arrears have been pursued more vigorously and collection rates have increased. The Council continues to have £4.842m set aside against these debts as a provision for non-payment, but this a reduction from the sum of £5.679m required in 2011/12.

Trading Operations

- 3.23 The Council's two significant Trading Organisations, Property Contracts and Environmental & Engineering contracts again achieved their statutory requirement to break even, and contributed a surplus of £0.867m to the Council's operating costs.
- 3.24 The implementation of recent service reconfigurations provides the opportunity to review the applicability of continuing to report these operations in accordance with the Local Government Scotland Act 2003. This work has commenced and the outcome will be reported later this year.

Public Inspection

- 3.20 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.
- 3.21 The Council's final audited Financial Statements will be presented to Council along with the External Auditors Key Issues Memorandum in September 2012.

4.0 Conclusion

- 4.1 The results for the year are extremely positive against the backdrop of the current economic climate. A significant surplus has been achieved in the year on General Fund which ensures our uncommitted reserves remain in excess of the revised recommended levels approved by the Council in February 2012. This provides 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. 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 Scrutiny monitoring reports during the year.

- 4.2 In summary, the Council has consistently applied its agreed budget, finance and investment strategies throughout 2011-12 and this aims to place us in a strong position as we move into next years budget deliberations.

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 2008 - 2011** (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".

None

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)


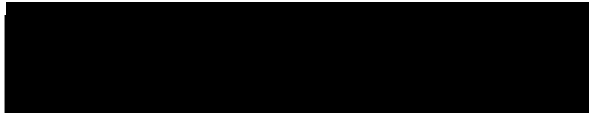
Yes ☒ (please list the documents below) No ☐

Draft Statement of Accounts 2010/11

Author(s)

| NAME | DESIGNATION | TEL NO / EXTENSION |
|-----------------|------------------------------|--------------------|
| Nikki Bridle | Director Finance & Corporate | 2030 |
| Martin Dunsmore | Accountancy Manager | 2041 |

Approved by

| NAME | DESIGNATION | SIGNATURE |
|------------------|--|--|
| Nikki Bridle | Director of Finance & Corporate Services |  |
| Elaine McPherson | Chief Executive |  |

