

2010-11 UNAUDITED ACCOUNTS

1. SUMMARY

- 1.1 The balance on the General Fund has decreased by £2.438m. The total balance on the General Fund Reserve is £30.582m. There are substantial sums earmarked and committed in the General Fund Reserve amounting to £26.734m. The free General Fund Reserve is £3.848m. The unallocated balance of £3.848m represents 1.5% of the Council's budgeted net expenditure for 2011-12.
- 1.2 The total usable reserves including the General Fund Reserve are £34.051m at 31 March 2011. There are unusable reserves (accounting reserves not backed by resources) of £173.175m at 31 March 2011.
- 1.3 During 2010-11 expenditure excluding loans charges was underspent by £1.675m. Additional council tax income of £0.924m and savings in loan charges of £0.946m result in an underspend against budget of £3.545m. In addition there were one off costs associated with equal pay settlements £2.250m and severance costs £4.885m brought forward from the 2011-12 budget.
- 1.4 The total Comprehensive Income and Expenditure comprises of a surplus on the provision of services of £48.127m, a surplus on the revaluation of Long Term Assets of £8.592m and an actuarial gain on the pension fund assets/liability of £38.980m. This gives a total of £95.699m and is an accounting total rather than resources available to the Council to spend.
- 1.5 The net worth of the Council has increased by £95.699m from £111.527m at 31 March 2010 to £207.226m at 31 March 2011. This is merely an increase in the accounting worth of the Council and does not represent an increase in the spending power of the Council. Whilst there are increases in long term and current assets and a decrease in current liabilities the most significant factor is the decrease in the pension fund liability of £81.742m.
- 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 £45.664m in 2009-10 to £47.012m in 2010-11.

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 For 2010-11 onwards Local Authorities are required to move from UK Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) in terms of the preparation of financial statements. A new Code has been agreed by the CIPFA/LASAAC Code Board which oversees the detailed specification of accounting requirements for local authorities. Many of the accounting policies under IFRS are similar to those under UK GAAP but there are a small number of areas where there have been material changes to the annual accounts.

- Government Grants: Grants and contributions for capital schemes are now recognised as income when they become receivable.
- Asset Reclassification: Non-operational Fixed Assets have been reclassified as Property, Plant and Equipment, Investment Property and Assets Held for Sale.
- Employee Benefits: Required to accrue expenditure for accumulated short term compensated absences such as annual leave and flexi-time accrued by employees.

3.1.4 The adoption of IFRS has required a complete review of the accounting policies adopted by the Council. Accounting policy changes arising from IFRS are applied retrospectively back to 1st April 2009 and this balance sheet has been fully re-stated to comply with IFRS along with the 2009-10 transactions to provide comparative figures on an IFRS basis. This is in addition to the information for the 2010-11 financial year.

3.1.5 The individual financial statements have different titles under IFRS. There is also a new requirement from the Scottish Government to include a Remuneration Report with the Accounts. The financial statements now 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

3.2 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.

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 increased from £111.527m at 31 March 2010 to £207.226m at 31 March 2011, an increase of £95.699m. This is represented by a Surplus on Provision of Services of £48.127m and Other Comprehensive Income and Expenditure of £47.572m.

3.6.3 Unusable Reserves have increased by £98.120m from £75.055m at 31 March 2010 to £173.175m at 31 March 2011. The main reasons for this are a decrease in the Pension Reserve of £81.742m, a surplus on the revaluation of fixed assets of £8.592m and the transfer of £7.094m from the Comprehensive Income and Expenditure Statement for Capital Grants.

3.6.4 The Usable Reserves have decreased from £36.472m at 31 March 2010 to £34.051m at 31 March 2011, a reduction of £2.421m. The main reason for this is a reduction in the General Fund Balance of £2.438m.

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 £50.565m. 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.

The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Account of £48.127m less the adjustments to reflect impact on Council Tax of £50.565m equates to the decrease on the balance on the General Fund of £2.438m.

3.7 General Fund Reserve

3.7.1 The balance on the General Fund at 31 March 2011 stands at £30.582m compared to £33.020m at 31 March 2010. A decrease of £2.438m. The "free" General Fund Balance stands at £3.848m at 31 March 2011. This equates to 1.5% of the net revenue expenditure for 2011-12, 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 £26.734m and are laid out in note 5. The main balances include £12.936m for PPP Smoothing Funds, £7.366m for the Strategic Housing Fund generated from Council Tax on second homes and £2.455m of additional grant monies received from the Scottish Government prior to 31 March 2011.

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

	£m	£m
Balance on General Fund 31 March 2010		33.020
Release of sums previously earmarked to service budgets 2010-11		4.845
		<u>28.175</u>
Add outturn for 2010-11		
Increase in council tax income	0.924	
Savings in loan charges	0.946	
Net underspend on departmental and other expenditure compared to budget	1.675	3.545
		<u>3.545</u>
One-off Costs in 2010-11		
Severance Costs	(4.885)	
Equal Pay Provision	(2.250)	(7.135)
		<u>(7.135)</u>
Deficit against budget 2010-11		
Council Tax collection on second homes	1.788	
Contribution to PPP smoothing funds	0.062	
Additional Scottish Government Grant Carried Forward to 2011-12	2.455	
Funds earmarked by departments from budgets	1.692	
		<u>5.997</u>
		<u>5.997</u>
Balance on General Fund 31 March 2011		30.582

3.7.3 The release of sums already earmarked to service budgets total of £4.845m consists of funds released to services for amounts previously earmarked including monies agreed by Council to fund Process for Change and the CHORD programme.

3.7.4 In February 2011 the Council took the decision to fund one-off severance costs initially from the funds earmarked in the General Fund balance for the PPP Smoothing Funds. At 31 March 2011 the total earmarked was £16.055m and an amount of £3.119m has been transferred to meet severance costs. This amount has been removed temporarily from the Smoothing Fund balance and will be repaid into the General Fund Balance in future years.

3.8 Performance Against Budget

3.8.1 At the year-end expenditure excluding loans charges was underspent by £1.675m. 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	0.016	0.21%
Community Services	1.592	1.11%
Customer Services	1.424	4.30%
Development and Infrastructure Services	(1.666)	(4.69%)
Non-controllable expenditure	<u>0.309</u>	<u>1.38%</u>
TOTAL	1.675	0.69%

3.8.2 The overspend in Development and Infrastructure Services relates to the additional costs associated with Winter Maintenance. This overspend was forecast and monitored during 2010-11 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable.

3.9 Comprehensive Income and Expenditure Statement

3.9.1 The Council ended the year with an accounting surplus of £95.699m for 2011-12 compared to a deficit of £50.714m in 2010-11, 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 £48.127m, a surplus on the revaluation of Long Term Assets of £8.592m and an actuarial gain on the pension fund assets/liability of £38.980m.

3.9.2 The surplus on the provision of services of £48.127m compares to a surplus of £12.612m for 2009-10. The main factors contributing to these changes are as follows:

- Taxation and Non-Specific Grant Income increased from £277.073m to £279.526m an increase of £2.453m (0.9%). This increase comprised a general year on year increase in General Government Grants and an additional £2.455m received from the Scottish Government prior to 31 March 2011. In addition there was a significant reduction in the Government and other Capital Grants received reducing from £12.822m in 2009-10 to £7.095m in 2010-11.
- Financing and Investment Income and Expenditure fell from £20.934m in 2009-10 to £15.670m in 2010-11 a reduction of £5.264m (25.1%). The reduction is due to an increase in the expected return on pension assets

- Other Operating Income and Expenditure decreased from £1.501m in 2009-10 to £1.453m 2010-11 a reduction of £0.048m (3.2%), this is due to a reduction on the loss on disposal of Long Term Assets.
- The Net Cost of Services has decreased from £242.026m in 2009-10 to £214.276m in 2010-11 a decrease of £27.750m (11.5%). This is a decrease in expenditure in accounting terms and does not represent a true reduction in spend on services by the Council. The main reason for this is a credit of £42.187m to Non Distributed costs for a reduction in the Pension Liability. This adjustment is the 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 increased by £95.699m from £111.527m at 31 March 2010 to £207.226m at 31 March 2011.
- 3.10.2 The value of long term assets has increased from £462.277m at 31 March 2010 to £475.915m at 31 March 2011, an increase of £13.628m (2.9%). This comprises a net upward revaluation of fixed assets, capital expenditure less the value of fixed assets disposed of and a transfer of assets from Assets Held for Sale to Surplus Assets.
- 3.10.3 Total current assets have increased from £29.667m at 31 March 2010 to £47.692m at 31 March 2011 an increase of £18.025m. The main variances are due to a reduction in the value of Assets Held for Sale of £6.957m from £8.679m at 31 March 2010 to £1.722m at 31 March 2011 and an increase in Cash and Cash Equivalents of £27.096m from £3.350m at 31 March 2010 to £30.446m at 31 March 2011.
- 3.10.4 Total current liabilities have reduced from £55.693m at 31 March 2010 to £46.404m at 31 March 2011 a reduction of £9.289m. Short term borrowing has fallen from £12.639m to £0.496m and short term creditors have fallen from £40.242m to £37.582m. This has been partially offset by an increase in provisions of £5.411m. The provisions relate to the estimated costs of settling equal pay claims and the severance costs associated with employees leaving the Council under redundancy and early retirement.
- 3.10.5 Overall, long term liabilities have decreased from £324.724m at 31 March 2010 to £269.977m at 31 March 2011. The decrease of £54.747m masks some significant movements.
- Long term borrowing has increased from £131.242m to £160.229m. New long term borrowing was arranged to take advantage of low interest rates and to protect the Council against potential future interest rate increases.
 - The IAS19 valuation of the pension scheme liability decreased from £107.969m to £26.227m.

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 2010 was £3.350m and increased by £27.096m to £30.446m at 31 March 2011. The Net Cash Flows from Operating Activities have increased from £16.153m at 31 March 2010 to £19.738m at 31 March 2011, this increase of £3.585m represents an increase in the Councils income funded from taxation, grant income and fees and charges made to service users. Cash outflows for Investment Activities have increased from £5.299m during 2009-10 to £6.968m in 2010-11 this is representative of cash outflows for resources to contribute to the Councils future service delivery. Cash flows from Financing Activities were a cash outflow of £14.817m during 2009-10 and a net cash inflow during 2010-11 of £14.326m, this increase 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 2010-11 the Roads and Lighting trading account achieved a surplus of £0.585m. It achieved a rolling breakeven position with a three year surplus of £2.193m. The Catering & Cleaning trading account returned a deficit of £0.138m for the year, however it achieved a rolling breakeven position with a three year surplus of £1.497m. The deficit on the Catering & Cleaning trading account is a result of the costs in 2010-11 for Equal Pay settlements and termination benefits. 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 18.3. The Council is committed to future payments of £94.951m over the period to 2027 for the Waste PPP and £359.505m 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 2010-11 amounted to £47.012m compared to £46.664m in 2009-10. This is an increase of £0.348m (0.7%).

3.13.2 In 2010-11 council tax rates were frozen at 2009-10 levels of £1,178 for a band D dwelling. The total council tax levied excluding second homes increased by £0.297m (0.5%) from £52.949m in 2009-10 to £53.246m in 2010-11.

3.13.3 Discounts, valuation and provision for bad and doubtful debts increased by £0.024m from £8.698m in 2009-10 to £8.722m in 2010-11.

3.14 Non Domestic Rate Income Account

3.14.1 Non Domestic Rate Income amounted to a share of £36.214m for 2010-11 allocated from the national pool. This compares to £38.448m in 2009-10. Our own net income amounted to £25.473m and we received a contribution from the national pool of £10.741m for 2010-11. These figures compared to income of £25.115m and a contribution from the national pool of £13.333m for 2009-10.

3.15 Capital Expenditure and Borrowing

3.15.1 Details of capital expenditure are as follows:

	£'m
Gross Capital Expenditure	21.201
Less: Capital Receipts	0.159
Government Grants and Other Contributions	7.095
Revenue Contributions	0.915
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Balance Funded from Borrowing	13.032
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3.15.2 The capital financing requirement at 31 March 2011 was £264.298m. This was financed as follows:

	£'m
Long Term Borrowing	160.229
Short Term Borrowing	0.496
Schools NPDO Finance Lease Liability	83.309
Internal Funds	20.264
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	264.298
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The external borrowing of the Council at 31 March 2011 amounted to £160.725m. 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 £29.231m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £12.387m.

3.16 Group Accounts

3.16.1 For 2010-11 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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