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**Report to Clackmannanshire Council**

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**Date of Meeting: 27 June 2013**

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**Subject: Draft Financial Statements 2012/13**

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**Report by: Director of Finance and Corporate Services**

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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 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 Council 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 24 June 2013.
- 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 2012/13 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 2012/13*. The Financial Statements show the actual figures for 2012/13 and the comparable figures for 2011/12.

#### Revenue Outturn

- 3.2 The financial results for 2012/13 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 £170m. 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 £13.067m. This has increased to £14.179m as at March 2013.
- 3.5 Of the £14.179m balance at 31 March 2013, £6.611m 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:

|  | <b>Total</b> |
|--|--------------|
|  | <b>£000</b>  |
| Secondary Schools PPP                          | 59           |
| Service Improvement Contracts                  | 336          |
| Hallpark Development                           | 1,005        |
| Change Funds                                   | 386          |
| Clackmannanshire Works                         | 540          |
| Spend to Save Fund                             | 699          |
| Police Reserves due to Scottish Government     | 138          |
| Business Rates Incentivisation income retained | 1,250        |
| Other miscellaneous Service commitments        | 690          |
| Sum approved in support of 2013/14 Budget      | 1,508        |
| Net uncommitted Reserves                       | <b>6,611</b> |

- 3.6 The earmarked balance includes £1.250m relating to the estimated income receivable from the first year of the operation of the Business Rates Incentivisation scheme. The Scottish Government has reviewed the baseline targets for the sharing of the additional income raised from rates due to the unforeseen impact of revaluation appeals. The sum of £1.250m is

Clackmannanshire's estimated share based on these revised target, but currently these targets have not been approved jointly by Scottish Government and Cosla. It is therefore prudent to earmark this income meantime pending conclusion of the final targets and distribution under the scheme.

- 3.7 The earmarked balance also reflects the approval by Council to support its 2013/14 revenue budget through the utilisation of £1.508m from reserves.
- 3.8 The un-committed reserve as at 31 March 2013 stands at £7.568m, compared to £5.562m the previous year. The surplus achieved in the year compared to budget was £2.683m which is in line with the figure of £2.417m reported to Resources and Audit Committee in February.
- 3.9 Regular Budget Strategy update reports to Council and budget outturn reports to Resources and Audit Committee consistently highlighted that ongoing budget realignment activity and service expenditure 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.
- 3.10 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 2013 would translate to a figure of £3.626m. The outturn position is therefore £3.942m in excess of this minimum reserve figure and represents a level of 6.1%.
- 3.11 The Housing Revenue Account achieved a surplus within the year of £4.204m compared to the forecast figure of £3.840m reported to Resources and Audit Committee in February. In accordance with the Business Plan for the Clackmannanshire Housing Stock, a sum of £3.500m has been applied from reserves in 2012/13. The outcome of these results are that the opening housing reserve balance of £4.180m has increased to £4.884m as at 31st March 2013.

### **Other Reserves**

- 3.12 The Council retains £4.985m within its capital receipts reserve as at March 2013, and increase of £0.376m on the previous year due to further asset sales in the year. 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.
- 3.13 The Council also retains £0.472m in a capital grants unapplied account at March 2013. This relates to grant income received in the year in respect of Housing capital work which has still to be completed in 2013/14.

### **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 small deterioration in our Balance Sheet position, with our net liability now standing at £78.887m compared to £76.257m at March 2012.

### **Provisions**

- 3.16 The Council has made good progress in settling equal pay claims during the year with claims totalling £0.634m settled. The Council's provision for equal pay has consequently been re-assessed at £0.220m at 31 March 2013. 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 remain potentially exposed to further third wave claims but are unable to quantify what these might amount to. This contingent liability is covered within the notes to the accounts.
- 3.17 The accounts reflect a provision of £0.374m to cover approved voluntary severances agreed before the year end in support of budget savings for 2013/14.
- 3.18 A new provision has been established 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. This exposure relates back to former District and Regional Council operations. Up until now the administrators of the scheme have assessed that assets within the company were sufficient to cover outstanding liabilities. But the latest annual review predicts greater uncertainty as to the cost of future claims, hence the need to 'trigger' the scheme. The provision set aside in the accounts to cover this exposure is £0.153m

### **Capital Expenditure and Financing**

- 3.19 During 2012/13 the Council invested £16.386m of capital expenditure on its assets. This reflects an underspend of £4.668m on the budgeted programme, but an improvement on the projected underspend of £5.239m reported to Resources and Audit Committee in February.
- 3.20 Capital expenditure in the year has been financed by capital receipts (£0.921m), government grants and contributions (£6.247m) and direct revenue funding (£3.500m) leaving a balance of £5.718m requiring to be financed from borrowing. Comparing this new borrowing requirement with the sum set aside in the year of £6.350m for repayments of debt demonstrates there was no need to actually incur further external borrowing.
- 3.21 The Council's external debt as at March 2013 stands at £167.202m, a reduction of £5.236m from the position as at March 2012. 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**

- 3.22 The Council's significant Trading Organisation, Property Contracts again achieved its statutory requirement to break even, and contributed a surplus of £0.162m to the Councils operating costs.

### **Public Inspection**

- 3.23 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.
- 3.24 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 2013.

## **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 Council's approved level. 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.
- 4.3 In summary, the Council has consistently applied its agreed budget, finance and investment strategies throughout 2012/13 and this places 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** (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 2012/13**

**Author(s)**

| <b>NAME</b>     | <b>DESIGNATION</b>  | <b>TEL NO / EXTENSION</b> |
|-----------------|---------------------|---------------------------|
| Martin Dunsmore | Accountancy Manager | 2041                      |

**Approved by**

| <b>NAME</b>      | <b>DESIGNATION</b>                       | <b>SIGNATURE</b>    |
|------------------|--|---------------------|
| Nikki Bridle     | Director of Finance & Corporate Services | Signed: N Bridle    |
| Elaine McPherson | Chief Executive                          | Signed: E McPherson |

