EXPLANATORY FOREWORD BY THE HEAD OF FINANCE

INTRODUCTION

The purpose of the annual Statement of Accounts is to demonstrate proper stewardship of the Council's financial affairs. The Statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the 2012/13 Code Update, both of which were issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

This foreword provides an explanation of the Statement of Accounts and of the most significant matters reported in the Accounts, together with a summary of the financial outturn for the year ended 31 March 2013.

The format of the Statement of Accounts is largely similar to the 2011/12 Statement of Accounts, although there have been some minor changes. The purpose of the Financial Statements is described in detail in the next section.

FINANCIAL STATEMENTS

During the year, the Council increased its Usable Reserves by £21,970,000 from £67,202,000 to £89,172,000, with the movements shown as follows:

	31 March 2012 £'000	31 March 2013 £'000	(Increase)/ Decrease £'000
General Fund Balance	(27,863)	(13,062)	14,801
Earmarked General Fund Reserves	(19,595)	(54,374)	(34,779)
Housing Revenue Account (HRA)	(2,000)	(2,000)	-
Earmarked HRA Reserves	-	-	-
Capital Receipts Reserve	(692)	(688)	4
Capital Fund	(10,803)	(13,954)	(3,151)
Repairs and Renewals Fund	(4,047)	(6,653)	(2,606)
Insurance Fund	(1,250)	(1,385)	(135)
Capital Grants Unapplied Account	(952)	(962)	(10)
Total Usable Reserves	**(67,202)**	**(93,078)**	**(25,876)**

The largest movement is in the Earmarked General Fund Reserves, which have increased by £34,779,000. This increase has been achieved by the transfer of monies from the General Fund Balance and from savings achieved during the year. £12,606,000 has been transferred from the General Fund Balance in relation to projects approved in connection with the Six Areas for Development and £12,000,000 has been transferred to an earmarked reserve for Infrastructure Projects to support the improvement of broadband provision within Aberdeenshire. The Council approved further transfers to the earmarked reserve for Invest to Save projects during the year, and after taking account of expenditure to be met from that reserve, there has been a net transfer of £3,368,000 to it. A number of new earmarked reserves were established during the year, and £6,523,000 has been transferred to these. A net transfer of £282,000 was made to other established earmarked reserves.

The Revenue Budget had been set to reduce the balance on the General Fund to £9,771,000. The continued proactive management of budgets across all services means that this is higher than budgeted at £13,062,000.

Further transfers were approved to the Capital Fund through savings in Financing Costs. Transfers to the Building Repairs and Maintenance, Roads Maintenance and Vehicle Replacement sections of the Repairs and Maintenance Fund have increased the balance in this Fund.

All transfers to and from Usable Reserves are in accordance with the Council's Usable Reserves Strategy which was approved in April 2012.

EXPLANATORY FOREWORD BY THE HEAD OF FINANCE

The following statements are shown in the accounts.

1. Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2. Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

3. Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

4. Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

5. Notes to the Financial Statements

The Notes to the Financial Statements provide supplementary information on core financial transactions which are not detailed separately in the statements.

6. Housing Revenue Account Income and Expenditure Statement

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and other income. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

7. Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council taxes levies and deductions made under Statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

8. Business Rate Account

The Business Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Business Rate Account. The statement shows the gross income from rates and deductions made under Statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

9. Loans Fund

A Loans Fund is maintained under powers contained in the Local Government (Scotland) Act 1975 and is the central capital financing account of the Council. It is an accounting arrangement which simplifies the funding of capital projects, funded by borrowing to the actual borrowing undertaken.

All advances to finance capital expenditure are made through the Loans Fund except for capital projects financed directly from revenue or from capital receipts. The Council uses the annuity method to calculate the repayment of loans fund advances. The maximum period for the repayment of those advances are set out in the Scottish Government's Financial Circular 29/1975.

All interest and management expenses incurred through external borrowing are initially paid by the Loans Fund. These are recharged to the Comprehensive Income and Expenditure Statement, although bank charges are charged direct to Corporate and Democratic Core.

10. Trust Funds and Common Good Funds

Trust Funds and Common Good Funds administered by the Council are shown separately within the Statement of Accounts, together with any relevant Notes that provide supplementary information. An Income and Expenditure Statement and Balance Sheet are shown for the total of all Trust Funds and similar statements are shown for the total of all Common Good Funds.

11. Group Accounts

A Movement in Reserves Statement, a Comprehensive Income and Expenditure Statement, a Balance Sheet and a Cash Flow Statement, together with any relevant Notes are also shown for the Council and its Group entities.

12. Remuneration Report

The Remuneration Report provides narrative details of the Council's remuneration policy for its senior councillors, senior employees and subsidiary bodies where it has a role in determining the remuneration policy, and states how remuneration arrangements are managed, including the role and membership of any remuneration committee. It also discloses details of remuneration information for senior councillors, senior employees and subsidiary bodies, including pension benefits. Information is provided on the number of persons whose remuneration was £50,000 or more, disclosed in bands of £5,000.

The Remuneration Report is produced in terms of the Scottish Government's Local Government Finance Circular No 8/2011 (revised and re-issued).

FINANCIAL OUTTURN 2012/13

1. General Fund Revenue Expenditure

The Comprehensive Income and Expenditure Statement on page 16 shows a deficit on the provision of services of £10,190,000. When the figure is adjusted to take account of transactions that have been included on an accounting basis, expenditure and income that is required to be included on a funding basis under statute, and any transfers to or from Council reserves, the movement in the General Fund balance is an increase of £20,959,000. Of this movement, £34,779,000 has been transferred to Earmarked Reserves of the General Fund and £981,000 has been transferred to the Housing Revenue Account, giving a decrease in the working balance of £14,801,000. This compares with a budgeted reduction of £18,092,000 in the working balance, giving a surplus of £3,291,000 on the working balance for the year.

In 2012/13, the Council budgeted to spend £504,263,000 on the provision of Services. Actual expenditure was £491,385,000 or £12,878,000 lower than anticipated. Expenditure on other items such as Capital Financing Costs, Trading Accounts and transfers to and from various Council balances was budgeted at £46,476,000. Actual expenditure was £61,767,000 or £15,291,000 higher than anticipated.

Income from Revenue Support Grant was budgeted at £340,139,000, income from Business Rates was budgeted at £73,200,000 and income from Council Tax was budgeted at £119,308,000. Actual income in total from these sources was £538,351,000 or £5,704,000 higher than anticipated.

Taking all of the above into account gives net expenditure for the year which is £3,291,000 lower than anticipated. The actual working balance at the year end is £13,062,000.

The surplus has been generated through proactive budget management across all services, as reported to Policy and Resources Committee throughout the year. This is a positive outturn that reflects sound financial management across all Council Services and it offers protection against the uncertainty surrounding future years' financial pressures in the current climate. An element of this surplus has been set aside to meet expenditure that had been committed at 31 March 2013, with the balance being retained. Items that were within budget include:

- management of vacant posts, particularly where services reviews are in progress;
- a reduction in teaching staff costs through vacant posts, a reduction in the average cost of unpromoted teachers, and a reduction in the number of secondary school pupils;
- a reduction in the number of placements in residential care due to the use of more flexible local solutions;
- a delay in the opening of a new care home;
- a delay in implementing a new Electronic Homecare Management System;
- a reduction in costs associated with Waste Disposal;
- lower leasing costs for vehicles as new vehicles have been purchased rather than leased and reductions in the purchase of small items of vehicles and plant;
- an underspend on Capital Financing Charges due to a combination of factors including delays in the capital programme and favourable borrowing conditions;
- delays in progressing a number of technologically based projects
- the return of a significant surplus from the Grampian Joint Fire and Rescue Board;
- a higher than forecast recovery of benefit subsidy;
- an increase in Council Tax income due to an increase in the number of houses, an increase in collection rates and a review of the Council Tax debtor and non-collection provision; and
- an increase in grants from the government, expenditure relating to which could be accommodated within the budget.

Partly offsetting these are a number of items that are over budget, including:

- a transfer of a significant proportion of the savings to and earmarked reserve to support the improvement of broadband provision in Aberdeenshire;
- an increase in expenditure on Winter Maintenance and Other Emergencies as a result of two major flooding incidents and an increase in the hours worked and salt used to deal with adverse weather conditions; and
- an increase in expenditure in Care Management Packages for Older People; and
- a increase in demand for Aids and Adaptations for people with physical disabilities.

The majority of the above items have been detailed in monitoring reports to the Council as issues arose throughout the financial year.

The Council made some extremely difficult decisions in setting its budget for 2012/13 and the following four years. There are still financial challenges ahead and the Council is well placed to face these challenges, starting from a strong base of sound financial performance. With the challenges comes opportunity, and the Council will continue to direct resources at areas of greatest need through a combination of further efficiency measures and realignment of budgets.

2. Housing Revenue Account (HRA)

The HRA Income and Expenditure Statement on page 104 shows a deficit of £20,336,000. When the figure is adjusted to take account of transactions that have been included on an accounting basis, expenditure and income that is required to be included on a funding basis under statute, and any transfers to or from Council reserves, there has been no movement on the HRA balance.

The revised HRA budget for 2012/13 had approved expenditure of £47,817,000 and an equivalent level of income, giving a balanced budget. Actual expenditure totalled £48,587,000 and income was equal to this.

Although the net position was in line with the budget overall, there were a number of variances within the budget. Items that were within budget include:

- lower superannuation costs due to fewer staff joining the pension scheme;
- heating and lighting costs are lower than budget due to lower than forecast inflationary increases;
- planned maintenance costs are lower than budget due mainly to equipment and adaptation costs being funded through the Social Work budget;
- lost rents are lower than budget due to an adjustment to the bad debt provision and a reduction in void rates;
- Computer costs are lower than budget due to a delay in the planned replacement of a costing system;
- a reduction in the need to replace furniture and equipment in temporary accommodation units;
- a reduction in work required by external contractors for asbestos and energy performance surveys;
- a reduction in payments to tenants due to an initial suspension of the under occupation grant to August 2012, followed by a revised process for application resulting in fewer tenants being eligible for the grant;
- delays in the capital programme and the use of revenue to fund capital expenditure have resulted in reduced borrowing requirements. The cost of borrowing has also reduced due to continuing low interest rates;
- an increase in recharges of Housing staff costs to the General Fund and HRA Capital following the housing organisational review which was completed during the year;
- additional income from rechargeable repairs; and
- additional income from service charges for temporary accommodation units due to an increase in the number of Council houses being used for this purpose as an alternative to bed and breakfast accommodation.

Partly offsetting these are a number of items that are over budget, including:

- an increase in the recharge of central services costs; and
- a significant increase in the provision for bad debts.

The budget included £7,708,000 to meet capital expenditure. The variances detailed above produced a net reduction in spend, which allowed expenditure of £11,869,000 to be used to meet capital expenditure whilst maintaining the HRA balance at £2,000,000 as planned. This continues the strategy which had been in place over the previous two years to fund capital expenditure using the HRA balance as an alternative to borrowing. This strategy has generated substantial savings on Capital Financing Costs over a number of years.

The balance to £2,000,000 is required to be retained as a working balance to meet any unexpected costs that occur. This is in accordance with the 30 Year “Retention Plus” business plan agreed by the Council for the HRA. The business plan seeks to ensure that the future needs of the stock and of tenants can be met and are affordable.

3. Trading Operations

The Local Government in Scotland Act 2003 sets out a statutory duty for Councils to achieve Best Value. It provides a strong link between the duty of Best Value, the delivery of services and the reporting of financial performance.

Councils are required to maintain statutory trading accounts for "significant trading operations", and these operations should break even over a three year rolling period.

Under the Act, the Council had established previously trading accounts for two services – Housing Repairs and Roads Operations. At its meeting on 10 November 2011, Policy and Resources Committee agreed that Housing Repairs would no longer be a statutory trading account, with effect from 1 April 2012. From that date, its costs have been consolidated into the Housing Revenue Account. This leaves Roads Operations as the only trading account.

The trading operation returned a net surplus of £1,443,000 in 2012/13. Roads Operations achieved its statutory break-even target over the three year period 2010/11 to 2012/13. Further details of the trading operation is set out in note 13 on pages 52 - 53.

4. Capital Expenditure

Under the Prudential Code for capital finance, Aberdeenshire Council is allowed to determine its own limits for borrowing and capital expenditure. Expenditure plans must be affordable, sustainable and prudent.

Capital expenditure is aligned closely with the Council's Corporate Asset Management Plan. The Council's approach to asset management involves producing and continuing to update a wide range of relevant information on the performance of assets and the full investigation of capital and revenue spending decisions. Capital expenditure is reported in terms of the main themes that determine the strategic priorities of the Council.

In 2012/13, total capital expenditure was £85,735,000, of which £8,865,000 was spent on Community Wellbeing, £23,762,000 was spent on Jobs and the Economy, £22,395,000 was spent on Lifelong Learning, £2,654,000 was spent on Sustainable Environment and £10,597,000 was spent on Corporate Improvement. In addition, £17,462,000 was spent on HRA Housing.

Capital expenditure includes the purchase of intangible assets, such as software.

MATERIAL ASSETS ACQUIRED OR LIABILITIES INCURRED

No material assets were acquired or liabilities incurred during the year.

PENSION LIABILITIES

The Statement of Accounts includes the future pension liability of the Council resulting from the full implementation of IAS 19. Accounting Policy 1.5 on pages 20-21 sets out the Council's policy on pension costs and note 38 on pages 86 - 90 and notes 42 - 43 on pages 91 - 98 give more details of the pension liabilities.

The Council participates in the Local Government Pension Scheme which is administered by Aberdeen City Council, known as the North East Scotland Pension Fund. This Fund is in deficit due to a substantial fall in the value of world stock markets in previous years. The Council's share of the net Fund deficit has increased during 2012/13 by £46,529,000.

The deficit position on the Fund was considered as part of the triennial revaluation of the Pension Fund as at 31 March 2011. At each full revaluation of the Fund, the assets and liabilities of the Fund are recalculated in full. As a result of this recalculation, the value of both the assets and the liabilities were reduced. However, the reduction in the value of the assets was greater than the reduction in the value of the liabilities, and this resulted in an increase in the Council's share of the net Fund deficit.

A funding plan has been determined with the aim of recovering the deficit over a period of up to 22 years which requires additional contributions to correct the shortfall, and this is explained in Note 43 on page 96. The next triennial valuation will be as at 31 March 2014.

MATERIAL AND UNUSUAL CHARGES OR CREDITS

There are no material and unusual charges or credits that are required to be highlighted.

SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

There are no significant changes in Accounting Policies.

MAJOR CHANGES IN STATUTORY FUNCTIONS

There were no major changes in statutory functions during 2012/13, however on 7 August 2012, the Police and Fire Reform (Scotland) Act 2012 received royal assent. Responsibility for Police and Fire and Rescue Services will transfer from local government to new central government bodies on 1 April 2013. This has resulted in the return of £285,000 from Grampian Joint Fire and Rescue Board and £3,451,000 from Grampian Joint Police Board being the Council's share of their reserves at 31 March 2013. The Council will be required to repay £3,258,000 of the latter to the new body, Police Scotland, in 2013/14 for capital funding.

CURRENT BORROWING FACILITIES

The Council's Treasury Management Strategy sets out the following criteria to determine from whom the Council may borrow: any other UK local authority or government guaranteed institution and any bank, financial institution, insurance company or utility company which is governed by MiFID, the EU Markets in Financial Instruments Directive (2004/39/EC).

The long term borrowing at 31 March 2013 was £419,698,000 (2011/12 £400,398,000) of which £320,644,000 (2011/12 £301,270,000) was from the Public Works Loan Board (PWLB) with the balance being market loans i.e. bonds and mortgages.

During 2012/13 capital expenditure amounted to £85,735,000 This was funded by a combination of revenue funding, capital grant, capital receipts and long term borrowing. All new long term borrowing in 2012/13 was from the PWLB and no other financial instruments were used in 2012/13.

FUNDS AVAILABLE TO MEET CAPITAL EXPENDITURE

The total amount of capital expenditure incurred to 31 March 2013 (including the value of assets acquired under finance leases and PFI/PPP contracts) that has not yet been charged to the revenue account of the Council is £35,931,000. The reason it has not been charged to the revenue account is that the assets are to be financed in future years by charges to revenue as they are used by the Council. The resources used to finance this expenditure is a combination of PWLB and market borrowing.

SIGNIFICANT PROVISIONS AND WRITE OFFS

There were no significant increases in provisions or write offs during the year.

MATERIAL EVENTS AFTER THE REPORTING DATE

No material events have occurred after the reporting date that require to be disclosed.

FINANCIAL RATIOS

From 2011/12 Councils in Scotland introduced the use of ratios to support the interpretation of the Council's financial statements, financial position and performance.

EXPLANATORY FOREWORD BY THE HEAD OF FINANCE

1. Reserves

1.1 Uncommitted General Fund Balance as a Percentage of Annual Budgeted Expenditure

Purpose: To reflect the percentage of reserves that are neither committed nor earmarked against the annual revenue budget.

	Actual 2011/12	Actual 2012/13
	5.13%	2.37%

1.2 Movement in the Uncommitted General Fund Balance

Purpose: To reflect the movement in reserves that are neither committed nor earmarked in accordance with the reserve strategy of the council.

	Actual 2011/12 £'000	Actual 2012/13 £'000
Opening Uncommitted General Fund Balance	17,404	27,862
Closing Uncommitted General Fund Balance	27,863	13,062
Movement Uncommitted General Fund Balance	10,459	14,801

The Working Balances provide a cushion against the impact of any unforeseen circumstances or emergencies.

2. Council Tax

2.1 In-year Collection Rate

Purpose: To reflect the percentage of income received from Council Tax for year received by the year end.

	Actual 2011/12	Actual 2012/13
	96.21%	96.26%

2.2 Council Tax Income as a Percentage of Overall Funding

Purpose: To reflect the percentage of funding for the Council that comes from Council Tax.

	Actual 2011/12 £'000	Actual 2012/13 £'000
Council Tax Income	(119,412)	(122,466)
Overall Funding: CT/Business Rates/Non Ring Fenced Government Grants	(532,123)	(538,351)
Movement General Fund Balance	**22.44%**	**22.75%**

3. Financial Management

3.1 Actual Outturn as a Percentage of Net Expenditure Budget

Purpose: To reflect the percentage by which actual outturn differs from budgeted outturn.

	Actual 2011/12	Actual 2012/13
General Fund	3.41%	2.55%

4. Debt and Borrowing

4.1 Estimated Ratio of Financing Cost to Net Revenue Stream

Purpose: This ratio indicates the percentage of the revenue budget that is required to meet the cost of external borrowing. A separate ratio is shown for the General Fund and Housing Revenue Account (HRA), and indicates the affordability of the Council's capital expenditure proposals.

	Actual 2011/12	Actual 2012/13
General Fund	5.84%	5.93%
Housing Revenue Account	15.12%	16.61%

4.2 Estimated Incremental Impact of Investment Decisions on Council Tax/Rents

Purpose: This ratio links with the previous ratio and indicates the impact of capital expenditure plans on the revenue budget.

	Actual 2011/12	Actual 2012/13
General Fund	zero	zero
Housing Revenue Account	zero	zero

This indicates that, because there is no proposed change to the existing capital plans which impacts on the level of borrowing over the medium term there is no incremental effect on council tax or rents.

4.3 Net Borrowing and the Capital Financing Requirement

Purpose: These indicators show the estimated total borrowing required to fund existing and additional capital expenditure proposals and the estimated level of actual borrowing. The indicators are only required for the Council's overall position and are not divided between the General Fund and HRA.

	Actual 2011/12 £m	Actual 2012/13 £m
Net Borrowing	430	529
Capital Financing Requirement	499	595

Net borrowing is less than the capital financing requirement. This indicates that the Council is utilising internal revenue balances to meet the cash requirements of its capital investment plans.

IMPACT OF ECONOMIC CLIMATE

During mid 2012 fears about the global economy and a second banking crisis similar to that experienced in 2008 had seen negative sentiment return to financial markets with further downgrades to banks and sovereign debt including the UK from credit rating agencies, however at the start of 2013 market conditions improved due to the combination of European Central Bank and UK Government intervention. As long term borrowing rates continue to remain at low levels borrowing requirements were secured in year at significantly lower rates than anticipated. With regard to the Council's own bankers, the Clydesdale Bank currently have a stable outlook rating per the credit rating agencies due to a strategic review of the Banks operations being undertaken in late 2012. As a result the risk profile of the Bank should reduce substantially and its funding position is also forecast to improve. The Council will continue to be pro-active in its approach to Treasury Management to ensure that no adverse effects are suffered by the Council in this continuing challenging environment.

Impairment of Non Current Assets – Non current assets are valued on a five year rolling programme (see Note 22), although an impairment review is carried out at each balance sheet date. Asset values in Aberdeenshire have not been affected as significantly as in other parts of the country by the recession. Impairment losses totalling £3,562,000 have been recognised in the Revaluation Reserve or Surplus or

Deficit on the Provision of Services, representing 1.17% of the net book value of non current assets. The main economic factors relate to changes in construction costs and market conditions.

Impairment of Debtors - Bad Debt Provision - The credit risk the Council is exposed to has increased as a result of the economic downturn. This has been reflected when reviewing the bad debt provision in relation to the customers of the Council, which has increased by 2.06% as detailed below. The increase in provision is charged to the Comprehensive Income and Expenditure Statement.

	2011/12	2012/13	Increase/ (Decrease)
	£'000	**£'000**	**%**
General Debtors	4,239	4,547	7.27
Revenues	22,649	22,381	(1.18)
Housing Rents	1,239	1,413	14.04
Total Bad Debt Provision	**28,127**	**28,341**	**0.76**

Shareholding Values - associated with the economic downturn is a reduction in share prices. The Council administers 413 Trusts and Endowments with a total value of £5,373,000, details of which can be found on pages 114 - 119. Of the funds invested, £3,170,000 is invested in stocks and shares. These consist of unit trusts and stocks and shares some of which are managed by fund managers. The change in value of investments is an increase of £326,000 from 2011/12 to 2012/13.

Treasury Management Activities - The Council has been pro-active in its approach to Treasury Management and has not suffered any adverse effects from the economic situation in 2012/13. As a result of the banking crisis, the credit ratings of many of the financial institutions used by the Council previously to invest its cash balances, now fall outwith the criteria of the Council's Investment Policy and low levels of bank interest rates have led to relatively low levels of investment returns. However long term borrowing rates during the year were at historic lows and borrowing requirements were secured significantly lower than anticipated.

RELATIONSHIP WITH OTHER PUBLISHED DOCUMENTS

A summarised version of the financial statements will be published on the Council's website.

ACKNOWLEDGEMENTS

The production of the Statement of Accounts is very much a team effort involving many staff from both my own and other services of the Council. I would like to take this opportunity to thank all those involved for their help and co-operation.

Alan Wood, MA (Hons), CPFA
Head of Finance
17 June 2013

EXPLANATORY FOREWORD TO THE ACCOUNTING STATEMENTS

The Council is required by law to prepare a set of Accounting Statements (the Accounts) which set out its financial position at the end of each financial year. These Accounts are prepared by the Head of Finance for submission to the Controller of Audit so that they may scrutinise their accuracy and completeness. In preparing the Accounts the Council must comply with recognised accounting practice as it applies to local authorities. The Accounts represent the culmination of the year's financial transactions and are an essential means of demonstrating the proper stewardship of public funds as well as budget performance and financial control.

The Accounts of Angus Council have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (based on International Financial Reporting Standards).

The main purpose of this Foreword is to assist in the interpretation of the Accounting Statements, provide an explanation of the Council's financial position and comment on the major influences affecting the Council's income, expenditure, cash flow and overall financial resources.

A. Accounting Statements

The main objective of Accounting Statements is to provide information about the financial position, financial performance and cash flows of the Council (the "single entity") that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Information is also provided with regard to the "group" position which takes into account the Council's financial interests in other bodies. This includes entities such as the Joint Boards.

The Accounting Statements comprise:-

a) Movement in Reserves Statement for the period (single entity and group position);

b) Comprehensive Income and Expenditure Statement for the period (single entity and group position);

c) Balance Sheet as at the end of the period (single entity and group position);

d) Cash Flow Statement for the period (single entity and group position); and

e) Notes, comprising a summary of significant accounting policies, analysis of significant figures within the Accounting Statements and other explanatory information.

The group statements and notes follow after the single entity statements and notes.

Movement on Reserves Statement
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the "Provision of Services" line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These movements are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes respectively. This is because a number of entries are required to comply with accounting best practice but not permitted to impact on the Council's actual financial position and associated funding requirements from tax/rent payers. The "Net Increase / Decrease before Transfers to Earmarked Reserves" line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves are undertaken by the council.

Comprehensive Income and Expenditure Statement (CIES)
This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise funding through Council Tax and Housing Rents to cover expenditure in accordance with regulations and this may therefore be different from the accounting cost presented in the Comprehensive Income and Expenditure Statement. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:-

- Usable reserves – those reserves that the Council may use as a funding source to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use e.g. the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt; and

- Unusable reserves – those reserves that the Council is not able to use as a funding source to provide services. This category of reserves includes reserves that hold unrealised gains and losses e.g. the Revaluation Reserve (where amounts would only become available to provide services if the assets are sold) and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Cash Flow Statement
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital i.e. borrowing, to the Council.

Accounting Statement Notes
The notes to the statements first cover the single entity accounts with notes for the group accounts following the group statements. The notes:-

a) present information about the basis of preparation of the accounting statements and the specific accounting policies used;

b) disclose the information required by the Accounting Code of Practice that is not presented elsewhere in the financial statements; and

c) provide information that is not presented elsewhere in the accounting statements, but is relevant to an understanding of them.

B. Financial Performance

The following sections contain key financial ratios identified by the CIPFA Directors of Finance Section. They have been added to the foreward to assist the reader in the understanding and interpretation of the Council's financial position and performance.

Outlined below is an overview of the financial performance of the Council in respect of both the General Fund services and Housing Revenue Account during the 2012/13 financial year.

General Fund - The General Fund covers those council services which are funded by Government Grants and local taxpayers. It can be seen from Note 6 that the General Fund balance at the end of the year was £17.188m with £0.221m of this earmarked for future use by Angus schools under the Devolved School Management (DSM) scheme. The opening balance on the General Fund at 1 April 2012 was £16.482m including £0.445m attributable to DSM. The movement on the General Fund Balance was therefore an increase of £0.706m. The budget set for 2012/13 after adjustment for budget carry forwards and other earmarked sums assumed a deficit of £6.329m. Accordingly the closing balance of £17.188m* represents an overall favourable movement against budget of £7.035m (111%) arising as follows: -

Description	£m
Underspends on departmental budgets	2.805
Underspends on Joint Boards	2.138
Additional Council Tax income	0.410
Underspend on Debt Charges – Principal Repayments	1.803
Additional Surplus from Tayside Contracts	0.241
Miscellaneous Other	(0.362)
Total	7.035

*The balance of £17.188m includes a Devolved School Management (DSM) balance of £0.221m but excludes the Car Parking reserve (£0.116m), Arbroath Harbour reserve (£0.217m) and other specific reserves (£0.266m) which are included in Note 6 (17.788m).

The significant underspend on Joint Boards for 2012/13 is mainly due to the winding up of the Boards and the return of uncommitted reserves held by them to the constituent councils. Some £0.899 million of the underspend is however earmarked for return to the Scottish Government in line with agreed means of sharing uncommitted Police Board reserves.

Of the closing General Fund balance of £17.188m, £0.221m is attributable to DSM and £16.739m is committed or earmarked as follows:-

Description	£m	£m
Working Balance/Contingency (per existing policy)		3.250
Earmarked monies		
- Unspent Grants	0.605	
- Government Grant Re-determination Monies to be spent in future years	2.459	
- Prior Year Approved Carry-forwards	2.865	
- Provision for Pay Pressures and Restructure costs	0.755	
- CFCR provision (capital budget funding)	1.803	8.487
- 100% carry forwards from 2012/13		1.454
- Proposed 50% budget carry-forward scheme (2012/13)		0.435
Use of Balances per 2013/14 Budget Setting		1.721
Affordable Housing Revenue Account Balance		1.392
Total		**16.739**

Allowing for DSM and these committed or earmarked sums leaves an uncommitted or un-earmarked balance of £0.228m and the future use of this sum will require to be considered as part of the ongoing delivery of the 2013/14 budget and the development of the budget strategy for 2014/15 and beyond.

Housing Revenue Account – The Housing Revenue Account deals with council house management transactions. The actual movement on the Housing Revenue Account for 2012/13 is an increase of £0.517m which has resulted in a surplus balance of £3.128m at 31 March 2013. The balance at 31 March 2013 is in excess of the budgeted target of £2.611m.

The Housing Revenue Account budget set for 2012/13 assumed a breakeven position. The closing balance of £3.128m therefore represents an overall favourable movement against budget of £0.517m (19.8%). The closing Housing Revenue Account balance was in excess of the £1.000m minimum policy level with £2.128m earmarked as follows:-

Description	£m	£m
Working Balance/Contingency (per existing policy)		1.000
Earmarked monies		
- Survive & Thrive	0.466	
- Planned Maintenance	0.170	
- External Affordable Housing Provision	0.380	
- Allowance for SHQS / New Build Housing	1.112	2.128
Total		**3.128**

Whilst broadly on budget in most areas, the 2012/13 surplus of £0.517m has primarily been achieved as a result of underspends on staff costs and longer than anticipated lead in times on survive & thrive projects and the consequential effect on contributions for affordable housing provision.

C. Material Assets / Liabilities

There are no material assets or liabilities to report on for financial year 2012/13. Material in this context means items which by their omission could influence the economic decisions of users taken on the basis of the financial statements, having regard to the normal activities of the Council.

D. Pensions Liability

The pension accounting requirements of Financial Reporting Standards (FRS 17) and International Accounting Standards (IAS 19) have been applied to the accounting statements. Under these requirements, costs of services delivered by the council are restated to include an actuarially assessed cost of the increased liability falling upon the council in respect of employee pensions under the Local Government Pension Scheme. This is as opposed to the actual employer contributions paid during the year in accordance with the Scheme. Adjustments are made to ensure that the impact on council tax and housing rents from the FRS17 presentational requirements are neutral.

The FRS17 requirements also lead to the creation of a Pension Asset or Pension Liability offset by a Pension Reserve. At the 31 March 2013 there was a Pension Liability of £154.827m with a corresponding negative Pension Reserve.

This Pension Liability is the difference between the value at 31 March 2013 of the Scheme's assets (investments, etc) attributable to the council and the present value of the liabilities relating to pensions for council employees (past and present). Thus if the council were to have discharged its responsibilities at 31 March 2013 there would have been a shortfall of some £154.827m. The Pension Liability of £154.827m compares with £165.234m for the previous year – a favourable movement of £10.407m.

As noted above, these liabilities are expressed in present value terms rather than the cash amount that will eventually be paid out in order to allow for the "time value of money". This is undertaken by discounting these future cash amounts by use of a corporate bond rate. The corporate bond rate used for the valuation as at 31 March 2013 (1.1%) is lower than that used at 31 March 2012 (1.3%). This factor has contributed to the movement in the estimated current value of the pension liability.

It is also important to recognise that this snapshot scenario is not a provision within the Scheme. The Scheme is a long term operation and periodic actuarial assessment is made of the rate of contribution that the council as an employer has to pay to the Pension Fund to ensure that it meets its long term liability. The 2012/13 Local Government Finance Settlement and the council's budget process provided the resources required to meet the council's net service expenditure in 2012/13. It is anticipated that future settlements, aligned with the council's budget process, will provide sufficient resources to finance future liabilities. It is, therefore, considered appropriate to adopt a going concern basis for the preparation of the Accounting Statements.

E. Exceptional Item

There are no Exceptional items to report on for financial year 2012/13.

F. Change in Accounting Policy

There has been no change to the Accounting Policies for financial year 2012/13.

G. Change in Statutory Functions

There were no changes to statutory functions for financial year 2012/13. Section H outlines changes that will occur as a result of the Police and Fire Reform (Scotland) Act 2013 in 2013/14.

H. Future Development in Service Delivery

Capital expenditure commitments for the construction / enhancement / purchase of property, plant and equipment totalling some £16.768m (gross) exist as at 31 March 2013, £8.289m of which relates to the General Fund and £8.479m relates to Housing. On a net basis, some £12.278m of commitments exist in total at 31 March 2013, of which £5.666m relates to the General Fund and £6.612m relates to Housing. (Source: 2013/14 General Fund Provisional Capital Budget Volume and 2013/14 Housing Rent Setting Report – Appendix 1). Similar commitments at 31 March 2012 totalled £38.622m (gross).

The major commitments (on a gross basis) include: Ongoing Development / Capping at Restenneth Landfill Site (£0.634m); Implementation of Closure Plan at Arrats Mill (£0.660m); refurbishment works at Bruce House, Arbroath (£0.748m); purchase of waste bins / caddies (£1.124m); Affordable Housing at Newmonthill, Forfar and Dungmans Tack, Montrose (£2.548m and £2.883m respectively); and Heating and Kitchen Replacement Programmes (£0.933m and £1.114m respectively).

The Police and Fire Reform (Scotland) Act 2013 received royal assent on 7 August 2012 and responsibility for Police and Fire and Rescue Services transferred from local government to Police Scotland and the Scottish Fire and Rescue Service respectively on 1 April 2013. The impact of these reforms is largely neutral with regard to the delivery of Angus Council's capital programme, although it should be noted that the outstanding debt relating to the former Tayside Police Joint Board will continue to be managed operationally by the Council but funded by Police Scotland.

I. Capital Borrowing / Non Current Assets

The council has several sources of borrowing to fund capital expenditure, the most significant of which is the Public Works Loan Board, a Government sponsored body set up with the primary purpose of lending to U.K. local authorities. Capital debt being carried by the Council amounted to some £166.152m at 31 March 2013, with £121.783m attributable to the General Fund, £35.744m to the Housing Revenue Account and £8.625m to the former Tayside Police Joint Board. This external body debt was financed from external sources.

On the General Fund, borrowing increases overall indebtedness and consequently the level of principal repayments and loan interest to be paid increases each year. The funding of Housing Revenue Account capital expenditure now includes a more significant amount of borrowing than once was the case and this trend has continued into 2012/13. Consequently the level of principal repayments and loan interest to be incurred by the Housing Revenue Account will increase for 2012/13 and beyond.

J. Funding of Capital Expenditure

The level of capital spend undertaken by local authorities is governed by the provisions of The Prudential Code whereby any borrowing is required to be prudent, sustainable and affordable.

Note 39 outlines the capital expenditure undertaken during 2012/13 by Angus Council and how this was funded. The gross capital expenditure of £41.317m (excluding PFI/PPP life cycle investment) consisted mainly of expenditure on: new Council Houses; improvements of existing housing stock; vehicles and equipment; building creation / refurbishment / improvement of property assets; and roads infrastructure. The capital expenditure was funded through borrowing (30.0%), sale of assets (6.4%), contribution from revenue (33.0%), with the remainder (30.6%) being met from grants received / other income.

0The receipts which are generated from the sale of surplus assets (e.g. land, buildings, equipment) are used to fund capital expenditure (both General Fund and Housing). Whilst the majority of receipts are generally applied to the capital programme in the year of receipt, unused receipts are held in reserve for use in future financial years. Capital receipts may also be ring-fenced towards specific projects subject to prior committee approval (for example, the proceeds from the sale of vehicles are retained by Neighbourhood Services to be utilised towards the purchase of new vehicles).

K. Provisions / Contingencies / Write Offs

For financial year 2012/13 a provision of £0.299m has been included within the accounts for the Council's liability under the Carbon Reduction Commitment Energy Efficiency scheme to purchase and surrender Carbon Reduction Commitment (CRC) allowances in relation to carbon dioxide emissions. There are no contingencies, material write-offs or significant changes to provisions existing as at 31 March 2012 to report on for the financial year 2012/13.

L. Events after the Balance Sheet Date

Note 45 to the accounts outlines events after the Balance sheet date which would impact on the 2012/13 accounts.

M. Overall Summary of Financial Position & Outlook for the Future

Financial Management

The Council has a good track record of prudent and effective financial management and of taking difficult long term budget decisions when they need to be taken. This has been acknowledged by external inspection agencies. Financial year 2012/13 again saw Council departments adhering to their cash limited budgets and this was despite the difficulties created by rising prices and constrained budget resources. The Council's budget monitoring process during the year was effective in identifying over and under spends and this informed the 2013/14 budget setting process. The Council's performance in the collection of local taxes was maintained at an already strong position during 2012/13, although housing rent arrears increased somewhat the Council are actively reviewing and managing this.

The in year collection rate for Council Tax is 97.7% which has dropped marginally by 0.1% from 2011/12. Council Tax income included in the Comprehensive Income & Expenditure Account for 2012/13 is £46.209m. This total represents 17.5% of the reported Total of Taxation & Non Specific Grant Income for 2012/13 of £264.702m.

Reserves

The Council complies with the requirements of the CIPFA Guidance Note On Local Authority Reserves and Balances issued in November 2008 and reviews at least annually its reserves position and future needs. At 31 March 2013 the Council's overall usable reserves stood at £27.750m which is approximately 8% of gross expenditure across all activities. These reserves provide cover for future revenue and capital expenditure in both General Fund services and Housing and are considered to provide an adequate level of protection against unforeseen events. These reserves will also provide flexibility to help meet future spending needs and pressures. Taking into account the uncommitted balance of £0.228m and the set contingency some £3.478m of headroom exists within the General Fund Balance at 31 March 2013 which represents approximately 1% of the budgeted net expenditure on General Fund services for 2012/13 and compares with approximately 2% in 2011/12. Taking into account commitments and the set contingency level, some £1.000m of headroom exists within the HRA which represents approximately 4.4% of budgeted gross expenditure for 2012/13 and compares with 4.7% in 2011/12 (gross expenditure has been used as the HRA budgeted net expenditure is zero).

Debt and Borrowing

The Council has low debt per head of population compared to other local authorities in Scotland in both General Fund services and Housing and the proportion of our net revenue income which is taken up by debt charges is expected to remain below the Scottish average for both these areas of service. The Council remained within its borrowing limits throughout 2012/13 and complied with its treasury management strategy for the year. The following indicators as at 31 March 2013 reflect a snapshot of this position.

Debt & Borrowing Prudence	Capital Financing Requirement £m	£m	External Debt £m	£m	Capital Debt £m
General Fund + HRA	170.390		167.221		166.152
Variance		3.169		1.069	
In line with proper treasury management practice, the Council does not borrow for specific projects or areas and it is not therefore possible to split the General Fund, HRA or former Tayside Police positions. The Council's external borrowing remained below its capital financing requirement throughout the 2012/13 financial year.					

Debt & Borrowing Affordability	Net Revenue Stream £m		Financing Costs (incl PPP/PFI) £m		% Of Net Revenue Stream
General Fund	240.642		22.680		9.42%
HRA	23.079		2.054		8.90%

Investments

At 31 March 2013 temporary investments of £45.391m existed, a decrease of £2.587m on the previous year. This decrease reflects the Council's increased capital expenditure level in 2012/13 (excluding PFI/PPP life cycle investment), up £1.650m from 2011/12 and limited new borrowing activity.

Economic Circumstances & Their Impact

Financial year 2012/13 has proven to be another challenging year for the Council with the economic recession impacting on revenue income and the Council's ability to generate capital receipts. The last year has also seen a significant rise in applications for housing and council tax benefits. The year also saw income which can be generated from the short term investment of the Council's surplus cash maintained much lower than pre-recession values. Collection of local taxes has held steady despite the recession but the Council has continued to suffer from a significant drop in income from planning and building warrant applications. Capital receipts for Housing were some £0.193m higher than the level set out in the 2012/13 monitoring budget but these are still substantially less than pre-recession values. It has also proven more difficult to sell other surplus assets on the General Fund within the timescales and for the values which had originally been expected and this has required some adjustments being made to the Councils' financial plan to compensate.

Financial Outlook

The outlook continues to be one of slow improvement in general terms in those areas of the Council's business which have been affected by the recession but it is unlikely that the post recession levels of income from Council house sales and planning and building warrant fees will be reached in the medium term. Realising the sums sought from sale of surplus assets is also expected to continue to be difficult and the Council will continue to feel the effects of the squeeze on disposable incomes for those services where fees and charges are levied, e.g. leisure facilities.

Notwithstanding the above the main concern for the Council and the services it provides is the expected significant reductions in government grant which will apply for the foreseeable future. These funding issues present significant challenges for the Council but the likely level of funding reduction, the extent of future budget pressures and the resulting funding shortfalls have been assessed and identified as part of the Council's Medium Term Financial Strategy and plans are in hand to ensure that future budgets will be delivered in line with statutory requirements. A best estimate funding shortfall of £27.6m over the 4 year period 2013/14 to 2016/17 has been estimated.

The Council has a programme of departmental and corporate efficiency reviews as well as service redesign work and shared services initiatives which are underway. These will help balance future budgets whilst protecting as far as practical service delivery. This forward planning and the Council's strong financial position will enable the Council to be as well positioned as it reasonably can be to meet the future financial challenges it will inevitably face.

Senior Management Restructure

During 2012/13 the Council made a number of significant decisions on the implementation a new senior management structure which is intended to better position the Council for the challenges ahead. The new structure delivers a reduction in Council departments from 6 to 3 plus a Chief Executives Unit with 3 new Strategic Directors being appointed during the year. All of the existing Directors and the Assistant Chief Executive retired from the Council in March 2013. The restructure of other senior management positions in the 3 new departments is ongoing and will be concluded during 2013/14. The Council's early retirement/voluntary redundancy scheme is being used to help deliver the new senior management structure.

Acknowledgement

This is the seventeenth set of Annual Accounts of Angus Council and indicates that the difficult financial targets which had been set in financial year 2012/13 have been achieved.

The key to the achievement of these targets has been the implementation of a robust budgetary control system which enabled a proactive virement strategy to be adopted. Accordingly, I would wish to record my thanks to all of the Council's staff for their essential contribution to helping ensure that the financial targets were delivered.

Finally, I would also like to record my sincere thanks to all of the staff and especially my own team who have helped to produce the Accounting Statements within the statutory timescales. This is a major challenge each year because of the complexities and timescale involved and the Accounts simply would not be available within the required timescales but for the wholehearted commitment and extra effort of these officers.

Ian Lorimer
Head of Finance
28 June 2013

INTRODUCTION

The Annual Accounts demonstrate the Council's stewardship of the public funds it controls. The financial results for 2012-13 are set out on pages 28 to 34. Note 1 to the Financial Statements on pages 34 to 47 sets out the Summary of Significant Accounting Policies adopted by the Council to ensure that the Financial Statements give a "true and fair view" of our financial performance.

THE FINANCIAL STATEMENTS

The objectives of financial statements are to provide information on the financial position, financial performance and cash flows of the Council which is useful to a wide range of users in making and evaluating decisions about the allocation of resources. The information provided by the financial statements should be useful for decision making and demonstrate the accountability of the Council for the resources entrusted to it.

The financial statements comprise:

- Statement of Movement in Reserves for the period
- Statement of Comprehensive Income and Expenditure 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

FINANCIAL PEFORMANCE

Statement of Movement in Reserves

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 a deficit in Other Comprehensive Income and Expenditure of £19.397m.

The Council's 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.

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, 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.

The Usable Reserves have increased from £38.196m 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.

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 property, plant and equipment, government grants 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.

The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Statement 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.

General Fund Reserve

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 £11.904m at 31 March 2013. This equates to 4.9% of the net revenue expenditure for 2013-14, the Council has a policy of maintaining an unallocated balance in the General Fund Reserve equivalent to 1.5% of budgeted net revenue expenditure. There are a range of balances earmarked within the General Fund, these total £34.301m and are laid out in note 5 on page 51. The main balances include £10.183m for the Strategic Housing Fund generated from Council Tax on second homes, £3.0m earmarked as a revenue contribution to capital as a contribution to Dunoon and Campbeltown Schools, £9.5m contribution to investment in affordable housing and £6.615m earmarked from service budget underspends to support corporate and service improvement plans.

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

	£m	£m
Balance on General Fund 31 March 2012		**34.572**
Release of sums previously earmarked to service budgets 2012-13		(2.620)
Budgeted Contribution to General Fund Balance 2012-13		3.760
		35.712
Add outturn for 2012-13:		
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	2.098	
Surplus against budget 2012-13		**2.761**
Contributions to Earmarked Reserves 2012-13:		
Council Tax collection on second homes	1.695	
Joint Board Requisition Redistribution	0.849	
Funds earmarked by departments from budgets	5.188	
		7.732
Balance on General Fund 31 March 2013		**46.205**

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, for example unspent budget within the Devolved Management of Resources Scheme of Delegation for Schools, Strategic Housing Fund payments and unspent grant and third party contributions required for specific purposes.

Performance against budget

At the year-end, expenditure excluding Joint Board requisitions and severance was underspent by £2.098m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend £m	% of annual budget £m
Chief Executive's Unit	0.789	11.54%
Community Services	1.924	1.40%
Customer Services	1.733	5.37%
Development and Infrastructure Services	(1.111)	(3.55%)
Non-Departmental expenditure	0.083	0.24%
Outturn Total	**3.418**	
Earmarked reserves approved February 2013	**(1.320)**	
TOTAL	**2.098**	**0.81%**

The Council took the decision in February 2013 to earmark £1.320m of the projected 2012-13 budget underspend, this amount was earmarked from the overall projected outturn position for the Council revenue budget and not from department specific underspends.

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.

Comprehensive Income and Expenditure Statement

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 for 2012-13 represents the increase in the net worth of the Council from £177.087m at 31 March 2012 to £181.011m at 31 March 2013. This is an increase in the net worth of the Council in accounting terms and does not represent an increase in the spending power of the Council.

The total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £23.321m and a surplus on the revaluation of Long Term Assets of £2.183m; these are partly offset by an actuarial loss on the pension fund assets/liability of £21.580m.

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.

Balance Sheet

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 2013.

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 long term assets disposed.

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 £15.000m.

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 £33.082m 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.

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.

Cash Flow Statement

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.

Pension Liability

As noted above the IAS19 valuation of the pension scheme liability has increased from £79.092m at 31 March 2012 to £99.864m at 31 March 2013. This pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2013.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years' time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2013. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under IAS19, issued by the Institute and the Faculty of Actuaries.

Significant Trading Organisations

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 8 of the Notes to the Core Financial Statements on page 56. 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 it achieved 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.

Capital Expenditure and Borrowing

Local authority capital expenditure and borrowing is regulated by the Prudential Code, a regime of self-regulation. Under the Prudential Code of Practice the Council must ensure that:

- Capital expenditure plans are affordable;
- Borrowing is sustainable and prudent; and
- Treasury management reflects good professional practice.

The Council approved a set of prudential indicators for 2012-13 and managed capital expenditure and borrowing within these approved limits.

Capital expenditure was incurred across a range of services enhancing the value, useful life or working capacity of the Council's assets. This included investments in schools, offices, other premises and facilities, information technology and roads. 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
Balance Funded from Borrowing		**21,668**

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
	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.

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.

PROVISIONS AND CONTINGENT LIABILITIES

The Council has a number of significant balances held as provisions on the balance sheet, including:

- Severance costs **–** a number of employees have either taken or been offered a redundancy package as part of the Council Modernisation programme. A provision of £0.469m has been created in 2012-13 for the termination benefits for employees who have accepted redundancy but are not planned to leave until after 31 March 2013. Termination costs for all Council employees who have accepted redundancy by 31 March 2013 have been accounted for in 2012-13 or in previous years.
- Equal Pay - the Council settled most of the remaining outstanding claims during 2012-13. A provision was held for claims where settlement offers were made and a reliable estimate could be made of the liability. There is a provision of £0.032m remaining and there are a few further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.
- Utilities Provision **–** a total of £1.013m has been provided for to cover the cost of a potential liability in relation to discrepancies in charges for utility costs.

GROUP ACCOUNTS

Group Accounts have been prepared and show a change from a net liability position of £38.220m at 31 March 2012 to a net liability of £77.498m at 31 March 2013. This reduction in net assets is primarily due to an increase in the pension liability for the Council and the Strathclyde Police Joint Board. In terms of the overall position of the Group Accounts being a net liability compared to the net asset position of the single entity accounts, this is a result of the Police and Fire Pension Schemes being unfunded and reflects the proper accounting treatment as determined by IAS19. The technical accounting treatment has no impact on the underlying basis for meeting the Police and Fire Boards' pension liabilities.

Further information regarding these pension deficits can be found in Note 6 to the Group Accounts on page 99.

The formation of the new single police and fire and rescue services took place on 1 April 2013, from that date Strathclyde Police Joint Board and Strathclyde Fire and Rescue Board ceased operating.

The following statements make up the "Group Accounts" for the Council:

- The Group Movement in Reserves Statement shows the movement in the year of the different reserves the Council holds, along with the movement in the Council's share of the reserves of its associates.
- The Group Comprehensive Income and Expenditure Statement combines the Income and Expenditure Figures for the Council with the Council's share of the operating results of each associate.
- The Group Balance Sheet brings together all the assets and liabilities of the group, and combines the Council's assets and liabilities with its share of each associate's net assets or liabilities.
- The notes to the Group Accounts give further information on the Council's group accounts.

FUTURE OUTLOOK

The outlook for all public sector organisations is challenging. The Council has undertaken a three year programme of service reviews which set targets to identify savings of between 15% and 20% from service budgets. These reviews have been a key element in identifying the savings to balance the Council budget.

Looking forward the Council faces a significant challenge as a result of overall levels of public sector funding and population projections for Argyll and Bute. Combined with changing demographics the Council is likely to see a period where expenditure pressures increase at a level in excess of the income available to the Council. This is reflected in the Council's long term financial forecasts which over the period to 2019-20 indicate an average annual savings requirement of £5.8m. The budget for 2013-14 represented progress towards the overall long term savings required but will utilise £1.1m of reserves to manage the phasing of the savings agreed as part of the 2013-14 budget.

The 3 year capital plan has been agreed by the Council for the period to 2015-16, the table below summarises the capital budget plans for the 3 years to 2015-16:

	2013-14 £m	2014-15 £m	2015-16 £m
Total Capital Expenditure	**35.045**	**41.826**	**24.716**
Funded by:			
Borrowing	19.586	24.252	11.389
Capital Grant	9.043	13.705	13.077
Contribution from Smoothing Funds	-	3.000	-
Contribution from Revenue Budget	4.216	0.869	-
Capital Receipts	2.200	-	0.250

Capital funding has been declining and will continue to decline and this will have an increasing impact on the level of capital investment that the Council will be able to afford going forward. This reduction in funding will increase the importance of asset management to ensure the funding is directed towards the assets required for service delivery and that the existing assets deployed in service delivery continue to meet service needs.

The Council in common with many other organisations is facing a period of significant financial challenge. However it moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial sustainability. The financial position will be monitored on an on-going basis during 2013-14 and the revenue budget and capital plan reviewed for 2014-15.

Bruce West
Head of Strategic Finance
27 June 2013

Introduction

I am pleased to present the Financial Statements for East Ayrshire Council and its Group for the year ended 31 March 2013, which have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

Looking Back - A Review of the 2012/2013 Financial Year

2012/13 was a challenging year as we continued to see a significant reduction in grant funding coupled with a continuing trend of increased demand for key Council services, particularly social care. However, we recognised the financial pressures and took steps to further plan, embed resilience, and lay the foundations necessary to transform the Council and the relationship with the communities we serve.

The outturn for 2012/13 is a General Fund surplus of £4.138m with all departments recording underspends as a result of the sound financial planning and fiscal responsibility embedded throughout the council. The Housing Revenue Account had a surplus of £0.958m for the year. When these amounts are added to the balances brought forward the cumulative combined General Fund and Housing Revenue Account balance is £38.214m.

It is necessary to earmark balances for future known commitments and £22.487m of the cumulative combined General Fund and Housing Revenue Account balance is currently specifically earmarked. However, Council on 15 December 2011 approved the utilisation of £4.254m from the General Fund Uncommitted Balance in 2013/2014. This results in a cumulative uncommitted balance of £11.473m which is within the range specified in the Council's reserves strategy which sets an optimum level of between 2% and 4% of net budgeted expenditure.

Departmental Performance

	Budget 2012-13	Actual 2012-13	Earmarked	Variance
	£m	£m	£m	£m
Council Tax	48.495	49.981	-	1.486
Aggregated External Finance	238.635	238.628	-	(0.007)
Housing / Council Tax Benefit Income	53.776	54.061	-	0.285
Use of Balances	14.593	-	(14.593)	-
Reserve Transfer	(0.269)	(0.269)	-	-
Funding Available	**355.230**	**342.401**	**(14.593)**	**1.764**
Educational and Social Services	(179.724)	(178.156)	1.568	-
Neighbourhood Services	(62.740)	(59.060)	2.611	1.069
Finance and Corporate Support	(24.881)	(23.898)	0.983	-
Departmental Expenditure	**(267.345)**	**(261.114)**	**5.162**	**1.069**
Central Services - Capital Financing, Insurance, Other	(87.885)	(81.014)	5.566	1.305
General Fund Surplus/(Deficit) for the Year	**-**	**0.273**	**(3.865)**	**4.138**

Educational and Social Services outturn position was £1.568m under budget and includes variances due to employee costs ending the year lower than previously anticipated principally due to the timing of filling vacant posts and slippage on elements of the long term Children and Families service re-design. In addition, departmental centrally held funds retained for pension costs and rates costs were lower than anticipated.

In Neighbourhood Services the position was a favourable variance of £3.680m. The variance was mainly due to the timing of European funded projects, Environmental Initiatives, Heritage Lottery Funding and Business Grants as well as employee costs arising from the timing of filling vacancies. This is partly offset by reduced Building Warrants income and Planning Fees. In addition, Councils will receive a proportion of the reserves of the former Police and Fire Boards based on the precept contributions following their wind-up at 31 March 2013.

The Finance and Corporate Support variance of £0.983m is predominantly due to underspends in salary costs due to the timing of the implementation of management reviews. The favourable variance in Central Services arises from £3.245m, transferred from departmental budgets during the year and held centrally following a detailed line by line budget review which ensured that services continued to scrutinise all areas of expenditure over the year, and a further variance arising from end of year timing, and which will be required during 2013/14, of £2.321m with the balance relating to centrally held budgets, including underspends in energy and the change fund and income contingency budgets, which were not required during 2012/13.

Housing Revenue Account (HRA) Performance

There was a favourable variance of £0.958m mainly due to the anticipated costs of a legal settlement being no longer required, partly offset by additional costs associated with the Council's Housing Investment Programme.

Council Reserves

The overall position on Council Reserves is as shown below:

	General Fund Balance	HRA Balance	Repairs & Renewals	Capital Grants Unapplied Account	Capital Fund	Total
	£m	£m	£m	£m	£m	£m
Opening Balance as at 1 April 2012	**34.658**	**2.325**	**9.104**	**0.084**	**14.401**	**60.572**
Enhancements (Utilisation)	0.188	0.012	-	(0.084)	0.975	**1.091**
Transfers from Fund	(2.415)	-	(0.880)	-	(5.180)	**(8.475)**
Transfers to Fund	2.146	0.880	-	-	2.415	**5.441**
Annual Interest	0.354	0.066	0.056	-	0.083	**0.559**
Closing Balance as at 31 March 2013	**34.931**	**3.283**	**8.280**	**-**	**12.694**	**59.188**

A comprehensive analysis of the Council's reserves is provided in the Movement in Reserves Statement (MiRS), which is shown at page 14.

Looking Ahead – Financial Outlook

Going forward our service and financial planning shows an increasing demand for specific services as well as significant inflationary pressures and a continued reduction in grant funding. Against this outlook and alongside our credo of strong financial management, active risk management, sound corporate governance and associated early actions, Elected Members approved our Transformation Strategy in June 2012.

The strategy, which details the financial plans and savings workstreams for the Council over the next four years, is the foundation upon which the Council will build for the future and ensure that it continues to provide valued sustainable services designed innovatively and delivered through transformation and collaboration. Our plans encourage and empower those individuals and communities who have the capacity to look after themselves and cares for and keeps safe those who depend upon the Council's services.

Transformation Strategy workstreams are progressing well including the East Ayrshire Leisure Trust, which will commence operations on 1 July 2013, work on a collaborative Roads Shared Service, which is nearing completion, and integrated health and social care in conjunction with NHS Ayrshire and Arran. These workstreams, our workforce planning arrangements and our decision to deliberately maintain reserves at levels towards the upper end of the range to provide scope to drive forward our strategy, will reshape the council and ensure that we are well placed to deal with the challenges going forward.

Following the Balance Sheet date of 31 March 2013 matters arose following the liquidation of Scottish Coal Company Limited and ATH Resources Plc in relation to open cast mining in East Ayrshire. A report was presented to Cabinet on 24 May 2013 which provides an updated position and the Council continues to work alongside our partners and other organisations to safeguard our communities.

The Financial Statements which follow indicate that the Council is in a relatively good financial position and the Finance Service will continue to provide professional support to every service area of the Council to help them to continue to manage resources efficiently and effectively.

Other Financial Information

Sources of Income to the Council - Income from Council Tax was £48.724m and the Band 'D' tax level was £1,188.99. The largest source of funds was the General Revenue Grant which amounted to £202.316m.

Capital Expenditure - The Prudential Code for Capital Finance in Local Authorities governs the level of capital expenditure taking into account affordability, sustainability, the management of assets and the achievement of strategic objectives. Capital spending in 2012/13 on General Fund Services was £48.457m and on Housing was £14.399m. The following table shows the sources of funding for capital expenditure.

Expenditure	£m	Finance By	£m
Education Services	24.996	Government Grants	8.253
Housing Services	14.399	Capital Receipts	0.783
Cultural & Related Services	4.966	Capital Financed from Revenue	10.190
Environmental Services	0.825	Borrowing	41.379
Roads & Transportation	5.973	Capital Fund	2.251
Social Work	0.420		**62.856**
Planning and Development	1.093		
Corporate & Democratic Core	10.184	**Represented By**	**£m**
		General Fund Services	48.457
		Housing	14.399
	62.856		**62.856**

Capital Expenditure and Debt - Capital expenditure incurred by the Council in 2012/13 together with the source of funding is shown in the table on page 46. This is incurred principally for the creation and enhancement of assets, such as council houses, school buildings, and infrastructure, such as the roads network. Capital Expenditure is paid for by charging a proportion of the cost (principal) along with interest each year to the revenue account. The current level of expenditure not yet repaid is the Capital Financing Requirement (CFR) of the Council, which at 31 March 2013 was £373.555m. This is in comparison to the net value of non current assets owned which was £966.822m.

Pension Fund - Pension Fund reporting regulations require an annual valuation by fund actuaries. The calculation at 31 March 2013 disclosed a deficit position for the Council of £156.294m. It is important to note that this is simply a snapshot of the position at that time. The calculation is prepared only for the purposes of IAS19 reporting requirements and is not relevant for funding purposes. The latest long-term triennial funding valuation of the Fund for the purposes of setting employers' actual contributions was at 31 March 2011 and contributions to the Fund continue in line with current actuarial advice.

Interest and Similar Charges - Interest paid in the year was £17.777m and relates to accumulated borrowing of £334.546m as shown on the Balance Sheet on page 17 and Note 30 to the Financial Instruments shown on page 54.

Icelandic Banks - During 2008/09 the Council impaired three financial assets following two UK subsidiaries of Icelandic banks being placed into administration and this was reflected in the 2008/09 Statement of Accounts. The situation remains uncertain but improving and based on the latest information provided from the Administrators the recoverable amount at 31 March 2013 has been reassessed and is now likely to be higher than forecast previously. Further information is provided at Note 29 on page 53.

Equal Pay - A number of Equal Pay claims have been received by the Council covering the period prior to the introduction of Single Status within East Ayrshire Council and the four year pay protection period which followed. A provision has previously been made in the Financial Statements on the basis of potential estimated liabilities. This is reviewed on an annual basis in line with the requirements of the Accounting Standards and taking into account legal advice and updates from Finance and Human Resources colleagues on the adequacy and appropriateness of the provision.

Common Good, Trusts and Bequests - The Council acts as the sole Trustee and administers various Common Good funds relating to the areas of the six former burghs together with a number of charitable trusts and bequests. As part of the management arrangements where land and buildings are confirmed as belonging to the Common Good, and where the Council is incurring costs or receiving income relating to these assets as the managing agent, then the Common Good pays a nominal annual £1 fee to the Council (if asked) in return for the management of the asset. The Council remains responsible for all costs and any income relating to the asset and is entitled to the use of the asset. These funds do not represent assets available to the Council and as such are not included in the Council's Balance Sheet. In addition, the Council also administers a number of Trusts which are controlled by external trustees. Details are included in pages 79 to 84.

Public Private Partnership – Provision of School Buildings - The Council entered into a Public Private Partnership in 2007/2008 for the provision of two primary schools and two combined educational campuses providing primary, secondary and special educational facilities. The provider is required to ensure the availability of these buildings to a pre-agreed standard. During 2012/13, £8.695m was paid to the contractor under the terms of the agreement.

Police & Fire – The Police and Fire Reform (Scotland) Act 2012 transferred responsibility for the provision of police and fire functions from Local Authorities to the newly formed Scottish Police Authority (SPA) and Scottish Fire and Rescue Service (SFRS) from 1 April 2013. Police and fire joint boards were wound up at 31 March 2013 and therefore this is the last year when the former Strathclyde Police and Strathclyde Fire and Rescue Service will form part of East Ayrshire Council's Group Accounts.

Joint Venture Company – Cumnock Regeneration (Retail) Ltd was a Joint Venture company formed in 2007 by the Council and Deanway Muir Ltd for the purpose of developing retail facilities within Cumnock. During 2012-13 no trading took place and the joint venture company was terminated with the agreement of both parties.

Explanation of the Statements

The Council's finances are split into two main areas – the General Fund, which incorporates the main areas of service provision including Education, Social Services, Leisure and Roads, and the Housing Revenue Account, which deals with the management of the Council's housing stock. General Fund services are financed by government grant and local taxation whilst the Housing Revenue Account is financed mainly by rents from council houses.

The Council's income and expenditure for financial year 2012/13 is detailed in the Comprehensive Income and Expenditure Statement set out on page 16. It should be noted that the classification of services in this statement complies with that prescribed by the Service Reporting Code of Practice (SeRCOP) and differs from the management structure of the Council.

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and they present a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2013. A brief explanation of each statement and its purpose is detailed below.

Movement in Reserves Statement (MiRS) - This Statement shows the movement in the year on the reserves held by the Council, analysed into Usable (i.e. those that can be applied to fund expenditure or reduce local taxation) and Unusable. Details of the Surplus or Deficit on the Provision of Services are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Statement on page 14 shows that the Council's Total Reserves are £476.854m with £59.188m being Usable Reserves and the remaining £417.666m being Unusable Reserves.

Comprehensive Income and Expenditure Statement (CIES) - This shows the accounting cost of providing services in accordance with Generally Accepted Accounting Practices, rather than the amount to be funded from taxation. The Council uses funds raised from taxation to cover expenditure in accordance with regulations and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet – This shows the value of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported as Usable and Unusable. Usable Reserves are those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable Reserves are those that the Council is not able to use to provide services and includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the MiRS line Adjustments between accounting basis and funding basis under regulations.

Cash Flow Statement - This shows the changes in cash and cash equivalents during the reporting period. It reflects how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

Notes to the Financial Statements - The notes present information about the basis of preparation of the Financial Statements and the specific accounting policies used, disclose the information required by the Code that is not presented elsewhere in the Financial Statements and provide information that is not presented elsewhere but is relevant to understanding them.

Other statements - there are a number of other statements included in the Financial Statements which provide more detail behind the main statements outlined above.

Statement	Information provided
Council Tax Income Account	Council Tax collectable by the Council and the basis on which it is levied. The residual collection of outstanding Community Charge is also shown.
Non-Domestic Rate Account	Income collectable by the Council and the amount contributable to the national pool.
Common Good Account	Funds held under statute for the people in the former burghs of Stewarton, Darvel, Newmilns, Cumnock, Galston and Kilmarnock.
Trusts and Bequests	The income and expenditure in respect of donations previously made by individuals and organisations. The Balance Sheet shows the balance on these funds at 31 March.
Group Accounts	Consolidates the Financial Statements of the Council and its subsidiaries and associates. The Group Accounts comprise the same primary statements as the single entity: Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement.

Acknowledgement

The favourable financial position disclosed by the accounts has been achieved through the continued efforts of elected members and officers in every service to manage the resources made available to them effectively and efficiently. I am particularly grateful to staff in the Finance Service who have provided professional support to all services throughout the year and who have delivered these detailed financial statements within a very challenging statutory timescale.

Alexander McPhee, ACMA

Executive Director of Finance and Corporate Support

27 June 2013

EXPLANATORY FOREWORD

Introduction

The Accounts for East Lothian Council are set out in the form of statements intended to present a true and fair view of the financial transactions of the Council during the year to 31 March 2013.

The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. Over the past few years this task has been made more challenging by the requirement to produce these accounts under International Financial Reporting Standards (IFRS). Satisfying this requirement leads to a high number of 'adjusting' items designed to reconcile between the International Financial Reporting Standards and the statutory basis of local authority accounting. Although satisfying IFRS is important, I believe it is equally important to provide clarity at a local level on how taxpayers and council tax payers' money is actually spent.

The main statements contained within these annual accounts are as follows:

- **Comprehensive Income and Expenditure Statement** (Page 9) – this outlines the financial performance of the Council during the 2012/13 financial year from 1 April 2012 to 31 March 2013.

- **Balance Sheet** (Page 10) – this details the net worth of the Council at 31 March 2013 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement.

- **Cash Flow Statement** (Page 11) – this provides another way of looking at the performance for the year removing the accrual of income and expenditure and showing how the cash in and out of the Council during the year affected the opening and closing cash position.

- **Movement in Reserves Statement** (Page 12-13) – this shows the movement in the year on the different reserves held by the Council. Most importantly it splits the reserves between 'Usable' and 'Unusable'. The 'Usable' are those which the Council can call upon either to help fund services or to balance future budgets. The 'Unusable' reserves are generally held for accounting purposes.

In addition to these main statements we have provided further supporting information through the notes, supplementary statements and group statements.

The results for the year

Upon first reading, the most notable figure that emerges from the Comprehensive Income and Expenditure Statement (CI&ES) is the 'bottom line' deficit figure of £25.499 million.

This figure is derived after application of the IFRS rules, with the CI&ES charged with a number of accounting adjustments such as depreciation and actuarial gains or losses relating to pensions. However, the way we typically monitor and report the Council's financial performance is using the 'statutory' position which excludes these adjustments. The Movement in Reserves Statement (MIRS) is the document which reconciles these two views of the Council's finances and it will be the statutory position and the Movement in Reserves Statement that I will make most reference to over the rest of this Explanatory Foreword.

The results and prospects for the General Services and Housing Revenue Accounts are quite different and are therefore considered separately.

In the case of the Housing Revenue Account, the use of reserves totalling £1.157 million was slightly less than the amount planned at the start of the financial year (£1.328 million). Although debt charges and staffing costs were less than budgeted across the year this was almost cancelled out by higher charges for repairs and the need to make a larger bad debt provision for the increasing level of council house rent arrears. Looking forward into 2013/14 the Housing Revenue Account has reserves of £5.576 million which will be used as part of the ongoing Modernisation and Affordable Homes capital programmes.

With regard to General Services, the use of reserves during the year was £1.36 million – which is significantly better than the £4.1 million of General Service reserves the Council set aside to help balance income and expenditure for 2012/13 and the £4.2 million that was actually used in 2011/12. There are a number of reasons for this improved performance. These included a significant reduction in the Council's capital programme, a return of accumulated reserves from the former Police and Fire Boards and an increased share of non-domestic rate income. In addition, specific mention should also be made of various financial control measures applied during 2012/13 and also effective treasury management arrangements. The 2012/13 results are encouraging insofar as they provide clear evidence that the amended financial strategy is having a positive impact and reducing the dependency upon reserves.

Looking ahead, it is clear that the Council, in common with other public bodies, is facing significant financial challenges. Within 2013/14, the Council has already taken significant steps in order to reduce its costs. As an example, over the next two years over 90 staff will leave the Council's employment under a voluntary redundancy scheme. It is estimated that this scheme will save the Council over £2.8 million annually. More reductions are planned and the Council is aiming to save a further £8.55 million across our operating base.

General Service reserves now total £13.4 million. In accordance with the Council's Financial Strategy, these will need to be used carefully and effectively to help manage the process of change necessary to further manage our costs down.

Trading Operations

Under Best Value legislation the Council has to identify and separately account for Significant Trading Operations (STOs). Unlike other Council services, each of the trading operations has the statutory financial target of breaking even over a cumulative three-year period. This is seen as an important indicator of whether Best Value has been achieved in these services.

During 2012/13 all the established STOs i.e. Facility Services, Property Maintenance and Roads Services all met the statutory financial target.

Pensions

At the end of 2012/13, the Council's pension assets have been measured at £346.4 million – whereas the collective liabilities to current and future pensioners have been assessed as £457.2 million. This means the net pension liability is approximately £110.8 million at 31 March 2013 which is a further deterioration in the position since last year when the liability stood at £94.03 million. Although asset/investment returns have been good over the last year the positive impact here has been more than outweighed by the increase in the value of the liabilities. As final pension benefits are linked to price inflation and salary inflation the actuaries who value the scheme must use a proxy to assess the effect of this variable. For the Local Government Scheme they use the yield on gilts or government bonds. These yields have decreased significantly over the last year which has the effect of increasing the overall pension liability.

Despite this increase in the reported position of the pension liability, the underlying position is relatively unchanged. Typically, pension funds do not currently have all the assets required to meet all future liabilities and public bodies will have to find ways to remedy this over the long term timescales involved.

In the long-term, the liability will continue to be measured and monitored. The cash contributions the Council makes to the Pension Fund is reviewed as part of an assessment made by an independent actuary every 3 years. The next independent valuation is due at 31 March 2014.

Capital Investment Plans

In 2012/13, we invested £52.2 million in assets that support service delivery within East Lothian, which is a 27% decrease on the previous year (£71.5 million). A large part of this reduction was planned but as mentioned earlier, specific control action was taken to reduce capital spending to help alleviate the resultant burden of loans charges on the revenue accounts.

Significant capital projects, either started or completed, this year include;

- A new joint campus primary school in Haddington;
- Refurbishment work on the Brunton Hall;
- A new community centre and a new primary school in Dunbar; and
- Refurbishment of buildings in the centre of Haddington to create a new museum, library and Council archive.
- The provision of new council homes, the numbers of which increased by 74 over the year.

We typically finance capital investment by using long-term borrowing, although recent investment in our 6 secondary schools has been delivered through a Public Private Partnership (PPP). During 2012/13 our borrowing increased to £323.2 million (2011/12: £292.5 million) to finance capital expenditure for the year. It is important to note that all borrowing is financed from income – either government grants, council tax or developer contributions.

The overall tightening of the public finances over the coming years has meant that all councils have had to look at future investment - and its affordability. The likelihood is that, across the majority of categories, though not council housing, we are likely to see a reduction in capital spending over the next few years. Future projects are only likely to proceed if they are either supported by grant funding from other external sources or if they prove to be self-financing. This is a fundamental element of the Council's approved Financial Strategy.

Council housing is a growing element of overall capital expenditure and debt. The main difference in relation to council housing is that the borrowing is directly repayable from the rents charged to council house tenants. Over the coming years the proposed housing capital programme is affordable because of the related planned increases in rents.

Currently, the average East Lothian council rent is well below the national average. In order to fund the substantial new build and refurbishment programme, the East Lothian average rent will increase over time towards the Scottish average.

The Year in Summary

2012/13 has been a financially significant year for the Council in a number of ways. Although it has used reserves to balance both the General Service and Housing Revenue budgets, the rate at which it is using reserves has slowed, and the control actions taken by managers during 2012/13 have shown that the Council has the ability to make significant efficiency savings.

The capacity to make further efficiency savings is critical given that the UK public finances face a sustained period of financial austerity. Our remaining reserves will be required to give East Lothian Council the time and the flexibility to respond to the financial challenges that lie ahead.

The 2012/13 financial year saw an investment of £52.2 million in capital projects. This was a reduction from the £71.5 million invested in 2011/12 and indicates the future direction of capital spending over the next 3-4 years. The Council operates in an increasingly dynamic and challenging operating environment with both internal and external influences, many of which are beyond our direct control.

The Council continues to face stiff financial challenges and fully anticipates that it will require to make further tough choices in the coming years. The projected loss in central government funding forecast by independent analysts, combined with the anticipated freeze in Council Tax, will almost certainly require a reduction in both revenue and capital budgets and a more stringent downward management of costs.

Acknowledgement

I wish to record my thanks to staff in all departments for their support and co-operation in producing the Annual Accounts in accordance with the statutory timescale. In particular, the effort and commitment of my own Finance Team are gratefully appreciated.

Jim Lamond (CPFA)
Head of Council Resources
27 June 2013

Foreword by the Chief Financial Officer

1. Introduction

This publication contains the financial statements of both Inverclyde Council and its group for the year ended 31 March 2013, which have been compiled in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2012-2013 ("The Code"). This foreword outlines key messages regarding the financial performance of the Council over the 2012-2013 financial year and also provides an outlook for future issues and risks which may impact upon the finances of the Council.

2. Overview of the Council's Finances for the Year

The CIPFA Directors of Finance Section recommends that certain "financial ratios" are included in the Foreword to assist the reader to assess the performance of the local authority over the financial year and of the affordability of its ongoing commitments. The following table provides the indicators with an explanation of each, grouped into CIPFA categories for the various areas of financial activity.

Financial Indicator	Commentary	2012-2013
Reserves		
Uncommitted General Fund Reserve as a proportion of Annual Budgeted Net Expenditure	Reflects the level of funding available to manage financial risk/unplanned expenditure. The Council's Policy is 2% of annual turnover which is considered appropriate in the context of the Council's financial and ongoing risk profile. More information is provided in the *Revenue* section below.	2.75%
Movement in the Uncommitted General Fund Balance	Reflects the extent to which the local authority is using its Uncommitted General Fund Reserve.	(9.04)%
Council Tax		
In-year collection rate	Reflects the authority's effectiveness in collecting Council Tax debt and financial management. The Council continues to achieve high collection levels despite the current economic climate and its effect on the local economy.	94.18%
Ratio of Council Tax Income to Overall Level of Funding	Reflects the local authority's capacity to vary expenditure by raising council tax income, the only principal source of finance within local authority control. Inverclyde Council in common with all Scottish local authorities has frozen Council Tax bills at 2008/09 levels. More information is provided in the *Principal Sources of Finance* section below.	15.24%
Financial Management		
Actual Outturn compared to Budgeted Expenditure	How closely expenditure compares to the budget is a reflection of the effectiveness of financial management. This indicator is based on the format of budget monitoring as reported throughout the year. More details are provided in *Section 4 Budget Performance* below.	97.74%
Actual contribution to/from Unallocated General Fund Balance compared to Budget.		2.26%

Financial Indicator	Commentary	2012-2013
Debt/Long-term Borrowing		
Capital Financing Requirement (CFR) for the current year	Although this year's external borrowing marginally exceeds the Capital Financing Limit (by less than one percent), external borrowing will be less than the CFR over the medium term. This demonstrates that borrowing is for capital investment purposes only. More information is provided within the Long-term and Short-term Borrowing section below.	£296.72m
External Debt Levels for the current year		£298.22m
Ratio of financing costs to net revenue stream	These two ratios compliment the assurances of borrowing only being for capital purposes with an indication of the Council's ability to service the borrowing costs. The Council's cost of borrowing remains consistently below the Scottish average; is affordable; and fits with the Council's medium to long-term financial strategy.	10.93%
Impact of Capital Investment on Council Tax		£13.45

Revenue

The Comprehensive Income and Expenditure Statement on page 22 summarises the total costs of providing Council services and the income available to fund those services. The General Fund is funded by Government Grant and Council Tax revenues and the Movement in Reserves Statement on page 20 shows a surplus of £4.6 million for the year. When combined with the General Fund Balance of £40.7 million brought forward from 2011-2012 it results in a cumulative balance of £45.3 million to be carried forward to 2013-2014. £39.7 million of this balance is earmarked for particular purposes as detailed in Note 22 on Pages 50 to 51. This leaves £5.6 million as an unallocated balance which is approximately 2.75 % of the Council's budgeted cost of service. This is £1.6 million more than the recommended level of £4.0 million, and the Council is due to consider uses for the excess later in 2013.

The Council sets aside the majority of its general reserves for specific purposes such as schools, social, economic and environmental purposes plus funding reductions in the workforce for the next year and beyond. In addition the Council has agreed via its reserve policy to set aside 2% of its annual turnover for unforeseen eventualities.

Principal Sources of Finance

The principal sources of finance utilised by the Council in 2012-2013 were as follows:

General Revenue Grant	£153.5 million	Provided by the Scottish Government
Other Government Grants	£10.3 million	Provided by Central and Scottish Government
Non-Domestic Rates redistribution	£20.4 million	Provided by the Scottish Government
Council Tax	£33.2 million	Raised from local taxpayers
Other income	£47.9 million	Sales, fees, charges and other contributions for services

Balance Sheet

The Balance Sheet on page 23 summarise the Council's assets and liabilities as at 31 Match 2013 and explanatory notes are provided. Total net assets have increased marginally by £0.1 million to £58.7 million. Within this, there have been significant increases in both asset values and liabilities that broadly compensate. Non-current assets have increased by £43.3 million while cash and cash equivalents have increased by £14.3 million; on the liabilities side borrowing has increased by £30.0 million and the pensions liability has increased by £22.4 million. The major changes in the Council's balance sheet between March 2012 and March 2013 are explained in more detail in the following paragraphs.

Non-current and Current Assets

Non-current assets have increased in value by £43.3 million to £430.3 million. An increase in asset values resulting from capital investment and a revaluation exercise was offset by depreciation charges for the year. Cash and cash equivalents have increased by £14.3 million and short-term investments have reduced by £7.3 million, an overall increase of £7.0 million. This has arisen as a result of the additional borrowing during the year (note no borrowing was done in the previous year) as part of the Council's approved treasury management activities. Short-term creditors have increased by £3.9 million.

Pensions Position

The disclosure requirements for pension benefits under IAS19 are disclosed in Note 37. The appointed actuaries have confirmed a deterioration of £22.4 million in their assessment of the actuarial deficit position of the local government pension fund. This movement is the net outturn from both increased liabilities linked to a lower discount rate as at 31 March 2013 than the year previous (a lower discount rate leading to an increased value in future liabilities) and better than expected returns in the year.

This assessment provides only a snapshot at 31 March 2013 and necessarily changes on a day-to-day basis to reflect stock markets movements in particular. The appointed actuaries remain of the view that the asset holdings of Strathclyde Pension Fund and the contributions from employees and employers provide sufficient security and income to meet future pension liabilities.

The major part of the change during the year is disclosed as a post-employment actuarial loss on pension liabilities (£22.5 million) in the Comprehensive Income and Expenditure Statement. There is no impact upon the General Fund balance. Scottish Government regulations require the General Fund balance to be charged with the amount payable by the Council to the pension fund or to pensioners in the year, not the amount calculated according to accounting standards.

Long-term and Short-term Borrowing

The Council's net borrowing increased by £30.0 million during the year. Short-term borrowing increased by £4.3 million whilst long-term borrowing increased by £25.7 million.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from market loans and from borrowing from the Public Works Loan Board. Further details are provided at Note 41. The Council regulates its capital spending limits within a prudential framework recommended by CIPFA and endorsed by the Scottish Government. Each year, the Council sets its capital financing requirement (CFR) for the forthcoming year. The CFR is a prudent assessment of the aggregate external borrowings for capital investment purposes that are affordable and sustainable over the longer-term. The Council's external borrowings have only been for capital investment purposes and have remained consistently and significantly lower than the CFR. The Council's net external debt was £298.2 million at 31 March 2013 compared to the CFR limit of £296.7 million. The Council's loans fund rate was 3.8% for 2012-2013, a reduction of 0.4% from 2011-2012.

Provisions, Contingencies and Write-offs

The Council has provided £1.3 million for eventualities which may have a material effect on the financial position of the Council (see Note 21). The reasons for the provisions made are outlined in the Note. While the Council has made provision for potential equal pay claims, there may be additional costs arising under the terms of the Equal Pay Act 1970 (As Amended). The Council continues to progress its workforce planning arrangements in recognition of the need to reduce and reshape the workforce. This process will incur costs related to the release of employees through redundancy and early retirement.

As outlined above, the Council has also earmarked £39.7 million within the General Fund Balance for specific purposes.

There was a write-off against bad debt provision during the year of irrecoverable debt due to the Council of £0.39 million for Council Tax and £0.02 million of other debts which was approved by the Chief Financial Officer under delegated authority. In addition, the Council impaired non-current assets at the year-end by £9.11 million and made a provision at the year-end of £17.91 million for non-collection of debt, an increase of £0.75 million.

3. Distribution of Reserves of Police and Fire Boards

The Scottish Government determined that police and fire services be merged into single national forces from 1 April 2013. The Police Reform (Scotland) Act 2012 provided that two new bodies – the Scottish Police Authority and the Scottish Fire and Rescue Service – assume responsibility for the functions of the previous regional bodies. The transfer of services from the local authority sector to central government does not negate the presumption of going concern, and the financial statements have been compiled on this basis. The accumulated balance on the usable reserves of Strathclyde Joint Police Board and Strathclyde Fire and Rescue Board will be distributed to member local authorities during 2013-2014.

Allowance has been made in the Council's accounts for 2012-2013 for its share of the reserves of the demitting Boards based on information supplied by the local authorities responsible for the final accounting. Payment of the finally agreed amount will be made in 2013-2014 after the audits of the Police and Fire accounts are complete.

4. Budget Performance of the General Fund

The General Fund returned a net surplus of £4.571 million for the year compared to a budgeted surplus of £4.553 million. The improved out-turn of £0.018 million is largely the net impact of the Council's share of Police and Fire Boards reserves of £0.967 million, £0.777 million on increased savings in loans charges, £0.581 million in contingencies not required, offset by a planned spend in earmarked reserves carried forward from previous years.

5. Financial Outlook and Key Risks

Management of Treasury Risk

The poor economic climate which started with the banking crisis in 2008 continued throughout 2012-2013 and with little prospect of any material recovery in the short-term pressures on public finances have continued to grow. There remain concerns with regards to the longer term stability of the European banking system and sovereign debt within the Eurozone. The Council continues to mitigate the risks associated with security of cash deposits through considering restructuring debt where opportunities arise, and reviewing and strengthening in association with our treasury advisers the criteria for placing deposits with financial institutions on the Council's approved counterparty list. In addition, as part of the Council's ongoing treasury strategy, the Council has sought to defer external borrowing requirements with the dual objective of reducing the level of cash deposits held by the Council, whilst generating ongoing savings in overall interest costs. This strategy is kept under careful review in order that the Council retains sufficient cash balances to support its ongoing requirements and remains alert to any anticipated negative movement in future borrowing rates.

Key Financial Risks and the Reform Agenda

The local government grant settlement announced in February 2013 outlined a reduction in the Council's revenue grant of £1.1 million in 2013-2014, with further indicative reductions of £1.0 million in 2014-2015. As referred to above, economic recovery remains very slow and behind previous expectations of the UK Government. As a consequence, the period of austerity and reduction in the overall level of UK public sector expenditure is now anticipated to extend until the next comprehensive spending review period through to 2017-2018. It is expected that the Council's government grant settlement, which remains the primary sources of revenue funding, will continue to decline in absolute terms over the medium term.

Concurrently, the Council continues to face ongoing service and cost pressures arising from a range of key issues, most significantly demographic and socio-economic factors which continue to play a major role in driving spending pressures for the Council. Inverclyde Council has continued to be proactive in its preparation for the anticipated reductions in grant and increased demand pressures. A number of decisions have been taken by the Council throughout 2012-2013 in conjunction with the Council Budget set for the period 2013-2016 which will continue to deliver savings in future years to ensure sustainability.

The public sector reform agenda continues to develop at an increasing pace with the Council facing a wide range of significant change and reform measures which present both uncertainty and risks which the Council needs to plan for and appropriately manage. As explained earlier in this foreword, Police and Fire reform has been progressed by the Scottish Government with the establishment of the Scottish Police Authority and Scottish Fire and Rescue service from 1st April 2013. The Council has remained actively involved across a range of national groups to ensure the Council's financial interests are appropriately protected during this transition process and that appropriate governance and partnership arrangements are established at a local level in the context of the new national arrangements.

During the course of 2012-2013 the UK Government has continued to progress its plans to introduce significant changes to the benefits system as part of the wider welfare reform agenda. This reform programme is wide ranging and complex in terms of its impact and represents a significant risk to the Council, Inverclyde citizens and the local economy. Further, increased demand anticipated for a range of Council services will create a number of specific financial risks and consequences in relation to the delivery and funding of those services. There are well developed programme arrangements within the Council and with key partner agencies both locally and at national level which have ensured the Council is well prepared for implementing associated benefit changes, is alert to financial risks emerging from what is a fast changing environment, but most importantly has been proactively supporting Inverclyde citizens to prepare for and manage the financial impact for themselves and their families.

Looking forward, the Council has been actively preparing for the Scottish Government's policy reform programme in the area of Health and Social Care reform via the development and implementation of the reform proposals with the Scottish Government, Professional Associations and local NHS partners.

The Council has a programme of Workstreams which will continue to address some of these financial challenges through the delivery of efficiency savings, but it is recognised that the scale of the financial challenge will require further savings in order that the Council maintains its financial stability moving forward and protects its ability to deliver the most important services in the future.

The Council continues to develop its longer term financial planning arrangements, which will support the identification of key longer term financial risks and appropriate longer term mitigation strategies. The ongoing funding pressures highlight the need for the Council to maintain stringent financial control and to continue to drive out efficiencies through the Council's budget process, wherever possible.

Impact on Asset Valuation

The Council revalues its land and buildings in a single exercise at five-yearly intervals. An independent valuation of all Council owned land and buildings was undertaken during 2012-2013 by James Barr, a professional firm of chartered surveyors and completed on 31 March 2013. The impact of the revaluation exercise has broadly shown an increase in land and building values.

6. Significant Trading Operation

The Council has reclassified its "significant trading operation" (STO). The activities of the former Building Services STO are no longer "significant" because of the reduced scale of its operations and accordingly there are no STO's in the current financial year.

7. Capital Expenditure and Income

The Council is able to regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy and endorsed by the Scottish Government. The Council's performance confirms its overall capital spending of £48.3 million was managed within the "Prudential Framework" limits approved by the Council. There was slippage of £3.8 million (7.00%) against the approved capital programme. This is an improvement on 2011-2012 where there was slippage of £14.1 million (31.0%) against the approved capital programme. Contributing factors related to a combination of delays in start dates, and a reduction in expected costs of two large schools projects added to slippage in housing grants, modernisation projects and the purchase of vehicles.

The major part of the capital expenditure for the year was the £33.9 million spent on building and refurbishing educational properties as part of the Council's School Estates Strategy and the detail is shown below. Funding of capital expenditure included £3.4 million from revenue, £0.06 million from receipts, £10.0 million from Government grants with the balance of £34.8 million being met through borrowing. Further information about the spending on capital projects is shown in Note 32 on pages 60 to 61.

Major projects progressed during the year included:

- £2.5 million on the Leisure Strategy.
- £21.3 million on the construction of the Community Campus/ASN School.
- £7.5 million on refurbishment of St Columba's High School.
- £3.0 million on the Office and Depot Rationalisation Programme.
- £4.2 million on Roads and Transportation Projects.

8. Public Private Partnership

The Council entered into a Public Private Partnership for the provision of educational buildings, maintenance and other facilities in 2008. This agreement provided has provided the Council with replacement buildings for two primary and two secondary schools. The provider is required to ensure the availability of the buildings to a pre-agreed standard. During the financial year 2012-2013, £9.0 million was paid to the contractor under the terms of the agreement.

9. Common Good

The Common Good Fund, administered by the Council, returned a surplus of £0.03 million. Income, mostly from rents, exceeded outgoings on various community events. The total usable reserves of the Common Good now stand at £0.2 million which is available for use in future years. Common Good is detailed on pages 78-80.

10. The Inverclyde Council Group

Local authorities are required to prepare Group Accounts in addition to their own Council's accounts where they have a material interest in other organisations. The Group Accounts on pages 82 to 91 consolidate the results of the Council with its share of seven other entities – Strathclyde Joint Police Board, Strathclyde Fire and Rescue Joint Board, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Board, Renfrewshire Valuation Joint Board, Inverclyde Leisure and Riverside Inverclyde. The effect of the inclusion of the above associate bodies in the Group Balance Sheet is to reduce both the "total assets less liabilities" and "total balances and reserves" by £236.709 million representing the Council's share of the net liabilities in these entities. This reflects the combined pension position of these associates, particularly those recorded for the Police and Fire-fighter's Pension scheme.

The statements which make up the "Group Accounts" for the Local Authority are; The Group Movement in Reserves Statement, The Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and Notes to the Group Accounts.

11. Service Changes and Future Developments

There have been no changes to the statutory functions undertaken by the Council.

As detailed in earlier sections of this foreword, police and fire services will transfer from the local authority sector to central government on 1 April 2013. The Scottish Government is progressing proposals to integrate health and social care in Scotland, with a Bill to be introduced to Parliament later in 2013. It is likely that more formal integration of services will occur which will have financial and governance implications for both local government and the NHS in Scotland. The Scottish Government will hold a referendum of the Scottish electorate on the issue of independence from the United Kingdom on 18 September 2014. The implications for local government in Scotland of a yes vote are unknown at present.

12. The Financial Statements

The requirements governing the format and content of local authorities' annual accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). A brief summary of the main financial statements and their purpose is outlined below.

Statement of Responsibilities for the Annual Accounts
This statement sets out the respective responsibilities of the Council and the Chief Financial Officer for the financial statements.

Statement on the System of Internal Financial Control
This statement sets out the framework within which financial control is managed and reviewed over the main components of the system, including the arrangements for Internal Audit.

Remuneration Report
This statement sets out the disclosures required under statute for the arrangements for the remuneration of senior councillors and senior officers, the amounts paid for each "relevant" person and the post held, and their accrued pension benefits.

Principal Financial Statements
An explanation of the financial statements which follow and their purpose are:

- The Movement in Reserves Statement shows the movement in the year of the different reserves the Council holds; analysed into usable reserves (i.e. those that can be applied to fund future expenditure or reduce local taxation) and other reserves.
- The Comprehensive Income and Expenditure Statement reports the costs in the year of providing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with Regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- The Balance Sheet brings together all the assets and liabilities of the Council. It is a statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at one particular point in time, a snapshot of its financial affairs at the close of the year expressed in accounting terms.
- The Cash Flow Statement summarises the change in cash and cash equivalents of the Council during the period. The Statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.
- The Notes to the Principal Financial Statements give further information on the Council's financial statements as required under The Code.

Supplementary Financial Statements
An explanation of the supplementary financial statements and their purposes are:

- The Council Tax Income Account shows the gross and net income from the Council Tax, together with details of the number of properties on which Council Tax is levied, and the charge per property.
- The Non-Domestic Rates Income Account shows the gross and net income from non-domestic rates and details the amount payable to or by the national non domestic rates pool, and the resulting net redistribution of non-domestic rate income for the financial year to the Council.

13. Conclusion

The continuation of prudent financial management and medium term financial planning have allowed the Council to successfully manage its financial affairs within budget and the financial objectives prescribed, whilst at the same time progressing major strategic initiatives such as the School Estate Strategy, Leisure Strategy and Riverside Inverclyde. I am pleased to record that the Council has successfully managed its financial affairs which reflects well on both the efforts and professionalism of the employees and the effectiveness of our financial management procedures.

I would like to take this opportunity to acknowledge the significant effort in producing the Annual Accounts and to record my thanks to both my own team and colleagues in other services for their continued hard work and support. I greatly appreciate the significant efforts of all who were involved.

Further information on the Accounts can be obtained from Finance Services, Municipal Buildings, Clyde Square, Greenock PA15 1LY

Alan Puckrin C.P.F.A.
Chief Financial Officer
25 June 2013

EXPLANATORY FOREWORD BY THE HEAD OF FINANCE

1. Introduction

The Annual Statement of Accounts demonstrates the Council's stewardship of the public funds with which it is entrusted. The Council's Accounting Statements are in respect of the year ended 31 March 2013 and have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 ('the Code') and are set out on pages 9 to 12. Pages 14 to 22 set out the accounting policies adopted by the Council in the preparation of the Accounts to ensure that they present a 'true and fair view' of the results and financial position of the Council. An explanation of the main technical terms used in the Accounts is included on pages 93 to 94.

2. The Financial Statements

Core Financial Statements

The primary financial statements presented within the Statement of Accounts are as follows:

- The **Movement in Reserves Statement** reports movements on the different reserves held by the Council analysed into Usable Reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and Unusable Reserves. The (Surplus) or Deficit on Provision of Services line shows the true economic cost of providing Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax and council house rent setting purposes.
- The **Comprehensive Income and Expenditure Statement** reports the accounting cost of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations which may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- The **Balance Sheet** brings together all the assets and liabilities of the Council. It is a statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at a particular point in time and represents a snapshot of its financial affairs at the close of the year expressed in accounting terms.
- The **Cash Flow Statement** summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties on both day to day revenue transactions and capital activities. Cash is defined for the purpose of this statement as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with an insignificant risk of change in value.
- The **Statement of Responsibilities for the Statement of Accounts** explains the responsibilities of the Council and of the Head of Finance as they relate to the Statement of Accounts.
- The **Notes to the Core Financial Statements** provide further information on the above 'core' financial statements.
- The **Annual Governance Statement** explains how the Council has complied with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) standard for good corporate governance and meets the requirements of relevant legislation and current good practice.
- The **Remuneration Report** provides details of the Council's remuneration of its senior councillors and senior officers with regard to salary, taxable expenses and pension benefits and states how remuneration arrangements are managed. The report also provides information on exit packages agreed by the Council during the financial year.

Supplementary Financial Statements

The supplementary financial statements are as follows:

- The **Housing Revenue Account** shows the major elements of housing revenue account expenditure and how these are funded by rents and other income.
- The **Council Tax Income Account** reports the gross and net income from Council Tax, together with details of the number of properties on which Council Tax is levied, and the charge per property.
- The **Non-Domestic Rates Income Account** shows the gross and net income from non-domestic rates and details the amount payable to the national non domestic pool, and resulting net income for the financial year to the Council that is shown in the Comprehensive Income and Expenditure Statement.
- The **Loans Fund** statement explains the operation of the Consolidated Loans Fund and includes the Loans Fund Income and Expenditure Account and Balance Sheet.
- The **Charitable Trusts** statement includes the summary Income and Expenditure Account and Balance Sheet of those Charitable Trusts and Endowments administered by the Council.
- The **Common Good** statement includes the summary Income and Expenditure Account and Balance Sheet for the Common Good Funds administered by the Council.
- The **Group Accounts** incorporate the share of the Council's Subsidiaries and Associates into the Group Movement in Reserves Statement, Group Comprehensive Income and Expenditure Statement, Group Balance Sheet, Group Cash Flow Statement and include the Reconciliation of the Single Entity (Council) Surplus or Deficit for the year to the Group Surplus or Deficit.

3. Revenue Budget 2012/13 – Review of Financial Performance

The Council's Comprehensive Income and Expenditure Statement for financial year 2012/13 is set out on page 10. It should be noted that the classification of Services in this statement complies with that prescribed by the Service Reporting Code of Practice for Local Authorities and differs from the management structure of the Council. (Information on the Council's financial performance based on the management structure is shown in Note 15 on page 29). The major differences are that Education Services excludes expenditure on Children's Services which is reported in the accounts under Social Work Services; that Cultural and Related Services includes expenditure on the Council's Arts & Heritage, Libraries & Archives, Outdoor Services and Recreation Activities and that Environmental Services includes expenditure on Flood Prevention.

The Council approved the General Fund Final Revenue Budget and Council Tax charge for financial year 2012/13 on 9 February 2012. Expenditure is monitored on a monthly basis and was formally reported, for both revenue and capital budgets, to the Council's Strategic Policy and Resources Committee in September and November 2012 and February and April 2013. Expenditure is reported to Committee on a projected outturn basis (estimated expenditure to 31 March 2013) with the Chief Executive and Executive Directors being responsible and accountable to the Council for managing within the approved budget for their Service and within the limits of the Council's Approved Budget Flexibility Scheme. The ongoing financial management of the Council is focussed upon identifying and taking corrective action to address budget variances throughout the course of the financial year and the foreword to the accounts aims to highlight and summarise the main factors behind the most significant of these variances. The pattern of expenditure reported within the financial statements is subsequently used in developing the Council's future budget strategy. Copies of individual revenue and capital monitoring reports can be obtained using the following link - Revenue and Capital Monitoring Reports 2012/13.

Under the Council's Revenue Budget Flexibility Scheme the Chief Executive and Executive Directors are permitted, with the prior approval of Council, to carry forward budget under spends of up to 2.5% of the value of their net Service budget into the following financial year. The scheme limits the carry forward of budget over spends to 1% of the value of net Service budgets. The carry forward, under the Budget Flexibility Scheme, of managed under spends totalling £5,307,000,000 from 2012/13 into 2013/14 is reflected within the results for 2012/13 below. The Council's financial planning has been greatly facilitated by this approach to the management of resources over the medium term.

The following table summarises the movement on the Council's General Fund balance in 2012/13 including the main variances from budget reflected in the Comprehensive Income and Expenditure Statement. The budget figures are based on the updated 2012/13 General Fund Revenue Management Budget approved by the Council's Strategic Policy and Resources Committee on 17 April 2013 and the 2012/13 Housing Revenue Account Budget. The updated General Fund Revenue Management Budget assumed a net contribution from balances of £5,138,000 and the Housing Revenue Account assumed a break even position.

In summary, the General Fund Balance increased by £5,017,000 as shown in the Movement in Reserves Statement on page 9. This reflects a positive variance of £10,155,000 from the budgeted contribution from General Fund Balances of £5,138,000 in 2012/13. This variance can be summarised as follows:

	Actual Net Expenditure £000	Budgeted Net Expenditure £000	Variance Against Budget £000
Education Services	141,991	146,199	(4,208)
Social Work Services	75,486	76,781	(1,295)
Roads and Transport Services	22,563	21,163	1,400
Planning and Development Services	6,203	5,669	534
Housing Services (General Fund)	11,413	11,851	(438)
Environmental Services	16,019	18,274	(2,255)
Financing & Investment Income and Expenditure	17,102	17,619	(517)
Council Tax Income	(71,830)	(71,733)	(97)
Other Items:			
Joint Boards (Police, Fire & Rescue & Valuation)	16,477	18,576	(2,099)
Tayside Contracts Surplus	(446)	(190)	(256)
Contingency Budget	0	250	(250)
Contribution to Change Fund	0	174	(174)
Other	(239,995)	(239,495)	(500)
Movement on the General Fund Balance	(5,017)	5,138	(10,155)

The major factors underlying each of the variances are considered in more detail below:

Education Services (under spend of £4,208,000)

Devolved School Management Budget (under spend of £1,230,000):

The net under spend on the Council's Devolved School Management (DSM) Budget was £1,230,000. The DSM budget is an element of the overall budget for Education Services and represents those funds directly managed by school head teachers. The net under spend is carried forward as an earmarked reserve to meet future expenditure within DSM schools.

Expenditure within schools on teaching staff and support staff was less than budget by £1,086,000 due to staff turnover and workforce planning measures throughout the year.

This under spend was partially offset by additional supply teaching costs of £395,000 to ensure continuity of education provision.

Additional income from secondments of £216,000; pupils' contributions to school activities of £112,000; additional income from school lets of £23,000; and savings on supplies and services property and transport costs of £188,000 represent the balance of the under spend on the DSM budget.

Non Devolved Budget (under spend of £2,978,000):

Expenditure on administrative and support staff was £1,815,000 less than budget due to vacancies, staff turnover and the workforce planning measures undertaken to deliver staff cost savings as part of the Service's transformation and future years' revenue budget strategy.

Planned savings within supplies and services of £797,000 in 2012/13 were delivered across the Service to support budget flexibility proposals in 2013/14 including funding towards Virtual School Development and the Evidence to Success project, which focuses on early intervention measures for children and young people.

In addition further net spends of £366,000 were delivered across the Service due, in the main to, the retendering of transport contacts for pupil transport and the generation of income in excess of budgeted levels.

Social Work Services (under spend of £1,295,000)

Within Older Peoples Services there were under spends of £293,000 in Local Authority Care Homes and Day Care which were partially offset by an over spend on Homecare. Within Learning Disabilities there was an under spend of £475,000 primarily as a result of the acceleration of approved savings through service redesign in Supported Living and Day Opportunities. Within Finance and Support the under spend of £1,070,000 related to the accelerated realisation of approved budget savings and a reduction in the provision for a potential clawback of grant by the Department of Work and Pensions. Other Community Care Services generated a net under spend of £199,000 due primarily to the delivery of staff slippage in excess of budgeted levels and the early delivery of approved savings.

These under spends were partially offset by an over spend of £181,000 in Strategic Support and an over spend of £561,000 on expenditure for children with additional support needs who required placements outwith the Council's mainstream care provision in residential schools providing specialist services.

Roads and Transport (over spend of £1,400,000)

Expenditure on Winter Maintenance was £1,411,000 in excess of budget due to the extended period of inclement weather during 2012/13. In addition there was an over spend of £305,000 on street lighting due to implementation of the Distribution Use of System (DUOS) methodology which covers the charge for using the regional electricity network to distribute electricity. These over spends were partially offset by net under spends of £169,000 on staff costs from staff slippage in excess of budgeted levels due to workforce planning measures within the Service and maintenance costs. Additional income of £147,000 was also generated from tendered services within the Public Transport Unit.

Within the Car Park Trading Account there was an under recovery of income of £300,000 from "pay and display" income partly as a consequence of the implementation of the "free after 2" promotion. This was offset by an under spend of £350,000 following a rephasing of the car park maintenance and investment programme. The net effect of these variances was a £50,000 transfer to the Car Parking earmarked Reserve from the Parking Account.

Planning and Development Services (over spend of £534,000)

There was a shortfall in income of £552,000 from planning and building warrant fees, Perth Harbour, commercial rents and professional fees. In addition there were over spends of £266,000 on public inquiries (including Shore Road, Perth) and feasibility studies. These over spends were partially offset by under spends of £284,000 from staff slippage in excess of budgeted levels, economic development initiatives and consultancy costs.

Environmental Services (under spend of £2,255,000)

Expenditure on staff costs was £512,000 less than budget primarily as a result of stringent workforce planning measures being enforced within the Service. Savings on contracts, including waste management and the Public Analyst Service generated further under spends of £128,000. Other net under spends across a number of areas within the Service contributed a further £646,000 including additional income from bereavement services, grants, sales and recharges (£328,000) and savings on third party payments and supplies & services (£318,000).

In relation to the corporate functions, there was an under spend of £969,000. This comprised under spends of £209,000 on staff costs; additional income from professional fees of £294,000; under spends of £194,000 on property maintenance and dilapidation works and savings on property running costs (including utilities) of £179,000. The balance of £93,000 was made up of a number of other under spends across corporate functions.

Housing Services (General Fund) (under spend of £438,000)

The under spend generated within Housing General Fund is the result of savings delivered from the on-going review of Housing services. The major elements that have delivered these savings are the bed and breakfast reduction plan and the more efficient and effective utilisation of dispersed units. These were further supplemented by other savings from the early delivery of approved savings and staff slippage in excess of budgeted levels.

Financing & Investment Income and Expenditure (under spend of £517,000)

The main reason for the final under spend on Financing Costs was under spending on a number of prudential borrowing projects across the Council including vehicle replacement.

Council Tax Income (net increase in income of £97,000)

There continues to be a growth in the number of Band D equivalent properties across the Council area resulting in a net increase in Council Tax income of £97,000. However the additional income from the increase in the number of properties is being partially offset by increases in the level of discounts and exemptions from Council Tax.

Other Items

Joint Boards (Police, Fire & Rescue and Valuation) (under spend of £2,099,000). With the creation of the Scottish Fire and Rescue Service and Police Scotland on 1 April 2013 and in line with Scottish Government guidance, Tayside Fire and Rescue Board and Tayside Joint Police Board returned £178,000 and £1,848,000 respectively to the Council. Of the amount received from Tayside Joint Police Board, £1,113,000 has been earmarked in Reserves as this amount is being held on behalf of the Scottish Government. It is anticipated that the funding held on behalf of the Scottish Government will deducted from the level of Scottish Government grant funding in 2013/14. There was also an under spend of £73,000 returned to the Council from the Tayside Valuation Board.

Tayside Contracts Surplus (additional income of £256,000). The Council received this amount of additional income from its share of the Tayside Contracts surplus for financial year 2012/13 due to increased activity by Tayside Contracts which generated a larger surplus available to be distributed to the constituent Councils.

Contingency Budget (under spend of £250,000). The Contingency Budget for 2012/13 was not fully utilised.

Contribution to Change Fund (under spend of £174,000). Of the original allocation of £1,000,000 towards Change Fund projects, £174,000 was not utilised in 2012/13.

Other (under spend of £500,000). This includes the return of £238,000 from Tayside Police in relation to Capital Grant whoch was utilised to reduce the Council's borrowing. Further net under spends were delivered, primarily, in Recreation and Central Support Services.

4. General Fund Balance at 31 March 2013

The General Fund Balance at 31 March 2013 is shown on the Movement in Reserves Statement on page 9 as £42,519,000 (this figure includes £800,000 in respect of the Housing Revenue Account which is classified under the Accounting Code of Practice as a component of the General Fund).

There are a number of commitments totalling £29,487,000 against the General Fund Balance at 31 March 2013 which are explained in more detail in note 6 on page 24 of the notes to the financial statements.

Therefore the uncommitted General Fund Balance as at 31 March 2013 (including the Housing Revenue Account) was £13,032,000 as follows:

	General Fund	Housing Revenue Account	Total
	£'000	£'000	£'000
General Fund Balance as at 31 March 2013	(41,719)	(800)	(42,519)
Commitments (see note 6 on page 24)	29,487	0	29,487
Uncommitted Balances	(12,232)	(800)	(13,032)

The General Fund Balance as at 31 March 2013 is £3,517,000 more than the balance projected in the Reserves Strategy approved by Council in February 2013 (see - Reserves Strategy - February 2013). The level of General Fund Balance was higher than projected due to an additional £1,473,000 of income from Joint Boards (of this additional income £1,113,000 is being held on behalf of the Scottish Government and is now earmarked within Reserves); further Service under spends of £1,308,000 across the Council; £250,000 from the Contingency budget not being required; additional income of £256,000 from Tayside Contracts and other miscellaneous movements of £230,000.

5. Other Funds and Usable Reserves

The balance on each of the following funds and usable reserves at 31 March 2013 was Capital Fund £12,799,000; Renewal and Repair Fund £483,000; Insurance Fund £2,034,000; Capital Receipts Reserve £2,132,000; and Capital Grants Unapplied £685,000. These Reserves are held for revenue expenditure purposes with the exception of the Capital Grants Unapplied which is held for capital purposes.

6. Capital Budget 2012/13 – Review of Financial Performance

A summary of the Council's capital expenditure is reflected within Note 36 to the Core Financial Statements shown on page 49. Gross capital expenditure in 2012/13, including Capital Financed from Current Revenue (CFCR), was £42,219,000. This total comprises £11,466,000 on the Council's Housing Revenue Account (HRA) and £30,753,000 on the Council's Composite (General Fund) Programme. No further expenditure was incurred on assets held by the Council under Public Private Partnership (PPP) arrangements during the year.

The capital expenditure was funded through borrowing, sales of assets, various grants, other miscellaneous capital receipts, and directly from the General Fund and HRA Revenue Budgets. The Council borrows from various sources, the most significant being the Public Works Loan Board (PWLB). As at 31 March 2013, the Council had long-term borrowing relating to the funding of capital expenditure of £200,054,000 (measured at par value), and other long term liabilities of £132,882,000 relating to assets held under PPP arrangements.

The Capital Financing Requirement (CFR) reflects the Council's underlying requirement to borrow for capital purposes. The CFR as at 31 March 2013 was £364,153,000, which compares to total capital financing liabilities (above) of £332,936,000. The difference in funding is met from internal balances.

During the year, the overall CFR increased by £4,154,000. Within this total, the actual amount which related to expenditure directly incurred by the Council reflected an increase of £7,795,000, with the difference (£3,641,000) relating to principal repayments in respect of PPP arrangements. Actual new borrowing undertaken with the Public Works Loan Board (PWLB) amounted to £10,000,000, relating to loans for periods of 7.5 years and 10 years. In addition, there were repayments of previous loans amounting to £13,161,000. The effect of all these transactions together was to reduce total borrowings by £3,161,000, as well as to slightly lengthen the maturity profile of outstanding debt at the end of the year. In addition, the liability under the PPP agreements reduced during the year by the annual repayment of principal of £3,641,000.

Expenditure on the Composite Programme included £8,215,000 on Education projects. Within this total is £6,270,000 spent on the Primary Upgrade Programme, including £3,269,000 for an extension to the primary school in Abernethy and £2,308,000 for the upgrade of Invergowrie primary School. A further £602,000 was spent on the Secondary Upgrade Programme for non Investment in Learning schools, of which £337,000 was spent at Blairgowrie High School. A total of £10,406,000 was spent on Roads & Transport projects, including £7,052,000 on Structural Maintenance and £1,451,000 on Bridge Refurbishments and Strengthening. There was also expenditure of £383,000 on Road Safety measures, mostly related to school routes, and a further £1,009,000 on the renewal programmes for street lighting, traffic signals and footways. The remaining General Fund expenditure of £12,132,000 included expenditure on various cemetery, park and countryside improvements (£670,000); vehicle replacement (£2,701,000); developing various recycling centres and waste initiatives (£2,116,000); a number of Economic Development & Regeneration projects (£1,191,000); various Community Care projects (£546,000) and on upgrading the Council's property fabric including energy efficiency schemes, fire alarms and lighting (£2,285,000). Other capital expenditure related to various Flood Prevention and Information Technology projects.

Expenditure on the Housing Revenue Account Investment Plan was primarily focused upon the provision of new affordable housing (£3,931,000), increasing the stock of housing (£1,382,000) and Heating & Energy Efficiency Schemes (£3,679,000). The remaining £2,474,000 was spent on various programmes including replacement windows, doors, kitchens and bathrooms, and affordable housing initiatives.

7. Material Assets and Liabilities

In terms of the normal activities of the Council, there were no material assets acquired or liabilities incurred that were unusual in scale.

8. Post Employment Benefits

The Council is required to account for pension benefits earned by employees in the current year and the associated pension assets and liabilities. Full details and analysis of the Council's estimated pension assets and liabilities are contained in Note 19 to the Statement of Accounts.

The actuary to the Tayside Superannuation Fund (the Fund) has estimated that Perth and Kinross Council has a net retirement pension liability of £189,092,000 at 31 March 2013 (£199,722,000 at 31 March 2012) based upon the actuarial estimation of the Council's share of the assets and retirement benefit obligations of the Fund in accordance with International Accounting Standard (IAS) 19 – Employee Benefits. The main reason for the reduction in the Council's net liability was an updating of the key assumptions underpinning the funding of the Pension Fund. The net liability is reflected within the Council's Balance Sheet and is offset by the Council's Pension Reserve.

The net pension liability of £189,092,000 represents the best estimate of the current value of pension benefits which will have to be funded by Perth and Kinross Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2013.

9. Material / Unusual Charges or Credits to the Accounts

There were no material or unusual charges or credits included within the Statement of Accounts, having regard for the normal activity of the Council.

10. International Financial Reporting Standards

These financial statements have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and as interpreted or adapted for the public sector context as set out in Note 1 of the Accounting Policies.

11. Revenue Budget 2013/14 to 2014/15

The Council approved the Provisional General Fund Revenue Budget for 2013/14 at a special meeting of the Council on 17 February 2011 (see - 2013/14 Provisional Revenue Budget - Feb 11) . The Updated 2013/14 Final General Fund Revenue Budget was approved at the special meeting of the Council on 14 February 2013 along with the Provisional Revenue Budget for 2014/15 (see - 2013/14 Final Revenue Budget - Feb 13) . The Final 2013/14 Net General Fund Revenue Budget is £319,489,000. As in previous years, it is anticipated that the Revenue Budget ultimately reflected within the 2013/14 Statement of Accounts will differ from this figure as a result of both adjustments to the management budget approved by the Council during the course of the financial year and additional funding announcements by the Scottish Government.

The Council has identified a number of significant financial risks in preparing future years' Revenue Budgets including inflationary pressures and uncertainty over future funding levels. These risks are reflected in the management of the Council's Revenue Reserves as set out in Reserves Strategy approved by the Council on 14 February 2013 (see - Reserves Strategy - February 2013).

In addition to the risks arising from the uncertainties over external influences such as inflation and interest rates the Council's financial planning takes account of risks inherent in managing other influences on service delivery. Although the Revenue Budget for 2013/14 makes allowance for the anticipated costs of service delivery there are inevitably uncertainties inherent in budget preparation. These include unanticipated increases in demand for services; on going and prospective legislative change; national policy influences and the challenges faced in delivering proposed savings and efficiencies. In particular he potential impact of the Welfare Reform Bill on the Council, its Community Planning Partners and the local economy are not yet fully quantifiable. Services will be asked to contain unbudgeted cost pressures wherever possible.

The 2013/14 Housing Revenue Account (HRA) Budget and Rent Levels were agreed at the meeting of the Housing and Health Committee on 6 February 2013. The Gross HRA Revenue Budget for 2013/14 amounts to £25,218,000 and continues to be predicated on meeting the operating costs of managing the Council's Housing stock and ensuring the delivery of the Council's Housing Business Plan as submitted to the Scottish Government and agreed with Perth and Kinross Tenant's Federation.

The Council's budget continues to support the delivery of a challenging Transformation Programme to facilitate the modernisation of a number of key services across the Council.

12. Capital Budget 2013/14 to 2019/20

The Council approved the Composite Capital Budget 2013/14 – 2019/20 at a special meeting of the Council on 14 February 2013 (see - Capital Budget - Feb 13). This excluded Housing Revenue Account capital expenditure. The approved Gross Capital Budget for the 7 year period amounted to £306,160,000.

The Council's capital expenditure plans, as reflected within the above budget, include further expenditure on the major refurbishment and expansion of various schools to address increasing school rolls and revised standards for school accommodation, as well as provision for a new school campus in North Perth and a new primary School at Oudenarde. Also included are planned improvements to the local roads network and flood prevention measures in Almondbank (subject to Scottish Government approval and funding). The Council has also made provision for the redevelopment of several parks and public spaces, as well as the redevelopment of Perth Theatre. Waste reduction and recycling also feature in the Council's planned expenditure, as well as improvements to its property portfolio and the development and expansion of its rural business unit infrastructure. Ongoing expenditure on the school estate; road safety measures; street lighting and Council vehicle fleet operations are also planned to continue. These expenditure plans are funded through a combination of grants, receipts and new borrowing and are considered, prudent, affordable and sustainable in the long-term.

The Revised Housing Revenue Account Investment Plan 2013/14 to 2017/18 was approved by the Council's Housing and Health Committee on 6 February 2013 (see - HRA Budget - Feb 13) . The Approved Gross HRA Capital Budget for the 5 year period amounts to £66,800,000. Capital expenditure on the Housing Revenue Account mainly continues to focus upon increasing the provision of affordable housing and the enhancement of the Council's existing housing stock, particularly in respect of central heating, energy efficiency and security to ensure the delivery of the Council's Housing Standard.

Both the Composite Capital Programme and the Housing Investment Programmes are funded by a combination of borrowing, capital receipts, grants, contributions and from the respective Revenue Budgets. The Capital Financing Requirement is estimated to peak at £470,841,000 in 2016/17, before dropping slightly to £459,461,000 by the end of the 7 year period. The annual cost of servicing this borrowing and PPP liabilities is contained within the Council's Revenue Budget strategy, and remains affordable, prudent and sustainable.

13. Contingencies / Write Offs / Impairments

In order to mitigate against irrecoverable bad debts the Council had created impairments for bad and doubtful debts which have been added to over a number of years. At 31 March 2013 the Council had impairments as follows – Sales Ledger (£671,683); Community Charge (£1,329,523); Council Tax (£12,921,371); Statutory Additions (£3,979,569); Housing Benefit Overpayments (£632,834); Irrecoverable Rents (£2,750,612) and other miscellaneous impairments (£558,224).

The Strategic Policy and Resources Committee approved the write off of bad debts at its meeting on 12 June 2013 in relation to Sales Ledger (£367,777); Council Tax (£743,746); Non Domestic Rates (£740,891); Irrecoverable HRA Rents (£94,152); Homeless Services (£41,338); Housing Benefit Overpayments (£59,500); Commercial Rent (£11,197) and Car Park Trading Account income (£131,977) (see - Debt Write Off - June 13). Although these amounts have been written off for accounting purposes, every effort will be made to collect the outstanding debt wherever legally possible. The Committee also approved the write off of obsolete stock to the value of £10,832.

The Council is also required to carry out regular revaluations of its fixed assets. The main purpose of this exercise is to ensure that the fair market value of the assets is included on the Balance Sheet. The revaluation of the assets may lead to a reduction in value known as impairment. Impairment is not charged to the General Fund but is reflected in the Capital Adjustment Account. There was a £2.577m net loss following the revaluation of properties during the year, all of which has been assessed as a revaluation loss rather than a loss attributed to deterioration in the anticipated level of the performance of the properties. Of the total loss, £1.540m is attributed to Car Parks due to the recent economic uncertainty having a negative impact upon the cash flows arising from the use of these assets.

As set out in Note 39 to the Core Financial Statements, the Council has identified contingent assets in relation to the Business Rates Incentivisation Scheme and PPP insurance cost sharing arrangements. A number of contingent liabilities have also been identified including existing and potential new claims under the Equal Pay Act 1970; future and historic insurance claims; works on the bathroom replacement programme; Common Good fixed assets; casual & supply staff and at Fairview School. In each case, the Council cannot presently ascertain the value of its potential liability.

14. Impact of the Current Economic Climate

The UK economy remains in a fragile state and this continues to have an impact upon Council services. Examples of this include ongoing real terms reductions in funding from the Scottish Government; an increase in expenditure on Housing and Council Tax benefits; pressures on the budget for supporting homeless people, Council Tax collection levels and reductions in income generated from planning fees and building warrants. These issues are anticipated to continue into 2013/14 and beyond. There are also continued implications from reductions in Capital receipts due to the economic environment. Additionally, while interest rates have been held at a very low level for a number of years there is the possibility of increases in borrowing costs in the future.

15. Group Accounts

In accordance with the Code, the 2012/13 Group Accounts Statements are included on pages 71 to 75. The basis for consolidation is set out in the Notes to the Group Accounts Statements on pages 76 to 79.

The effect of consolidation is to reduce the Council's net assets by £249,041,000 resulting in a Group Balance Sheet showing a net liability of £98,385,000 at 31 March 2013 as set out on page 73. This position reflects the Council's share of the pension liabilities of the Associates included within the Group Balance Sheet.

The year ended 31 March 2013 was the last year of operations of the Tayside Fire and Rescue Board and Tayside Joint Police Board. Under the provisions of the Police and Fire Reform (Scotland) Act 2012, the Boards ceased to exist on 31 March 2013 at which point the single national services took over responsibility for fire & rescue and police service delivery throughout Scotland and therefore from 2013/14 they will no longer be included in the Council's group accounts.

Previously the Council had identified a potential significant issue in relation to the long term management of the unfunded defined pension schemes operated by Tayside Joint Police and Tayside Fire and Rescue Boards. However, on 1 April 2013 the responsibility for Fire and Police Services transferred to the Scottish Fire and Rescue Service and Police Scotland and the Scottish Government inherited the legal obligation to provide the services with the funding they need to meet all pension liabilities as and when they fall due.

In relation to Tayside Contracts, the Head of Legal Services has been instructed to engage with his counterparts from Angus Council and Dundee City Council to review the Minute of Agreement to ensure that it is still fit for purpose and meets the requirements of both Tayside Contracts and the three constituent Councils.

16. Accounting Ratios

The following financial indicators have been developed to provide an indication of the sustainability and affordability of the Council's financial plans.

FINANCIAL INDICATOR	2012/13	2011/12	PURPOSE
Uncommitted General Fund Reserve as a proportion of Annual Budgeted Net Expenditure	4.1%	4.4%	Reflects the level of funding available to manage financial risk / unplanned expenditure.
Movement in the Uncommitted General Fund Balance	(£1,731,000)	£1,732,000	Reflects the extent to which the Council has increased / decreased its Uncommitted General Fund Reserve.
Council Tax – In Year Collection Rate (line by line basis)	97.4%	97.7%	Demonstrates the Council's effectiveness in collecting debt and financial management.
Ratio of Council Tax Income to Overall Level of Funding	21.1%	21.1%	This reflects the Council's capacity to vary expenditure by raising Council Tax Income.
Final Net Service Expenditure compared to Budgeted Net Service Expenditure (see Cost of Services – Page 10)	(£9,419,000)	(£6,347,000)	Measurement of how final expenditure compares with the budgeted position and is a reflection on the effectiveness of financial management.

Actual Contribution to / from Unallocated General Fund Balance compared to budget	Budget £5,138,000 Actual (£5,017,000)	Budget £2,002,000 Actual (£5,406,000)	Further measure of the effectiveness of financial management.
Capital Financing Requirements	£364,153,000	£359,999,000	Measurement of prudence in relation to borrowing levels – borrowing only to invest in capital. This measure provides confirmation of borrowing only for capital investment purposes.
External Debt Levels	£332,936,000	£339,739,000	Further confirmation on borrowing only for capital investment purposes.
Capital Financing Requirement Ratio	91.4%	94.4%	Further confirmation on borrowing only for capital investment purposes.
Ratio of Financing Costs to Net Revenue Stream	5.0%	6.4%	Measurement of the Council's ability to fund borrowing costs.

17. Workforce Management

Financial pressures, demand for Council services, changing demographics and public service reform continue to drive efficiencies, service redesign and rationalisation which in turn determine workforce requirements. A corporate approach to workforce planning ensures that the Council maintains a balanced and well-developed workforce.

Since 2009, the Council has implemented a range of workforce management measures which are designed to make the best use of opportunities to reshape the workforce on an on-going basis, enable service redesign and deliver a leaner workforce while avoiding compulsory redundancies as far as possible. This approach recognises the importance of managing staff costs in delivering the Council's Medium Term Financial Plan (see - Medium Term Financial Plan - Dec 12). It also recognises and values the contribution of our employees, as described within Our People Strategy 2010-15 (Our People Strategy - December 2010).

A significant strand of the workforce management measures is enhancing capacity and improving performance which is focussed on the health and wellbeing of employees and ensuring everyone is at work and being supported to perform to the best of their ability. Effectively, this recognises that as well as reducing the size and cost of our workforce, it is also important to maximise productivity. Engaged employees feel a stronger commitment to the organisation that employs them and this results in higher performance and lower absenteeism.

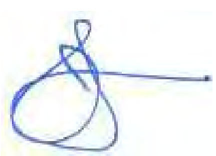
In 2012/13 the average days lost to sickness absence per full time equivalent (fte) employee was 9.3 days (9.4 days in 2011/12). This represented 4.16% of working time per fte employee (4.4% in 2011/12).

18. Post Balance Sheet Events

No significant events occurred between the Balance Sheet date and the date the Head of Finance signed the accounts which would have a material impact on the 2012/13 Statement of Accounts.

19. Acknowledgements

I would like to thank both my Finance and Service colleagues for their support and co-operation in the effective management of the Council's finances during the 2012/13 financial year.



J A Symon ACA
Head of Finance
26 June 2013

Explanatory Foreword by the Chief Financial Officer

Introduction

Welcome to Scottish Borders Council accounts for the financial year ended 31 March 2013.

The Council is required by law to publish a Statement of Accounts that comply with applicable codes of practice. The statements that follow have been prepared in accordance with proper accounting practice as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

The purpose of this document is to demonstrate the Council's proper stewardship of and accountability for the management of the public funds with which it is entrusted. The accounts are complicated, technical documents and I have again sought within my foreword to highlight the most significant matters which have arisen during the year within the Council and its wider group. It is my intention within this foreword to explain these issues in as straight forward a manner as possible, hopefully allowing the reader to reach an informed judgement on the Council's financial position at 31 March 2013 and the quality of financial management within SBC.

A separate statement of accounts for the Scottish Borders Council Pension Fund has been prepared in accordance with the 2008 regulations.

The Accounts

The main statements contained within these accounts are as follows:

- **Statement of Responsibilities** – this sets out the respective responsibilities of the Council and the Chief Financial Officer for the statement of accounts.

- **Annual Governance Statement** - this explains the arrangements the Council has put in place for the conduct of its internal business and its dealings with other parties in accordance with the law and proper standards. The statement includes a review of compliance with the Local Code of Corporate Governance and details any enhancements identified as being required.

- **Remuneration Report** – this sets out information in relation to the remuneration of Councillors and Senior Employees of the Council. The information includes analysis of exit packages, pension benefits and other remuneration costs.

- **Movement in Reserves Statement** – this shows the movement during the year on the different reserves held by the Council. The surplus or deficit on the provision of services shows the true economic cost of providing Council services during the year and further details on these services are shown in the Comprehensive Income and Expenditure Statement.

- **Comprehensive Income and Expenditure Statement** – this outlines the financial performance of the Council during the financial year. It shows the accounting cost in year of providing Council services during 2012/13 rather than the amount to be funded by taxation. The Council raises taxation to cover expenditure in accordance with regulation and this may differ from the accounting cost.

- **Balance Sheet** – this details the net worth of the Council at 31 March 2013 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement. The net assets (assets less liabilities) of the Council are matched by the reserves held by the Council and are categorised as "usable reserves" i.e. those that can be used to fund services or reduce local taxation, subject to the need to maintain a prudent level of reserves, or any statutory restrictions limit on their use for example the capital fund, which may only be used to fund capital expenditure or to repay external debt and other "unusable reserves" which cannot be used to fund Council services.

- **Cash Flow Statement** – this provides another way of looking at the performance for the year removing the accrual of income and expenditure and showing how the cash flowing in and out of the Council arising from transactions with third parties has affected the opening and closing financial position.

Explanatory Foreword by the Chief Financial Officer

In addition to these main statements we have also provided additional contextual information to help the reader assess how well the Council has performed via a series of notes to the accounts, supplementary statements including the Non Domestic Rate Income Account, the Council Tax Account and information with respect to the Common Good and Trust Funds under the stewardship of the Council.

The Council's Financial Position for 2012/13

Budget and Financial Strategy

The budget for 2012/13 was approved by the Council in February 2012 and planned net expenditure totalled £264.2m. Revenue Support Grant including the Council's share of the Non-Domestic Rates Pool from the Scottish Government totalled £213.9m (81.0% of total funding). The Council budgeted to raise £50.3m (19.0%) of its funding through Council Tax and a 'Band D' Council Tax of £1,084 was levied, maintaining the rate first agreed in 2007/08, for the seventh successive year. The Council Tax for Scottish Borders continued to be among the lowest in mainland Scotland in 2012/13 and our in-year council tax collection rate was 96.6%.

The Council along with all public bodies is operating within a very challenging period and the approved financial strategy recognised the continuing difficult economic outlook and the need for robust financial management to control costs. The high level financial strategy which was agreed for financial year 2012/13 was therefore to:-

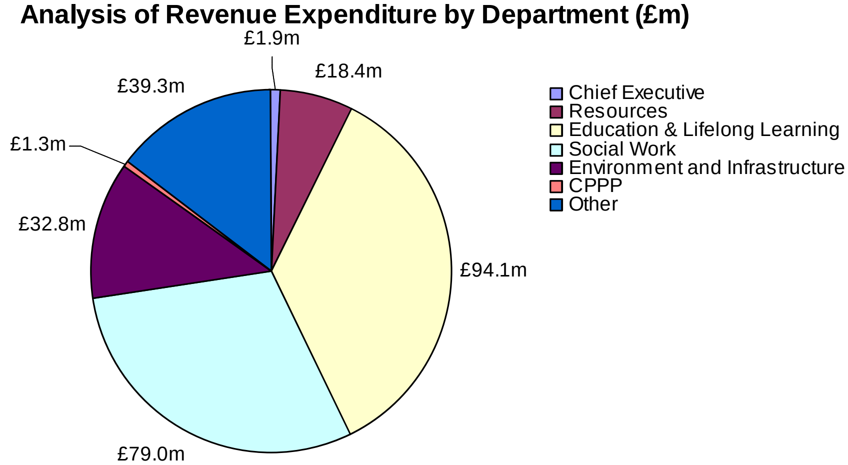
- Freeze council tax
- Set a prudent, sustainable budget in line with available recurrent resources
- Invest in infrastructure through a sustainable capital programme financed by £21.3m of loans charges per year
- Maintain unallocated reserves of £6.9m based on the assessed risk register
- Maximise income while keeping fees charged to service users at an affordable level
- Continue to invest in business transformation and efficiency projects to deliver long term financial savings to the Council.

Revenue Outturn 2012/13

The approved budget was subject to a number of amendments during the year, as service pressures and savings were identified, additional Revenue Support Grant was received and budget virements were approved. The actual outturn for the year against departmental budgets, including the funding sources, was an under spend of £0.8m (0.3%).

The total revenue expenditure for the financial year 2012/13 of £266.8m is analysed by department in the following chart:

Analysis of Revenue Expenditure by Department (£m)



Education and Lifelong Learning

After accounting for Devolved School Management carry forwards of £1.244m the service delivered a balanced outturn of £94.1m.

Social Work

Social Work services under spent by £0.007m against a revised budget of £78.9m after managing a significant in year pressures of £3.580m largely associated with increased demand for services to older people which was partially supported by central funding of £1.371m.

Economy and Infrastructure

An under spend of £0.740m was delivered against the revised budget of £32.8m which increased by additional funding of £1.9mm during the year. The department faced in year pressures from severe winter weather, under recovery of planning income and pressures from costs associated with managing significant flooding events.

Corporate Programmes, Partnerships and Projects (CPPP)

CPPP under spent by £0.102m on expenditure of £1.335m due mainly to savings against the ER/VS budget and re-phasing business transformation projects which will now be delivered in 2013/14.

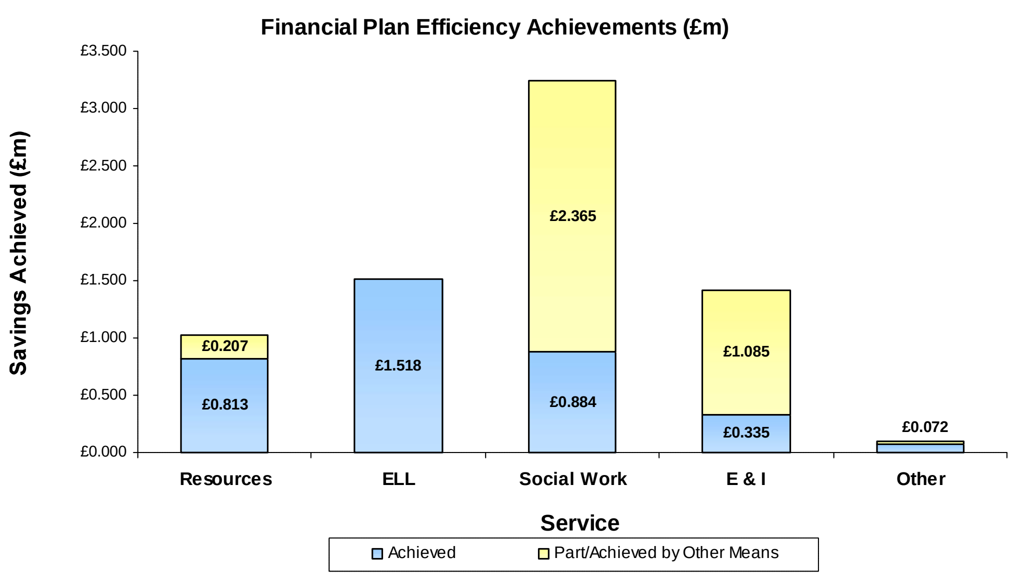
Other

In the "Other" category an over spend of £0.023m was incurred due to an increase in the Sundry Debtors bad debt provision for older debt off set by savings in Loan Charges, Housing Benefit, Non Domestic Rate Relief and further increased income from Commercial Rents.

Efficiency savings

During the year the Council has again focussed on maximising savings wherever possible and has delivered a significant programme of efficiency savings in order to balance the costs of service provision to available resources. This focus will continue in future years when the budget setting process is expected to present a significant challenge. Savings required by the financial plan were tracked through quarterly reports to elected members and monthly reports to the management team. The position at the 31st March was as shown in the graph below. Of the £7.3m in year savings delivered 49.5% were fully achieved by departments as per the original plan with 51.5% delivered via alternative corporate savings and additional income.

2012/13 Savings



Explanatory Foreword by the Chief Financial Officer

The delivery of ongoing savings associated with business efficiencies and transformation projects remains a challenge to the Council and will be a significant focus of management attention in future.

The Council successfully implemented a pilot Business Loans Scheme during the year, and prepared for the first stage of Welfare Reform with the introduction of the Scottish Welfare Fund and the Council Tax Reduction Scheme. Within the overall outturn the Council also dealt with a period of unusually heavy and sustained rainfall over the summer of 2012 including a significant flooding event in Jedburgh. This caused serious damage to the infrastructure of the Borders and led to the submission of a Bellwin claim for emergency revenue support to the Scottish Government totalling £1.5m. The very wet summer was followed by a period of adverse winter weather which saw the Council's road crews gritting the network over an usually prolonged period right up until the end of March 2013 and beyond.

The total principle departments' income and expenditure is further analysed as follows, with additional information available in Note 5, Page 42:

	£'000
Employee Costs	145,682
Premises Costs	19,505
Transport Costs	21,240
Supplies & Services Costs	37,324
Third Party Payments	72,709
Transfer Payments	30,363
Support Services	1,620
Capital Charges	24,715
Income	(86,355)
Revenue Outturn Net Cost of Services	266,803

The revenue outturn expenditure during the year was funded by £267.6m from the sources identified previously and resulted in a net under spend of £0.8m.

The Council is required to make various statutory accounting adjustments to the net cost of services in order to comply with the Code. These accounting adjustments include depreciation, net gains/losses on disposal, net retirement benefits, loans fund principal repayments and accrued holiday leave not taken by 31 March 2013 and therefore adjusted the net cost of services from £266.8m to £292.2m. Note 5, on page 42 shows the movements between the revenue outturn net cost of services and the net cost of services reported in the Comprehensive Income and Expenditure Statement. Further statutory adjustments are then made including losses on the disposal of assets, interest payable and adjustments for pension costs which result in an overall deficit on the provision of service of £71.1m.

General Fund Reserve

The Council maintains a General Fund Reserve for three main purposes:

- A working balance to help cushion the impact of uneven cash flows.
- A contingency to cushion the impact of unexpected events or emergencies.
- Earmarked reserves to meet known or predicted liabilities.

The Council's Financial Strategy for 2012/13 identified the optimum level of non earmarked reserves, as quantified by a risk register at £6.9m. This level of reserves was considered necessary to provide a working balance offset the level of risk faced by the organisation in delivering services, and a contingency to cushion the impact of unexpected events or emergencies (i.e. not earmarked for specific purposes).

The analysis of the General Fund Reserve at 31 March 2013 is as follows, with further information available in Note 31, page 71:

2012 £'000		2013 £'000
	Earmarked Reserves	
(1,253)	Devolved School Management	(1,084)
(3,778)	Specific Departmental Reserves	(3,480)
(5,031)		(4,564)
(7,429)	Non Earmarked Reserve	(10,455)
(12,460)	Total General Fund Reserve	**(15,019)**

As at 31 March 2013, the Reserve not earmarked for specific purposes was £10.5m (3.94%) and showed a net increase of £3.0m on the 2011/12 total.

The analysis above indicates a net increase in the overall General Fund Reserve is £2.6m. The increase relates to the return of Police and Fire reserves (£1.5m) from the former Lothian and Borders Joint Board as result of the restructures of these services, the 2012/13 Revenue outturn under spend (£0.8m) and the outcome of a balance sheet review undertaken in year (£0.3m). The figure for Police and Fire is stated before the requirement to return £0.6m of the Police reserves to the Scottish Government in 2013/14. The overall general fund balance also includes £4.6m of earmarked reserves for specific purposes which will be spent either in 2013/14 or future financial years.

Significant Trading Operation

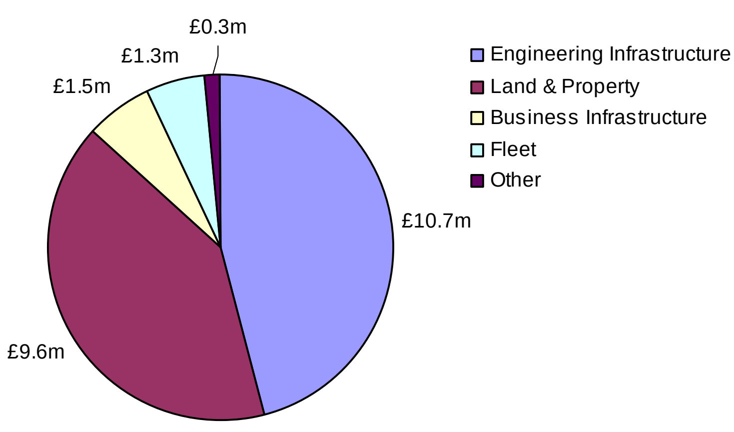
SBc Contracts has a statutory obligation to at least break even over rolling three-year period. During 2012/13 a net surplus of £0.2m was recorded. Over the three-year period the cumulative surplus delivered by SBc Contracts totalled £0.4m.

Capital Expenditure

In February 2012, the 2012/13 - 2021/22 capital financial plan was approved. The financial strategy aims to ensure capital borrowing is within prudential borrowing limits and remains sustainable in the longer term. In this regard it is important to recognise that capital investment decisions taken now have long term borrowing implications which have the potential to place an undue burden on future tax payers.

In 2012/13 the Council incurred capital expenditure totalling £23.4m and the analysis of this by capital theme is shown in the following chart:

Analysis of Capital Expenditure (£m)

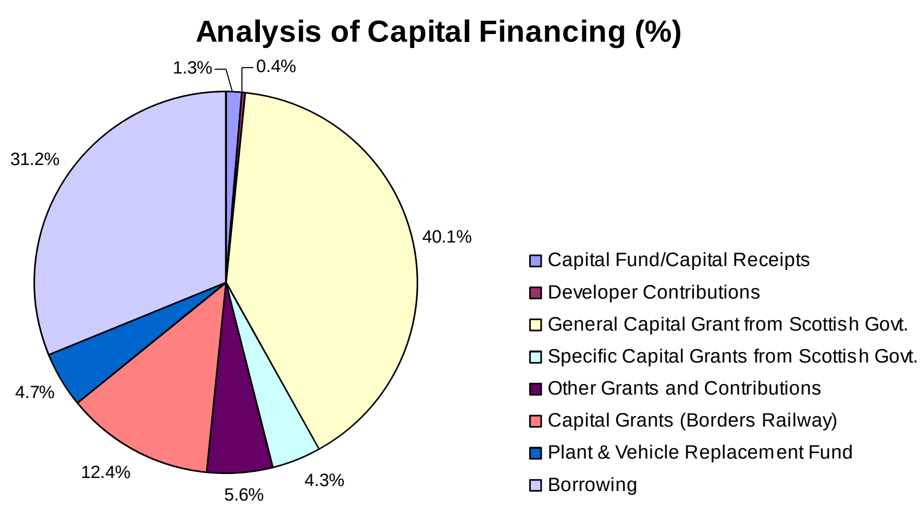


Explanatory Foreword by the Chief Financial Officer

Some of the major projects included in the 2012/13 capital expenditure are highlighted below:

	£'000
Engineering & Infrastructure	
Galashiels Developments	1,037
Peebles-Innerleithen Shared Access Route	751
Flood Protection Schemes	780
Easter Langlee Landfill Cell Provision	717
Borders Railway	2,861
General Roads & Bridges Asset Management	2,303
Land & Property	
West Linton Primary School	4,642
Strategic Business Land Provision (LUPS)	758
General Property Asset Management	1,077
Business Infrastructure	
Replacement of Curricular Network	604
Fleet	
Vehicle Replacement	1,323
Other	
Private Sector Housing Adaptations	338

The table below shows how the capital spending was funded:



In addition to the capital expenditure on its own assets the Council incurred £2.6m of capital expenditure for the National Housing Trust initiative which delivered new house building in the Scottish Borders. This was funded by additional capital borrowing under a specific consent to borrow from the Scottish Government.

During the year, the Council concluded the transfer agreement for the delivery of the Borders Railway, with the assets and delivery obligations transferring to Network Rail.

Treasury Management

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A major aspect of the treasury management operation during the year was to ensure that the cash flow was adequately planned, with cash being available when needed. Surplus monies were invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

The Council continued to maintain an under-borrowed position, this means that the capital borrowing need was not fully funded by loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains both prudent and cost effective in an environment where investment returns are low and counterparty risk is high.

Debt Outstanding

The Council's outstanding external debt at the 31 March 2013 was £181.4m, of which £6.1m was temporary borrowing. The average rate of interest paid on outstanding external debt was 5.2% (2011/12: 5.4%).

Icelandic Banks

In October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £10m deposited (£5m with Heritable Bank and £5m with Landsbanki), with varying maturity dates and interest rates. During 2012/13 £0.5m repayments were received from Heritable Bank, which, when added to receipts in previous years, gives a total of £3.9m (78% of the claim of £5m). In addition, during 2012/13 payments totaling £0.9m were received from Landsbanki which, when added to receipts in previous years, gives a total of £2.4m (48% of the claim of £5m).

Group Accounts

The Council has interests in a number of Trusts and other organisations. These have been incorporated into the group accounts. The Lothian & Borders Police and Fire & Rescue Boards, Borders Sport and Leisure Trust and Jedburgh Leisure Trust merit inclusion in the Group Accounts and are deemed to be associate companies as the Council has a material interest in them. In addition, the Common Good and Trust Funds administered by the Council as sole trustee are treated as subsidiaries. The Group Accounts are shown on pages 81 to 91**.**

From 1 April 2013 police and fire functions transferred to the two new national Bodies established under Police and Fire Reform (Scotland) Act 2012 i.e. the Scottish Police Authority and the Scottish Fire and Rescue Service.

Common Good and Trusts

The Council is trustee for 289 trusts and endowments and off these 112 are registered for charitable status with the Office of the Scottish Charity Regulator (OSCR). The Common Good Funds are also a registered charity. During 2012/13, work continued to identify assets previously held on the SBC balance sheet which should be shown on the Common Good or Trust Fund balance sheets.

Work continues to implement The Common Good and Trust Fund Investment Strategy. The approved Investment Strategy is based on the agreement that any external investments will be via a pooled fund structure. A Common Good Investment Working Group has been established which will implement the Strategy.

Explanatory Foreword by the Chief Financial Officer

Going Concern

The Council's Balance Sheet is shown on pages 27 and 28. The value of net liabilities of £30.1m at 31 March 2013 exceeds the value of distributable reserves held by the Council. This is however only a snap shot view which is fundamentally affected by the pension fund liability (£191.2m) calculated at this point in time. The actuarial valuation, which takes a longer term view of liabilities as they are more likely to actually fall due in future years, will appropriately apply future revenue streams from a combination of investments, employer contributions and employee contributions to meet the financing of these liabilities. It is therefore considered appropriate to continue to adopt a "going concern" basis for the preparation of these financial statements.

Looking Ahead

The Council has approved its new Corporate Plan and introduced new community planning arrangements with our partner organisations. It is hard to imagine a more challenging set of financial circumstances with the reduction in resources, welfare reform, increasing demands on services, low interest rates and other influencing factors all affecting the Council's finances. The Council despite these challenges remains financially sound and well placed to serve the people of the Borders in future.

Thanks

I am particularly grateful for all the assistance and advice I have received from Elected Members, the Council Management Team and other colleagues during this financial year. My special thanks are due to all staff, especially those in Corporate Finance and Financial Services, for their hard work and commitment.

David Robertson CPFA
Chief Financial Officer

Introduction

Welcome to the Council's Statement of Accounts for the 2012/13 financial year. It is our aim to ensure that the information contained within these Accounts is as clear and understandable as possible in order to make them accessible to the widest audience possible. However, it is necessary and correct that Shetland Islands Council's Annual Accounts adhere to the relevant statutory and regulatory requirements which, in places, can unfortunately result in this document becoming rather technical. It is for this reason that I would encourage users of this document to study the Explanatory Foreword, in conjunction with the Financial Statements, as a guide to the most significant matters reported in the Accounts.

After the upheaval of implementing International Financial Reporting Standards (IFRS) in 2010/11, it is pleasing to see that there has been some stability in local government financial reporting requirements for the past two years. This has provided the Council with time to focus on improving the way in which we set about preparing the Statement of Accounts and I am pleased with the progress that has been made over the past two years. The responsibility for all the work-streams required in the preparation of the Council's Statement of Accounts is now distributed across the accountancy team and other areas of the Finance Service which has led to a more controlled process that does not rely on a small number of individuals. This reduces the risk of failure and improves the overall quality of the final product.

One change that I would highlight in the Statement of Accounts 2012/13 is that following the changes in the governance arrangements of the Shetland Charitable Trust, the Trust should no longer be treated as a subsidiary of the Council. However, under accounting standards I have concluded that the Trust should be treated as an Associate of the Council given that 7 of the 15 Trustees are still Councillors. Whilst I understand and agree with the legal position that no relationship of control exists, I am required to prepare the accounts in accordance with accounting standards which lead us to conclude that a relationship exists between the two entities to comply with an accounting definition of 'control' as set out in IAS 27: *Consolidated and Separate Financial Statements*.

The accounting treatment required for an Associate is to take a share of the net balance sheet assets and Statement of Financial Activities equal to the Councillors' percentage representation of the total trustees (46.7%). As a result I have used publicly available financial information on the Shetland Charitable Trust as a basis for consolidating its figures into the Council's group accounts.

Finally, I would like to express my thanks to all those Council officers who have had a role in the preparation of this document, and in particular to those in the Finance Service who have worked diligently and with dedication throughout this process.

James Gray MA (Hons), CPFA
Executive Manager – Finance (Section 95 Officer)
Shetland Islands Council
June 2013

Explanatory Foreword

The purpose of the foreword is to explain the most significant aspects of the authority's financial performance during 2012/13 and year-end financial position as at 31 March 2013. In addition, it provides some narrative on the financial outlook for the Council during 2013/14 and beyond.

Primary Financial Statements

The Statement of Accounts summarises the authority's transactions for the year, its year-end position at 31 March 2013 and its cash flows. All monetary amounts shown in the statements are rounded to the nearest one thousand pounds for the purposes of presentation. The Statement of Accounts is prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

A description of the purpose of primary statements has been included on page 35, immediately prior to the four statements: the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. These four Statements are accompanied by Notes to the Accounts which set out the Accounting Policies adopted by the Council and provide more detailed analysis of the figures disclosed on the face of the primary financial statements.

The primary financial statements and notes to the accounts, including the accounting policies, form the relevant Statement of Accounts for the purpose of the auditor's certificate and opinion.

Financial Performance in 2012/13

The Council's financial performance is presented in the four primary statements. The Comprehensive Income and Expenditure Statement (CI&ES) presents the full economic cost of providing Council services in 2012/13. This differs from the budgeted outturn position which was reported to the Executive Committee of the Council on 3 June 2013, and the full Council on 12 June 2013, and which is available on the Council's website.

The reason for this is that the CI&ES includes accounting adjustments required to comply with proper accounting practice, but which under statute do not impact upon local taxation payers. The outturn position reflects only those costs that are required to be met from local taxation. Therefore the difference between the CI&ES and the actual outturn position is purely as a result of necessary accounting adjustments to the former. The Cost of Services of £126.490m, which is disclosed on the CI&ES, has been reconciled to the outturn used for management decision making of £113.299m at Note 24 – Amounts Reported for Resource Allocation Decisions.

It is also important to note that the Council reports its outturn position by individual account, as these are required to be accounted for separately under legislation. The revenue accounts managed by the Council are the General Account, the Housing Revenue Account and the Harbour Account. The CI&ES is the consolidation of all three of these accounts to reflect the Council's overall financial results for the year.

The outturn position for each of the budgeted funds, excluding accounting practice adjustments, as compared to the budget set is summarised below.

2012/13 Budget v Expenditure	Revised Budgeted Draw from Reserves £m	Actual Draw from Reserves £m	Revised Budget v Actual Variance Under/(Over) £m
General Fund	23.940	20.653	3.287
Revenue Spend to Save	0.188	0.154	0.034
Housing Revenue Account	1.174	2.058	(0.884)
Harbour Account	(3.040)	(3.401)	0.361
Total Revenue Draw	**22.262**	**19.464**	**2.798**
Capital Fund	3.342	1.359	1.983
Capital Spend to Save	0.727	0.584	0.143
Total	**26.331**	**21.407**	**4.924**

General Account

The 2012/13 General Account budget included a requirement for the Council to achieve savings of £15.3m. The implementation of service reviews, efficiency initiatives and one-off savings resulted in that being delivered.

The table above shows a net underspend of £3.287m on General Account, which can be attributed to a drive across services to reduce expenditure. When coupled with the delivery of the £15.3m of budgeted savings, the Council achieved a total savings figure of £18.6m.

However, despite this good performance against the revised General Account budget, the total draw on reserves was still £20.653m, which is clearly unsustainable beyond the immediate short term.

In 2012/13, the Council continued to face significant financial pressures largely driven by external factors, which were outwith the control of the organisation. The most significant of these were **–**

- Increases in fuel costs, particularly for ferries, which was the overriding factor for the ferries service over spending by £0.756m in the year;
- A decrease in funding levels provided by the Scottish Government (General Revenue Grant and share of National Non-Domestic Rates pool) from £91.866m in 2011/12 to £91.143m in 2012/13 which equates to a 1% reduction year on year; and
- An increase in demand for services which occurs at a higher rate than the growth in income to fund it.

Harbour Account

The Harbour Account exceeded its budgeted surplus by £0.361m, which allowed it to make a larger than budgeted contribution to the Reserve Fund of £3.401m. This occurred as a result of a greater reduction in expenditure which more than offset the reduction in income from the temporary suspension of production at the Schiehallion field.

Housing Revenue Account

The financial position of the Housing Revenue Account (HRA) continues to be a significant challenge for the Council. This is due to the need to invest in the current housing stock to meet national housing targets by 2015 as well as managing the pressure for new build housing to meet the high demand, against a backdrop of having to service and repay a historic debt on the HRA, which stood at £38.6m on 31 March 2013.

There was an overspend of £0.784m on HRA expenditure in 2012/13 against the revised budget. This contributed to an overspend on the budgeted draw on reserves of £0.884m, and arose mainly due to the Housing Revenue Account funding additional capital from current revenue of £0.768m instead of through borrowing as had originally been intended.

Capital Account

In 2012/13 Shetland Islands Council incurred capital expenditure of £12.649m against a budget of £14.508m representing an under spend of £1.859m in the year. Of this total, £3.342m was budgeted to be drawn from the Capital Fund, but as a result of the under spend the actual draw was £1.359m, £1.983m less than anticipated.

The main reason for the under spend on the capital budget arose as a result of slippage on the programme, i.e. projects not commencing or progressing as originally anticipated in 2012/13.

The most significant General Account capital expenditure during the year was –

- The Joint Occupational Therapy Unit which incurred expenditure of £1.692m during the year;
- The construction of Phase 3 of the College incurred expenditure of £1.220m;
- £1.094m on fibre optic cables as part of the provision of broadband internet access to the Shetland Islands;
- Construction work on the pier in Walls in West Shetland which incurred expenditure of £0.955m;
- £0.611m on the Fetlar Breakwater construction; and
- The upgrade of the Bixter to Aith road (Phase 2) on which a total spend of £0.553m was recorded.

The Balance Sheet as at 31 March 2013

The Balance Sheet sets out the total net worth of Shetland Islands Council at a snapshot in time. When comparing the net worth of the Council at the date of the last Balance Sheet on 31 March 2012, it can be seen that there has been an overall reduction in the net worth of the organisation of £20.576m in the past 12 months. This figure matches the total CI&ES figure in the CI&ES, as this details all transactions that occurred during the financial year that have led to the movement in the net worth of the Council. The most significant events that have led to this reduction in net worth are as follows –

- The unfunded element of the Council's anticipated future pension payment commitment (Pension Liability) increased by approximately £24.7m during the year. This happened as a result of changes in the actuarial assumptions used to determine how much the Council will have to pay out in future pension payments running in excess of the return on the pension assets. These changes indicate that the Council will have to make higher payments than previously thought, which has increased the overall liability;
- The net book value of Property, Plant and Equipment reduced by approximately £1.6m during 2012/13 reflecting the level of capital expenditure being lower than the depreciation and impairment charges; and
- This was offset by the net increase in the Council's reserves – the long term investments generated a return of approximately £28m in 2012/13, which was approximately £6.5m more than the draw on reserves, having the effect of increasing the net worth of the balance sheet by this amount.

Until the Council delivers its Medium Term Financial Plan and becomes financially sustainable, it is likely that there will be further deterioration in the Council's balance sheet strength over the next 2 to 3 years.

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	Opening Balance 1 April 2012 £m	Closing Balance 31 March 2013 £m
Capital Fund	(100.543)	(83.808)
Capital Efficiency/Spend to Save Reserve	(9.096)	(8.678)
Capital Fund (HRA contingency)	0.000	(10.000)
Reserve Fund	(57.128)	(18.095)
Reserve Fund (Harbour contingency)	0.000	(39.000)
Repairs & Renewals Fund	(51.577)	(44.644)
General Fund Balance	(3.000)	(3.000)
Revenue Efficiency/Spend to Save Reserve	(0.510)	(0.365)
Potential Contingent Liabilities	(0.849)	(0.865)
Discretionary Reserves	**(222.702)**	**(208.454)**
Marine Superannuation Fund	(2.021)	(1.805)
Pilot Boat Renewal Fund	(0.960)	(0.978)
Housing Repairs & Renewals Fund	(12.259)	(10.423)
Quarry Repairs & Renewals Fund	(0.153)	(0.156)
Insurance Fund	(0.293)	(0.221)
Council Tax Second Homes Receipts	(0.511)	(0.403)
Hansel Funds	(0.104)	(0.111)
School Funds	0.000	(0.087)
Central Energy Efficiency Fund	(0.043)	(0.003)
Ring Fenced Reserves	**(16.344)**	**(14.185)**
TOTAL	**(239.046)**	**(222.639)**

The overall notional level of usable reserves was £222.639m at 31 March 2013. However, it should be noted that the level of reserves immediately available to the Council is, in effect, the amount of cash that is invested, which is shown on the balance sheet to be £205.732m. The main reason for the difference between the two figures is that internal borrowing has occurred against the reserves, so the reserves are not fully backed up by cash at the present moment. This will cease to be the case once all internal borrowing is fully repaid to the reserves.

The Council has no external debt as at 31 March 2013.

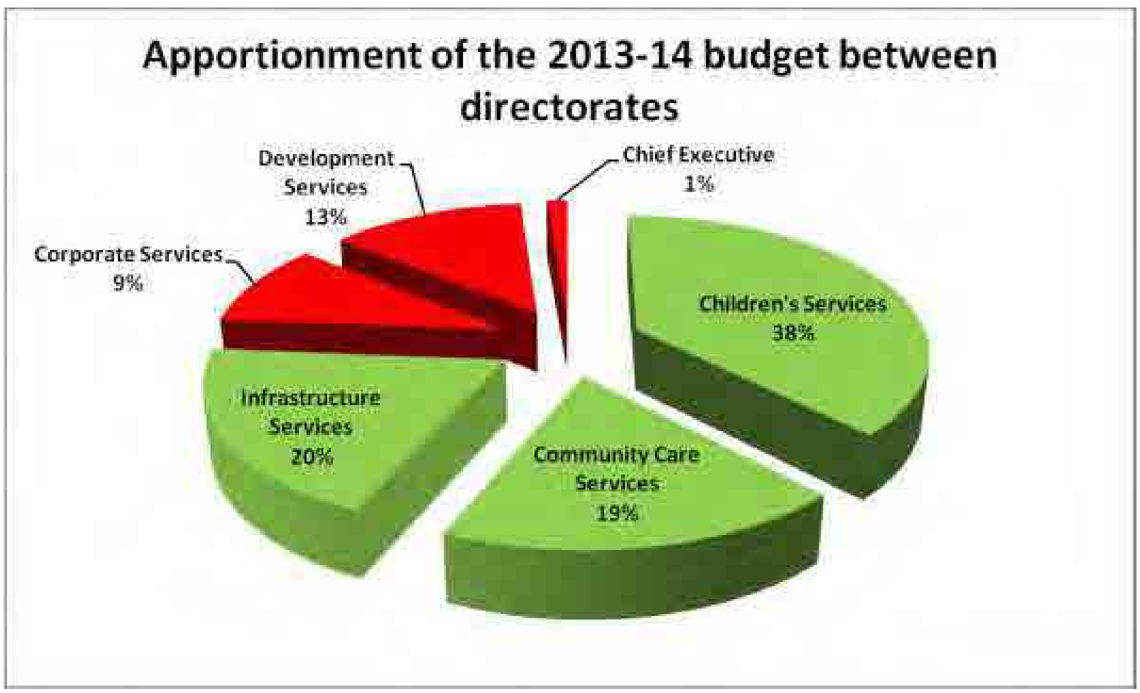
The reserves held are more than adequate to manage risks and unplanned expenditure in the short term. However, there is still a risk that the Council's reserves could be fully used if expenditure levels are not brought into line with the level of income available to the organisation. As a result of this, the Council set a revenue budget on 20 February 2013, which sought to reduce expenditure as part of the medium term financial plan to achieve financial sustainability by 2016/17.

2013/14 Budget and Medium Term Financial Outlook

The Council set a challenging budget for 2013/14 which exceeded the savings target of £11.195m as set out in the Medium Term Financial Plan. These savings were split across the directorates as follows:

Department	MTFP Savings £	Budgeted Savings £	2013/14 Budget £
Chief Executive	130,000	130,000	1,486,000
Children's Services	3,896,000	4,016,000	41,262,000
Community Care Services	2,362,000	2,362,000	20,524,000
Corporate Services	1,031,000	1,205,000	10,586,000
Development Services	1,957,000	3,667,000	13,878,000
Infrastructure Services	1,819,000	1,177,000	21,530,000
Budget Carry Forwards 2012/13			3,488,000
Fund Managers Fees			834,000
Contingency & Budget Pressures			5,762,000
Recharges Out (Harbour/HRA/Others)			(3,164,000)
TOTAL	**11,195,000**	**12,557,000**	**116,186,000**

The table below shows how the 2013/14 General Account budget will be allocated to Council directorates. Those in green are priority areas for the Council –



In order to manage the delivery of the savings programme a new group called *"Change Programme - Project Board"* has been established. It is comprised of all Council Directors, Executive Manager - Human Resources, Executive Manager - Performance and Improvement and the Executive Manager – Executive Services and will oversee the high-level Change Programme items. The programme will change the way we will deliver many services and is necessary in order to meet our savings targets.

The Board meets fortnightly in order to ensure that the work to deliver the agreed savings remains on track. The volume of savings work planned for 2013/14 is substantial with 35 major reviews/service changes planned during the year, many of which will require extensive consultation with the community.

In order to assist with the process of delivering the savings, the Council has both revenue and capital spend to save budgets, which are open for all services to apply for. This money is intended to facilitate any changes necessary in order to realise the agreed savings, with all projects required to fall within a 3 year payback period.

Elected Members will be provided with supplementary financial information specifically related to the Council's progress against its savings targets, in addition to its regular budget monitoring reports, in order that it can monitor progress throughout the financial year.

An updated version of the Medium Term Financial Plan 2013/2018 was approved by the Council on 26 June 2013. This seeks to stabilise the Council's reserves at a figure no lower than £150m and to achieve financial sustainability within the lifetime of the current Council. In order to deliver this outcome, the following budgets and budget reductions have been allocated to each directorate:

2013-14 £000s	Directorate		2014-15 £000s	2015-16 £000s	2016-17 £000s	2017-18 £000s	2018-19 £000s
12,072	**Corporate & Chief Executive**	**Target Operating Budget**	**11,120**	**10,735**	**10,735**	**10,735**	**10,735**
		Budget gap	(952)	(385)	0	0	0
41,262	**Children's Services**	**Target Operating Budget**	**40,429**	**39,714**	**37,994**	**37,994**	**37,994**
		Budget gap	(833)	(715)	(1,720)	0	0
20,524	**Community Care Services**	**Target Operating Budget**	**20,114**	**19,712**	**19,712**	**19,712**	**19,712**
		Budget gap	(410)	(402)	0	0	0
13,878	**Development Services**	**Target Operating Budget**	**12,039**	**11,698**	**11,698**	**11,698**	**11,698**
		Budget gap	(1,839)	(341)	0	0	0
21,530	**Infrastructure Services**	**Target Operating Budget**	**19,025**	**18,645**	**18,645**	**18,645**	**18,645**
		Budget gap	(2,505)	(380)	0	0	0

Impact of the Current Economic Climate and Future Cost Pressures

The Council is anticipating the following cost pressures and contingencies in 2013/14 which have been included in the budget –

Cost Pressures and Contingencies	Description	Cost Pressures in 2013/14 budget (£)
Exit Packages	The budget proposals that have been put forward will lead to instances whereby services will be re-designed or service levels are reduced. This will result in reductions in staffing numbers. This cost pressure is the estimated cost of funding exit packages for staff to leave the organisation. The £1.9m has been split between directorates based on likely requirements and will be used to fund directorates up to the level that they have indicated necessary. Any additional costs that might arise will be borne by the directorates' budgets.	£1,900,000
Implementation of service changes within Community Care	A significant amount of work is still required in order to implement the proposed changes to the Council's policies on charging for community care, discretionary top-ups and direct payments. There is a risk that these proposals, which would close the Community Care budget gap by £0.955m in 2013/14, may not be achieved, and therefore a contingency has been set aside to account for this risk.	£955,000
Pay Award	It is anticipated that there will be a pay award of 1% in 2013/14. This represents a cost pressure of £0.950m to the Council based on the current pay bill.	£950,000
Pension Auto-enrolment	A change in legislation means that all staff members will automatically be enrolled in one of the Council's pension schemes as opposed to actively seeking membership. Staff will in future have to actively seek to opt out. As a result of this it is anticipated that only 10% will opt out, increasing costs, as currently a significant number of part time/casual workers are not members of a pension scheme.	£700,000
Organisational Change Fund	The scale of the organisational change required to bring the Council into a financially sustainable position exceeds the existing capacity of the management team. It will therefore be necessary in certain instances to supplement the capacity of management with the temporary use of external specialists.	£500,000
Demographic Pressures	This recognises the ever increasing cost pressure on Community Care resources as Shetland's population demographic continues to show higher numbers of older people.	£260,000
Utilities	Anticipated level of price increases on utility bills during 2013/14.	£225,000
Council Tax Benefit Administration	The new Scottish Government Council Tax Benefit replacement scheme has a £40m funding gap. The Scottish Government has agreed to contribute £23m with the remainder coming from Local Authorities. SIC's share of this cost is approximately £0.100m.	£100,000
COPE	A total of £0.080m is required to fund COPE for 6 months during 2013/14 until alternative arrangements are put in place for proposed changes.	£80,000
Public Toilets	Following the Environment & Transport Special Committee meeting, additional funding for 3 months of all public toilets has been added.	£24,000
Community Council Grant	Ring-fenced funding equal to 30% of Community Councils' existing budgets. This will be granted to Community Councils for specific projects that have been approved by the Council.	£68,000
TOTAL	**The total budget required to cover cost pressures and contingencies in 2013/14.**	**£5,762,000**

In addition, the following challenges are expected over the next 5 years –

- Further real terms reductions in core funding from Scottish Government are anticipated in 2014/15 and beyond as a result of the current economic climate and pressure on public finances;
- Significant reductions in Harbour Account surpluses as a result of the Schiehallion oil field being off-stream until 2016/17 and the payment of the Shetland Towage pension liability;
- Additional recurring costs associated with the introduction of Pension Auto-enrolment which will result in more staff in the pension scheme;
- Ferry fuel and harbour vessel fuel is likely to suffer a significant increase in price from 2014 when new rules are introduced regarding carbon levels in the fuel; and
- Maintenance costs of the new Anderson High School (due to open in August 2016) will be higher than current school. This is because there is currently an under investment in the existing school's maintenance due to the expectation that a new school will be built shortly.

Material Transactions During 2012/13

Pension

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme and the Council has prepared a separate set of financial statements for the Pension Fund.

The impact of the Local Government Pension Scheme and Teachers Superannuation Scheme on the Council's accounts has been disclosed in Notes 33 and 34 to the accounts.

It is worth mentioning that, as at 31 March 2013, the Council's Pension Fund had a net pension liability of £129.250m (2012: £104.524m). This figure represents the amount that actuaries estimate that Shetland Islands Council will have to pay out in future years for all pension entitlements earned by current and previous staff by 31 March 2013, which is currently unfunded.

We continue to monitor and measure this pension liability and make changes to cash contributions as required, as part of the regular assessment made by an independent actuary.

Changes in Accounting Policies

Property, Plant and Equipment

Valuations are now obtained for the last day of the accounting period (i.e. 31 March) as opposed to the previous policy of the first day of the period (i.e. 1 April).

Group Accounts

Whilst there has been no change in accounting policy, there has been a change in accounting treatment of the Shetland Charitable Trust in light of the new governance arrangements at the Trust. On 20 February 2013, a new governance structure took effect, which will result in a new board of 15 Trustees with 7 of those being appointed by the Council.

Having reviewed this change in light of IAS27: *Consolidated and Separate Financial Statements*, the most appropriate accounting treatment is to treat the Shetland Charitable Trust as an associate of the Council, rather than continue with the treatment as a subsidiary (adopted in 2011/12).

Accounting Ratios

CIPFA Scotland Directors of Finance Section has developed a suite of accounting ratios for incorporation into the financial statements. The indicators are intended to support interpretation of the financial statements and explain the Council's financial position and performance.

There are four areas covered by the ratios, namely Reserves, Council Tax, Financial Management and Debt & Borrowing. Not all the ratios are applicable to Shetland Islands Council.

Accounting Ratio	% or £	Explanation
Reserves		
Uncommitted General Fund Reserves as a % of annual budgeted net expenditure	2.5%	Demonstrates the Council's flexibility to meet unanticipated expenditure.
Movement in the Uncommitted General Fund Balance	0%	There has been no movement in the year.
Council Tax		
In-year Collection Rate	96.5%	Demonstrates the Council's effectiveness in collection of local taxation.
Council Tax Income as a % of Overall Funding	7.3%	Demonstrates the funds received from Council Tax as a % of overall funding requirement.
Financial Management		
Actual Outturn as a % of Budget	97.6%	Demonstrates there has been less expenditure than the budget.
Actual Contribution to/from Uncommitted General Fund Balance	£3m	This was the contribution applied and reinstated in 2012/13.
Debt & Borrowing		
Capital Financing Requirement	£51.2m	This is the amount of unfunded capital expenditure mainly on Council housing.
External Debt Levels	£0	There is no external debt held by the Council.
Ratio of Financing Costs to Net Revenue Stream	N/A	Not applicable as the Council has no external debt.
Impact on Capital Investment on Council Tax and Housing Rents	N/A	Not applicable as the Council has no external debt.

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003. In discharging this accountability, elected members collectively, and senior officers individually, are responsible for putting in place proper arrangements for the governance of the Council's affairs, the stewardship of the resources at its disposal and the management of risk.

The Governance Framework

In May 2011 the Council renewed the governance arrangements and the role of committees in decision-making. This is set out within the Council's Constitution, which also sets out the delegated powers of individual officers. The revised Code of Governance was adopted on 20 September 2012 and is consistent with the principles of the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'.

The overall strategic direction, in terms of setting corporate priorities and allocating resources, rests with the full Council advised by the Executive Committee. There are four functional committees: Development, Education and Families, Environment and Transport and Social Services. These committees take decisions within their respective scope of responsibility. A refreshed policy and performance framework underpins the new governance arrangements, including a focus on service prioritisation, resource allocation, performance management and securing efficiencies. The Committees ensure that their decisions are implemented by:

- Drawing up action plans and receiving progress reports;
- Setting and monitoring performance targets; and
- Receiving budget monitoring reports on revenue and capital spend.

The decision-making process is appropriately supported and challenged through the Audit and Standards Committee, with a remit to oversee standards within the Council.

The Chief Executive and Directors, along with the Monitoring Officer and Chief Financial Officer, meet weekly as the Corporate Management Team. Individual Directorates have their own Management Teams. Additionally a new forum called Executive Influence, bringing together all Executive Managers and the Corporate Management Team, meets on a quarterly basis. Every six months there is a wider management team meeting called Executive Influence Plus which comprises the Corporate Management Team, Executive Managers and Team Leaders.