

2011-12 UNAUDITED FINANCIAL STATEMENTS

1. INTRODUCTION

- 1.1 The balance on the General Fund has increased by £0.665m. The total balance on the General Fund Reserve is £34.572m. There are substantial sums earmarked and committed in the General Fund Reserve amounting to £29.454m. The free General Fund Reserve is £5.118m, this unallocated balance represents 2.0% of the Council's budgeted net expenditure for 2012-13.
- 1.2 The total usable reserves including the General Fund Reserve are £38.196m at 31 March 2012. There are unusable reserves (accounting reserves not backed by resources) of £145.475m at 31 March 2012.
- 1.3 During 2011-12 expenditure excluding loans charges was underspent by £1.220m. Additional council tax income of £0.692m and savings in loan charges of £1.156m result in an underspend against budget of £3.068m.
- 1.4 The total Comprehensive Income and Expenditure comprises of a surplus on the provision of services of £18.852m, a surplus on the revaluation of Long Term Assets of £5.499m and an actuarial loss on the pension fund assets/liability of £57.154m. This gives a total of £32.803m and is an accounting total deficit rather than a reduction in resources available to the Council to spend.
- 1.5 The net worth of the Council has decreased by £32.803m from £212.980m at 31 March 2011 to £180.177m at 31 March 2012. This is merely a decrease in the accounting worth of the Council and does not represent a decrease in the spending power of the Council. Whilst there are increases in long term and current assets and a decrease in current liabilities these are offset by a significant increase in the pension fund liability of £52.865m.
- 1.6 Both the Roads and Lighting and Catering and Clearing Trading Accounts met the requirement for a 3 year rolling breakeven position.
- 1.7 Council tax income has increased from £47.012m in 2010-11 to £47.309m in 2011-12.

2. RECOMMENDATIONS

- 2.1 Members note the unaudited accounts.

3. DETAIL

3.1 Introduction

3.1.1 There is a statutory requirement to prepare a set of Accounts and submit the Accounts to the Controller of Audit and the Council. The date set by the Scottish Government for submission of the Accounts is 30 June of each year.

3.1.2 It should be noted that the Accounts have still to be audited. The Audit Committee at its meeting in September will be advised by the external auditor of any material issues coming to light during the audit and any changes to the Accounts. The Audited Accounts, Audit Certificate and Auditors final report will be submitted to the November meeting of the Council. Figures are therefore subject to change.

3.1.3 From 2010-11 onwards Local Authorities are required to prepare financial statements following International Financial Reporting Standards (IFRS). Under these standards the financial statements comprise:

- Explanatory Foreword
- Statement of Responsibilities for the Statement of Accounts
- Statement of Governance and Internal Control
- Remuneration Report
- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information (includes Council Tax and NDR Income Accounts), and
- Group Accounts

3.1.4 Where there is a significant change in accounting policy it is applied retrospectively by adjusting opening balances and comparative amounts for prior years as if the policy had always been applied.

3.1.5 Financial Reporting Standard (FRS) 30 Heritage Assets has been adopted as part of the 2011-12 Code of Practice, this is classed as a change in accounting policy and as such is required to be applied retrospectively back to 1st April 2010. This balance sheet has been re-stated to comply with the standard along with the 2010-11 transactions to provide comparative figures. This is in addition to the information for the 2011-12 financial year.

3.1.6 Heritage Assets are assets which are held and maintained by the Council for their contribution to knowledge and culture, these have been identified and recognised as a separate class of assets for the first time on the balance sheet. In practical terms this required the transfer of a number of artworks and other cultural assets from Community Assets.

3.1.7 In addition a prior year re-statement is required to comply with accounting policy for the income in relation to voluntary legal charges against client property as a method of recovering debt for residential home care placements. This income

should be recognised as a debtor on the Council balance sheet with the income recognised in the service as and when the charging order is agreed, previously the income had been recognised only when it was recovered. A re-statement has been made for the historic debt, this has resulted in an increase to the General Fund Balance at 1st April 2010. This acceleration of income will require to be earmarked for Adult Care to fund the projected growth in elderly services, as agreed by Executive on 19 April 2012.

3.2 Explanatory Foreword

3.2.1 The Explanatory Foreword provides an overview of the key points in relation to the Accounts and a summary of the Council's financial performance for the year. It also highlights any significant changes in accounting policies.

3.3 Statement of Responsibilities for the Statement of Accounts

3.3.1 The Statement of Responsibilities for the Statement of Accounts specifies the Council's responsibilities and also the responsibilities of the Head of Strategic Finance in respect of the Accounts.

3.4 Statement of Governance and Internal Control

3.4.1 In the Statement of Governance and Internal Control the Council states its view on the adequacy of its governance and internal control system. The statement concludes the system of governance and internal controls is operating effectively and outlines the reasons for that conclusion.

3.5 Remuneration Report

3.5.1 The Remuneration Report gives details of the remuneration policy, remuneration and pension benefits of senior councillors and senior officers and any employee exit packages.

3.6 Statement of Movement in Reserves

3.6.1 The Council reserves are split into Usable and Unusable Reserves. Usable reserves are those which are backed by actual resources and can be applied to fund expenditure or reduce local taxation. Unusable reserves are not backed by resources and are required purely for accounting purposes, these reserves do not represent resources available for the Council to utilise.

3.6.2 The total Council reserves have decreased from £212.980m at 31 March 2011 to £180.177m at 31 March 2012, a decrease of £32.803m. This is represented by a Surplus on Provision of Services of £18.852m offset by Other Comprehensive Income and Expenditure of £51.655m.

3.6.3 Unusable Reserves have decreased by £33.623m from £175.604m at 31 March 2011 to £141.981m at 31 March 2012. The main reasons for this are an increase in the Pension Reserve Liability of £57.154m, which is partly offset by a surplus on the revaluation of fixed assets of £5.499m and the transfer of £11.479m from the Comprehensive Income and Expenditure Statement for Capital Grants.

- 3.6.4 The Usable Reserves have increased from £37.376 at 31 March 2011 to £38.196m at 31 March 2012, an increase of £0.820m. The main reason for this is an increase in the General Fund Balance of £0.665m.
- 3.6.5 A number of adjustments are made between Council reserves to reflect the correct charge to Council Tax for the year. The net adjustment to the surplus per the Comprehensive Income and Expenditure Statement to reflect the impact on Council Tax is a debit of £18.187m. In summary this debit represents the difference between:
- Principal repayment to the loans fund and the depreciation or amortisation of fixed assets and government grant and any gain/loss on sale of assets
 - Cash paid as pension contributions and the costs charged in accordance with IAS19.
 - Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the Code.
 - Capital element of finance lease payments on the schools NPDO contract and other finance leases.
- 3.6.6 The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Account of £18.852m less the adjustments to reflect impact on Council Tax of £18.187m equates to the increase on the balance on the General Fund of £0.665m.

3.7 General Fund Reserve

- 3.7.1 The balance on the General Fund at 31 March 2012 stands at £34.572m compared to £33.907m at 31 March 2011. An increase of £0.665m. The “free” General Fund Balance stands at £5.118m at 31 March 2012. This equates to 2.0% of the net revenue expenditure for 2012-13, the Council has a policy of maintaining an unallocated balance in the General Fund Reserve equivalent to 1.5% of net revenue expenditure. There are a range of balances earmarked within the General Fund, these total £29.454m and are laid out in the table below:

Earmarking Category	Balance at 31 March 2012 £'000
Strategic Housing Fund (Council Tax on Second Homes)	8,689
Unspent Grants and Third Party Contributions	754
Unspent Budget Carried Forward	5,244
School Budget Carry Forwards	1,221
Unspent Budget Required for Existing Legal Commitments	148
CHORD	475
Revenue Contribution to Capital	12,500
Severance Costs	423
Total Earmarked Balance at 31 March 2012	29,454

3.7.2 The balances previously earmarked for the NPDO and Waste PPP Smoothing Funds have been removed and £12.5m has been earmarked as a contribution to capital to fund the Dunoon and Campbeltown schools, as agreed as part of the 2012-13 budget in February 2012.

3.7.3 The Unspent Budget Carried Forward earmarked reserves totalling £5.244m include any earmarking of unspent budget which does not qualify for automatic carry-forward, which would include unspent grants and where there are existing legal commitments. Proposals to earmark unspent budget must be supported by a detailed business case, which would include the purpose of the earmarking linked to the objectives in the corporate and service plans. The amount earmarked at the 31 March 2012 consists of those proposals previously agreed by Executive or Council and therefore no further detail is included in this report. The only change being that in April 2012 the Executive approved a carry-forward of £0.6m in relation to the income for Adult Care in respect of the acceleration of income in relation to the debt recovery for Residential Care Home Placements. At the time this was the best estimate of the historic debt, this figure has now been finalised and a total of £0.934m requires to be earmarked for this purpose, this is included in the total.

3.7.4 The movement in the General Fund can be summarised as follows:

	£m	£m
Balance on General Fund 31 March 2011		33.907
Release of sums previously earmarked to service budgets 2011-12		(10.224)
		23.683
Add outturn for 2011-12		
Increase in council tax income	0.692	
Savings in loan charges	1.156	
Net underspend on departmental and other expenditure compared to budget	1.220	
	<u>3.068</u>	3.068
Contributions to Earmarked Reserves 2011-12:		
Council Tax collection on second homes	1.817	
Funds earmarked by departments from budgets	6.004	
	<u>7.821</u>	7.821
Balance on General Fund 31 March 2012		34.572

3.7.5 The release of sums already earmarked to service budgets total of £10.224m consists of funds released to services for amounts previously earmarked for specific purposes, including monies agreed by Council to fund the CHORD programme and Process for Change and also the approved budgeted

contribution from reserves to balance the overall 2011-12 budget position.

3.8 Performance Against Budget

3.8.1 At the year-end expenditure excluding loans charges was underspent by £1.220m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend £m	% age of annual budget £m
Chief Executive's Unit	0.111	1.75%
Community Services	2.067	1.50%
Customer Services	0.081	0.24%
Development and Infrastructure Services	(0.639)	(1.95%)
Non-Departmental expenditure	<u>(0.400)</u>	<u>(1.47%)</u>
TOTAL	1.220	0.51%

3.8.2 The overspend in Development and Infrastructure Services relates to the additional costs associated with winter maintenance and storm damage. In Community Services there was an overall underspend due to a reduction in demand for some services and additional savings achieved in advance of service reviews. The projected year-end position for departments was forecast and monitored during 2011-12 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable. The overspend in Non-Departmental expenditure relates to the provision for severance costs as part of the ongoing Council Modernisation.

3.9 Comprehensive Income and Expenditure Statement

3.9.1 The Council ended the year with an accounting deficit of £32.803m for 2012-13 compared to a surplus of £100.754m in 2011-12, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure comprises of a surplus on the provision of services of £18.852m, a surplus on the revaluation of Long Term Assets of £5.499m, offset by an actuarial loss on the pension fund assets/liability of £57.154m.

3.9.2 The surplus on the provision of services of £18.852m compares to a surplus of £53.581m for 2011-12. The main factors contributing to these changes are as follows:

- Taxation and Non-Specific Grant Income decreased from £279.925m to £272.546m a decrease of £7.379m (2.6%). This reduction in funding reflects the Councils share of the overall national reduction in funding for public services.
- Financing and Investment Income and Expenditure fell from £15.670m in 2010-11 to £15.316m in 2011-12 a reduction of £0.354m (2.2%). The reduction is due to an increase in interest payable and similar charges, partly offset by an increase in the expected return on pension assets
- Other Operating Income and Expenditure decreased from £1.453m in

2010-11 to £1.396m 2011-12 a reduction of £0.057m (3.9%). This is due to an increase in the loss on disposal of long term assets offset by a decrease in other operating income and expenditure as a result of additional income recovered in relation to VAT reclaims made under the "Fleming" case law principle.

- The Net Cost of Services has increased from £209.620m in 2010-11 to £236.982m in 2011-12 an increase of £27.362 (13.1%). This is an increase in expenditure in accounting terms and does not represent a true increase in spend on services by the Council. The main reason for this being a credit of £42.187m to Non Distributed costs in 2010-11 for a reduction in the Pension Liability, this adjustment was the one-off impact on the pension liability as a result of the basis for future pension increases being linked to the Consumer Price Index (CPI).

3.10 Balance Sheet

- 3.10.1 As indicated above the accounting net worth of the Council has decreased by £32.803m from £212.980m at 31 March 2011 to £180.177m at 31 March 2012.
- 3.10.2 The value of long term assets has increased from £479.957m at 31 March 2011 to £489.135m at 31 March 2012, an increase of £9.178m (1.9%). This comprises the net of an overall upward revaluation of fixed assets, capital expenditure in the year, less the value of fixed assets disposed.
- 3.10.3 Total current assets have increased from £47.527m at 31 March 2011 to £53.303m at 31 March 2012 an increase of £5.776m. The main reason for this being a decrease in Cash and Cash Equivalents of £14.959m from £30.446m at 31 March 2011 to £15.487m at 31 March 2012, offset by an increase in short term investments of £20.0m.
- 3.10.4 Total current liabilities have reduced from £44.446m at 31 March 2011 to £40.621m at 31 March 2012 a reduction of £3.825m. Short term creditors have fallen from £37.423m to £35.510m. In addition there has been a decrease in provisions of £1.845m, which relates to the settling of equal pay claims and severance costs associated with employees leaving the Council under redundancy and early retirement.
- 3.10.5 Overall, long term liabilities have increased from £270.058m at 31 March 2011 to £321.640m at 31 March 2012. The increase £51.582m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £26.227m to £79.092m.

3.11 Cash Flow Statement

- 3.11.1 The cash flow statement shows the changes in cash and cash equivalents of the Council during the financial year. The Cash and Cash Equivalents balance at 31 March 2011 was £30.446m and decreased by £14.959m to £15.487m at 31 March 2012. The Net Cash Flows from Operating Activities have increased from £19.340m at 31 March 2011 to £6.538m at 31 March 2012, this decrease of £12.802m represents a decrease in the Councils income funded from taxation and grant income. Cash outflows for Investment Activities have increased from £6.968m during 2010-11 to £21.570m in 2011-12, as a result of placing £20.0m of surplus cash on investment. Cash flows from Financing Activities were a cash inflow of £14.724m during 2010-11 and a net cash inflow during 2011-12 of

£0.073m, this decrease relates to new borrowing during 2010-11.

3.12 Notes to Accounts

- 3.12.1 The Notes section gives further information and explanation to some of the key figures included in the accounts some of which are summarised below.
- 3.12.2 Note 8 refers to Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. During 2011-12 the Roads and Lighting trading account achieved a surplus of £0.357m. It achieved a rolling breakeven position with a three year surplus of £2.029m. The Catering & Cleaning trading account returned a surplus of £0.322m for the year and a rolling breakeven position with a three year surplus of £1.308m. Any surplus or deficit on trading organisations is treated as part of the General Fund.
- 3.12.3 The significant future financial commitments arising from the Waste Management PPP and Schools NPDO PPP are summarised in notes 11 and 19.3. The Council is committed to future payments of £84.220m over the period to 2027 for the Waste PPP and £345.877m over the period to 2035 for the Schools NPDO PPP.

3.13 Council Tax Income Account

- 3.13.1 Income taken to the General Fund for council tax in 2011-12 amounted to £47.309m compared to £47.012m in 2010-11. This is an increase of £0.297m (0.63%).
- 3.13.2 In 2011-12 council tax rates were frozen at 2010-11 levels of £1,178 for a band D dwelling. The total council tax levied excluding second homes increased by £0.376m (0.71%) from £53.246m in 2010-11 to £53.622m in 2011-12.
- 3.13.3 There was minimal change to discounts, valuation and provision for bad and doubtful debts which decreased by £0.020m from £8.722m in 2010-11 to £8.702m in 2011-12.

3.14 Non Domestic Rate Income Account

- 3.14.1 Non Domestic Rate Income amounted to a share of £25.582m for 2011-12 allocated from the national pool. This compares to £36.214m in 2010-11. Our own net income amounted to £25.888m and we transferred a contribution to the national pool of £0.306m for 2011-12. These figures compared to income of £25.473m and a contribution from the national pool of £10.741m for 2010-11. This reduction in income reflects the Councils share of the overall national reduction in funding for public services.

3.15 Capital Expenditure and Borrowing

3.15.1 Details of capital expenditure are as follows:

	£'m
Gross Capital Expenditure	25.575
Less: Capital Receipts	0.190
Government Grants and Other Contributions	11.479
Revenue Contributions	0.124
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Balance Funded from Borrowing	13.782
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3.15.2 The capital financing requirement at 31 March 2012 was £256.617m. This was financed as follows:

	£'m
Long Term Borrowing	160.210
Short Term Borrowing	0.553
Schools NPDO Finance Lease Liability	82.576
Internal Funds	13.278
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	256.617
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The external borrowing of the Council at 31 March 2012 amounted to £160.763m. The majority of this was financed by the Public Works Loan Board (£108.066m), with the remainder coming mainly from the money market.

3.15.3 During the year the Council completed £0.2m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.16m.

3.16 Group Accounts

3.16.1 For 2011-12 the Council is required to prepare Group Accounts. The Group Accounts comprise of a Statement of Movement in Reserves, a Comprehensive Income and Expenditure Statement, a Balance Sheet and notes. The group accounts incorporate Common Good Funds as subsidiaries and Police, Fire and Valuation Joint Board as associates.

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20 June 2012