

Report

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Report to:	Executive Committee
Date of Meeting:	7 September 2011
Report by:	Chief Executive

Subject:	2010/2011 Annual Report and Accounts
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ advise of the Council's financial position as included in the unaudited Annual Report and Accounts as at 31 March 2011.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the key information in the Annual Report and Accounts for year ended 31 March 2011, as supplied to PricewaterhouseCoopers LLP for audit, be noted.

3. Background

- 3.1. The Annual Report and Accounts, shows the Revenue Account and Balance Sheet to 31 March 2011. These accounts were submitted for audit, by the statutory deadline of 30 June 2011, to PricewaterhouseCoopers LLP.
- 3.2. 2010/2011 was the first year where the Council's accounts were required to fully comply with International Financial Reporting Standards. This meant changes to accounting treatment and also changes to the core financial statements. In addition, the content and layout of the information included in the Annual Report and Accounts was altered and was supplemented by the inclusion of some new statements.

At the beginning of July, correspondence was issued to all elected members, to inform them of the completion of the Annual Report and Accounts, that the accounts had been lodged with the external auditor and that copies of the unaudited Annual Report and Accounts were with the Group Leaders.

The year end position for 2010/2011, as reflected in the Annual Report and Accounts, was reported to the Executive Committee on 6 July 2011.

3.3. The Annual Report and Accounts as presented for audit comprise the following elements:

- ◆ Introduction by the Council Leader, Chief Executive's Comment and Resources' Reports
- ◆ Statement by the Chair of the Finance and Information Technology Resources Committee
- ◆ Executive Foreword by the Chief Executive
- ◆ Remuneration Report
- ◆ Movement in Reserves Statement

- ◆ Comprehensive Income and Expenditure Statement for the year ended 31 March 2011
- ◆ Balance Sheet as at 31 March 2011 with related statements and notes
- ◆ Statement of Governance and Internal Control
- ◆ Responsibilities for the Statement of Accounts
- ◆ Audit Arrangements

3.4. These elements together provide contextual information on the performance of the Council in terms of service delivery, but also financial information on the position of the Council at the end of financial year 2010/11, a surplus of £2.000 million. Sections 4 and 5 provide a summary of the key points.

3.5. In addition to the accounts and related notes, the Annual Report also contains reports by each of the Resources, which details their achievements for the year.

4. Financial Position

4.1. The Comprehensive Income and Expenditure Statement shows that the Council's total revenue expenditure, taking into account the Net Cost of Services, operating expenditure and the net Financing and Investment expenditure, amounted to £654.529 million in 2010/11. This was met by Council Tax of £127.076 million, General Government Grant of £474.576 million and Non Domestic Rates income of £123.794 million. After implementing statutory accounting practice, the net balance on the Council's Income and Expenditure account was a surplus of £2.000 million. This reflects the overall Council position as reported to the Executive Committee on 6 July 2011.

5. Fund Balances and Reserves

5.1. The Balance Sheet shows net assets (that is Assets such as Property, Investments, Money Owed to the Council and Cash less Liabilities such as Loans Due and Money Owed by the Council) totalling £1,313.348 million. This is supported by Funds and Reserves totalling £1,313.348 million.

5.2. Included in the Funds and Reserves balance is a General Fund balance of £8.476 million, Housing Revenue Account balance of £4.955 million, and a Pension Fund Reserve Liability of (£236.140 million). The Reserves mentioned above are:

5.3. **General Fund Reserve:** In comparison to other Scottish councils, the historic level of unallocated General Fund Reserve, held by the Council, has been low. The Council has instead held funds within specific reserves, for example, the Insurance Fund. However, changing financial circumstances have prompted a specific review of the Council's policy on reserves, the results of which are reflected in the Council's Financial Strategy 2011 to 2014 (Executive Committee 26 May 2010), where it was proposed to increase the unallocated General Fund Reserve balance marginally, if circumstances allow, over the period of the strategy to a range between £7.5 million and £10 million. Following the outturn position for 2010/11, the surplus of £2.000 million was added to the General Fund Reserve thus taking the Reserve to £8.476 million. This was approved at the Executive Committee held on 6 July 2011 and is in line with the previously approved approach.

5.4. **Housing Revenue Account Balance:** The accumulated surplus as at 31 March 2011 is £4.955 million. This reflects the accumulated net balance of the expenditure incurred in the management and investment of the Council's housing stock, and the funding of this by rents, housing support and other income. This balance will be carried forward to future years for use in the management of and investment in the Council's housing stock.

- 5.5. **Pension Fund Reserve:** This reserve reflects the underlying commitments that the authority has in the long run to pay retirement benefits. These commitments are shown as a Pension Liability of £236.140 million.
- 5.6. The required practice of showing a pension liability and an offsetting Pension Reserve is an attempt to replicate private sector accounting treatment of pensions. The Council's liability of £236.140 million has decreased by £264.590 million from the March 2010 position of £500.730 million. This mainly reflects the fact that the discount rate used is the Consumer Price Index rather than the previously used Retail Price Index.
- 5.7. Whilst indicative of a broad position in terms of a pension liability, there are a range of factors inherent in the figure; it should be noted that this position takes no account of any future contributions to the Fund nor of improving performance of the Fund itself. It should also be noted that the Council is not required to take any action on the liability position and indeed the Council continues to meet pension costs on an annual basis.

6. Debt Outstanding – Borrowing

- 6.1. Over recent years, the Council's debt outstanding position has increased mainly due to the level of borrowing required to fund the Primary Schools' Modernisation Programme. This will continue as the funding of the ongoing programme is mainly through Prudential Borrowing. The Council's net debt currently stands at £650.924 million.

7. International Financial Reporting Standards

- 7.1. 2010/11 saw the introduction of the second phase of the implementation of International Financial Reporting Standards (IFRS). This requires Council's to fully implement all elements of the IFRS requirements.
- 7.2. The main IFRS changes relate to the classification and treatment of fixed assets, the requirement to account for the accumulated holiday entitlement of employees, earned but not utilised by 31 March 2011 and the inclusion of the new secondary schools on the Balance Sheet.
- 7.3. These changes have been reflected in the 2010/11 Annual Report and Accounts and to allow comparison, the 2009/10 Core Financial Statements and related notes have been restated to reflect the change in accounting treatment.

8. Next Steps – Audit Arrangements

- 8.1. The Annual Report and Accounts for 2010/11 were submitted for audit by the statutory deadline of 30 June 2011. The audit by PricewaterhouseCoopers LLP is currently underway with a completion date of 30 September 2011. The auditors will then report to all Members as appropriate.

9. Employee Implications

- 9.1. None.

10. Financial Implications

- 10.1. The financial details of the report are contained within sections 4 and 5 above.

11. Other Implications

11.1. The main risk associated with the Council's Revenue Budget is that there is a significant overspend. The risk has been assessed as low given the detailed budget management applied across the Resources. The risk is managed through four weekly Budget Monitoring Meetings at which any variance is analysed. In addition, the probable outturn exercise ensures early warning for corrective action to be taken where appropriate.

12. Equality Impact Assessment and Consultation Arrangements

12.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.

12.2. There is also no requirement to undertake any consultation in terms of the information contained in this report.

Archibald Strang
Chief Executive

15 August 2011

Link(s) to Council Values/Improvement Themes/Objectives

◆ Accountable, Effective and Efficient

Previous References

None

List of Background Papers

◆ South Lanarkshire Council Unaudited Annual Report and Accounts 2010/11.

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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