

**2012-13 UNAUDITED FINANCIAL STATEMENTS**

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**1. INTRODUCTION**

- 1.1 The balance on the General Fund has increased by £11.633m. The total balance on the General Fund Reserve is £46.205m. There are substantial sums earmarked and committed in the General Fund Reserve amounting to £36.066m. The free General Fund Reserve is £10.139m, this unallocated balance represents 4.1% of the Council's budgeted net expenditure for 2013-14.
- 1.2 The total usable reserves including the General Fund Reserve are £50.371m at 31 March 2013. There are unusable reserves (accounting reserves not backed by resources) of £130.640m at 31 March 2013.
- 1.3 During 2012-13 expenditure excluding Joint Boards and severance was underspent by £0.333m. Additional funding including council tax income of £0.518m and additional income from redistributed Joint Board reserves of £0.975m are partly offset by an overspend in severance costs of £0.830m. These result in an overall underspend against budget of £0.996m. Further detail on the year-end outturn position is contained in the revenue budget monitoring report.
- 1.4 The total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £23.321m, a surplus on the revaluation of Long Term Assets of £2.183m and an actuarial loss on the pension fund assets/liability of £21.580m. This gives a total of £3.924m and is an accounting total surplus rather than an increase in available to the Council to spend.
- 1.5 The net worth of the Council has increased by £3.924m from £177.087m at 31 March 2012 to £181.011m at 31 March 2013. 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 these are offset by a significant increase in the pension fund liability of £20.772m.
- 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 £47.309m in 2011-12 to £47.376m in 2012-13.

**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. There are no such changes in accounting policy required for the 2012-13 year.

#### **3.2 Explanatory Foreword**

3.2.1 The Explanatory Foreword provides an overview of the key points in relation to the Financial Statements 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 Financial Statements.

### **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 increased from £177.087m at 31 March 2012 to £181.011m at 31 March 2013, an increase of £3.924m. This is represented by a Surplus on Provision of Services of £23.321m partly offset by Other Comprehensive Income and Expenditure of £19.397m.

3.6.3 Unusable Reserves have decreased by £8.251m from £138.891m at 31 March 2012 to £130.640m at 31 March 2013. The main reasons for this are an increase in the Pension Reserve Liability of £20.772m, which is partly offset by a surplus on the revaluation of fixed assets of £2.183m and the transfer of £11.428m from the Comprehensive Income and Expenditure Statement for Capital Grants.

3.6.4 The Usable Reserves have increased from £38.196 at 31 March 2012 to £50.371m at 31 March 2013, an increase of £12.175m. The main reason for this is an increase in the General Fund Balance of £11.633m.

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 £11.688m. 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 and the amounts paid under the contracts.

3.6.6 The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Account of £23.321m less the adjustments to reflect impact on Council Tax of £11.688m equates to the increase on the balance on the General Fund of £11.633m.

### 3.7 **General Fund Reserve**

3.7.1 The balance on the General Fund at 31 March 2013 stands at £46.205m compared to £34.572m at 31 March 2012. An increase of £11.633m. The “free” General Fund Balance stands at £10.139m at 31 March 2012. This equates to 4.1% of the net revenue expenditure for 2013-14, the Council has a policy of maintaining a minimum 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 £36.066m and are laid out in the table below:

<b>Earmarking Category</b>	<b>Balance at 31 March 2013 £'000</b>
Strategic Housing Fund (Council Tax on Second Homes)	10,183
Unspent Grants and Third Party Contributions	1,554
Unspent Budget Carried Forward	8,380
School Budget Carry Forwards	946
Unspent Budget Required for Existing Legal Commitments	230
CHORD	657
Revenue Contribution to Capital	3,000
Investment in Affordable Housing	9,500
Severance Costs	236
Reserve Committed for 2013-14 Budget	1,054
Reserve Committed for 2014-15 Budget	326
<b>Total Earmarked Balance at 31 March 2013</b>	<b>36,066</b>

3.7.2 £12.5m was 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. Subsequently Council agreed in August 2012 to transfer £9.5m towards investment in affordable housing, leaving £3m from reserves as a contribution to the school projects.

3.7.3 The Unspent Budget Carried Forward earmarked reserves totalling £8.380m 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 2013 consists of those proposals which are contained within the accompanying report entitled Earmarking of Funds within

General Fund.

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

	£m	£m
<b>Balance on General Fund 31 March 2012</b>		<b>34.572</b>
Release of sums previously earmarked to service budgets 2012-13		(2.620)
Budgeted Contribution to General Fund Balance 2012-13		3.760
		<u>35.712</u>
<b>Add outturn for 2012-13</b>		
Increase in council tax income	0.518	
Joint Boards Reserve Redistribution	0.975	
One-off Severance Costs for 2012-13	(0.830)	
Net underspend on departmental and other expenditure compared to budget	0.333	
		<u>0.996</u>
<b>Surplus against budget 2012-13</b>		<b>0.996</b>
<b>Contributions to Earmarked Reserves 2012-13:</b>		
Council Tax collection on second homes	1.695	
Joint Boards Requisition Redistribution	0.849	
Funds earmarked by departments from budgets	6.953	
		<u>9.497</u>
<b>Balance on General Fund 31 March 2013</b>		<b>46.205</b>

3.7.5 The release of sums already earmarked to service budgets of £2.620m consists of funds released to services of amounts previously earmarked for specific purposes, including unspent budget within the Devolved Management of Resources Scheme of Delegation for Schools, Strategic Housing Fund payment and unspent grant and third party contributions required for specific purposes.

### 3.8 Performance Against Budget

3.8.1 At the year-end expenditure excluding Joint Board requisitions and severance was underspent by £0.333m. 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	0.500	7.31%
Community Services	1.360	0.99%
Customer Services	1.191	3.69%
Development and Infrastructure Services	(1.481)	(4.73%)
Non-Departmental expenditure	<u>0.083</u>	<u>0.24%</u>
<b>Outturn Total</b>	<b>1.653</b>	
<b>Earmarked Reserves Approved February 2013</b>	<b><u>(1.320)</u></b>	
<b>TOTAL</b>	<b>0.333</b>	<b>0.38%</b>

3.8.2 The adjustment of £1.320m for the earmarked reserves approved in February 2013 is for amounts earmarked for departments for specific projects which were earmarked from the overall projected outturn for the Council revenue budgets and not from department specific underspends.

3.8.3 The underspend in the Chief Executives Unit relates to the Workforce Deployment element of Process for Change, where savings have been made in IT costs. In Community Services there was an overall underspend due to a reduction in demand for some services and vacancy savings across the department. The underspend in Customer Services is due to procurement savings and additional savings achieved in advance of the savings requirement for 2013-14. The overspend in Development and Infrastructure Services mainly relates to the additional costs associated with winter maintenance. The projected year-end position for the departments was forecast and monitored during 2012-13 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 £3.924m for 2012-13 compared to a deficit of £35.893m 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 £23.321m, a surplus on the revaluation of Long Term Assets of £2.183m, reduced by an actuarial loss on the pension fund assets/liability of £21.580m.

3.9.2 The surplus on the provision of services of £23.321m compares to a surplus of £15.642m for 2011-12. The main factors contributing to these changes are as

follows:

- Taxation and Non-Specific Grant Income increased from £272.546m to £274.177m an increase of £1.631m (0.6%). This increase in income reflects a general year on year increase in General Government Grants.
- Financing and Investment Income and Expenditure increased from £15.316m in 2011-12 to £16.475m in 2012-13 an increase of £1.159m (7.6%). The increase is due to a fall in interest payable and similar charges and an increase in interest and investment income, offset by a decrease in the expected return on pension assets.
- Other Operating Income and Expenditure increased from £1.396m in 2011-12 to £2.974m in 2012-13 an increase of £1.578m (113%). This is due to an increase in the loss on disposal of long term assets.
- The Net Cost of Services has decreased from £240.192m in 2011-12 to £231.407m in 2012-13 a decrease of £8.785m (3.7%). This is a decrease in expenditure in accounting terms and does not necessarily represent a true decrease in spend on services by the Council.

### **3.10 Balance Sheet**

- 3.10.1 As indicated above the accounting net worth of the Council has increased by £3.924m from £177.087m at 31 March 2012 to £181.011m at 31 March 2012.
- 3.10.2 The value of long term assets has increased from £486.289m at 31 March 2012 to £500.601m at 31 March 2013, an increase of £14.312m (2.9%). 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 £53.303m at 31 March 2012 to £63.646m at 31 March 2013 an increase of £10.343m. The main reason for this being a decrease in Cash and Cash Equivalents of £3.619m from £15.487m at 31 March 2012 to £11.868m at 31 March 2013, offset by an increase in short term investments of £15.0m.
- 3.10.4 Total current liabilities have increased from £40.865m at 31 March 2012 to £42.846m at 31 March 2013 an increase of £1.981m. Short term creditors have increased by £2.160m from £33.082 to £35.242m. In addition there has been a decrease in provisions of £0.648m, 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 £321.640m at 31 March 2012 to £340.390m at 31 March 2013. The increase of £18.750m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £79.092m to £99.864m.

### **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 2012 was £15.487m and decreased by £3.619m to £11.868m at 31 March 2013. The Net Cash Flows from Operating Activities have increased from £6.538m at 31 March 2012 to £27,191m at 31 March 2013, this increase of £20.653m represents an increase in the Councils expenditure being funded from taxation and grant income. Cash outflows for Investment Activities have increased from £21.570m during 2011-12 to £29.473m in 2012-13, as a result of an increase in the purchase of long term assets partly offset by a year on year reduction in the value of surplus cash investments made during the year. Cash flows from Financing Activities were a cash inflow of £0.073m during 2011-12 and a net cash outflow during 2012-13 of £1.337m, this change relates to £1.6m of other receipts from financing activities during 2011-12 which was in relation to Non Domestic Rates.

### **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 2012-13 the Roads and Lighting trading account achieved a surplus of £0.357m. It achieved a rolling breakeven position with a three year surplus of £1.315m. The Catering & Cleaning trading account returned a surplus of £0.052m for the year and a rolling breakeven position with a three year surplus of £0.680m. 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 £81.887m over the period to 2027 for the Waste PPP and £334.103m 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 2012-13 amounted to £47.376m compared to £47.309m in 2011-12. This is an increase of £0.067m (0.14%).

3.13.2 In 2012-13 council tax rates were frozen at 2011-12 levels of £1,178 for a band D dwelling. The total council tax levied excluding second homes increased by £0.416m (0.78%) from £53.622m in 2011-12 to £54.038m in 2012-13.

3.13.3 There was minimal change to discounts, valuation and provision for bad and doubtful debts which increased by £0.085m from £8.702m in 2011-12 to £8.787m in 2012-13. There was a reduction of £0.163m in the amount recovered from council tax on second homes from £1.817m in 2011-12 to £1.654m in 2012-13, this reduction in income recovered is in line with a



reduction in the total council tax levied on these properties.

### **3.14 Non Domestic Rate Income Account**

3.14.1 Non Domestic Rate Income amounted to a share of £26.479m for 2012-13 allocated from the national pool. This compares to £25.582m in 2011-12. Our own net income amounted to £27.255m and we transferred a contribution to the national pool of £0.776 for 2012-13. These figures compared to income of £25.888m and a contribution to the national pool of £0.306m for 2011-12. This increase in income reflects the general year on year increase in funding received from the Scottish Government.

### **3.15 Capital Expenditure and Borrowing**

3.15.1 Details of capital expenditure are as follows:

	£'m
Gross Capital Expenditure	35.140
Less: Capital Receipts	0.394
Government Grants and Other Contributions	11.428
Revenue Contributions	1.650
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Balance Funded from Borrowing	21.668

3.15.2 The capital financing requirement at 31 March 2013 was £258.398m. This was financed as follows:

	£'m
Long Term Borrowing	159.871
Short Term Borrowing	1.097
Schools NPDO Finance Lease Liability	81.152
Internal Funds	16.278
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	258.398

The external borrowing of the Council at 31 March 2013 amounted to £160.968m. 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 £0.296m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.088m.

### **3.16 Group Accounts**

3.16.1 For 2012-13 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.

3.16.2 The Police and Fire Reform (Scotland) Act 2012 creates a single Police Service of Scotland and a single Scottish Fire and Rescue Service from 1 April 2013, from this date the Joint Boards have ceased to operate. There will be no requirement to consolidate the Police and Fire figures into the Group Accounts in 2013-14.

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