

MANAGEMENT COMMENTARY

7.7 Significant Trading Operations (STO)

The Local Government in Scotland Act 2003 introduced the requirement to maintain and disclose significant trading operations. Consequently, a trading account has been prepared for the council's only significant trading operation, Economic Development Properties, in accordance with guidance issued by CIPFA/LASAAC.

During 2023/24 the STO achieved an in-year surplus of £1.9 million (£1.5 million 2022/23). In the three years to 31 March 2024 the trading account sustained a statutory aggregate surplus of £4.3 million, therefore achieving the statutory financial requirement to breakeven over a three year period. Note 29 provides further detail.

7.8 Pension Reserve and IAS19

The pensions accounting standard IAS 19 is fully adopted in the accounts and details are available in Statement 8 note 1 on accounting policies. The council's share of the net assets of the Lothian Pension Fund (LPF) in 2023/24 was calculated to be a net asset of £311.8 million at 31 March 2024 (net asset of £325.8 million at 31 March 2023).

Under the International Financial Reporting Interpretations Committee Standard 14 – the Limit on a Defined Benefit Asset (IFRIC 14) the actuary has calculated that the net present value of the future contributions of £2.790 billion exceeds the future service costs of £2.654 billion by £136 million, a negative contribution. As a result of this calculation, IFRIC 14 advises that no defined benefit plan asset should be recognised in the council's balance sheet and there is no requirement to recognise the £136 million difference as a liability. The council has reported £20.040 million as a long term liability in respect of the unfunded pension obligations for 2023/24 (£20.672 million 2022/23 as restated to reflect current guidance).

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The most recent formal valuation date was 31 March 2023 with the subsequent results based on a rollforward from the formal valuation. The council has been part of the LGPS Contribution Stability Mechanism (CSM) since 2013. The Fund, in conjunction with the Actuary reviewed the CSM this year and concluded that the CSM should be suspended for a period of three years with the expectation that it will be reintroduced following the 2026 actuarial valuation. The Fund has provided contribution rates from 1 April 2024 for three years. LPF will continue to monitor the CSM in the intra-valuation period.

The pension surplus has reduced as a result of a combination of

- the corporate bond yield, which the discount rate is derived from, has risen over the period, which has led to a 0.05% increase in this assumption which has reduced the Employer's obligations and led to a gain on the balance sheet.
- investment returns greater than expected leading to a positive impact. The total investment return achieved by the Fund over the accounting period was 6.1%, compared to an expected accounting return of 4.75%.
- the demographic assumptions have changed from the previous accounting period to reflect the latest available longevity information and the results of the 2023 funding valuation exercise.
- the resulting increase in obligations resulting from applying the actual Pensions Increase Order for April 2024 of 6.7%, which was significantly higher than the pension increase rate assumption built into the obligations at the start of the accounting period.

The net asset does not impact on the council's available resources. The figures presented in the actuary's valuation are prepared only for the purposes of IAS19 and have no validity in other circumstances. In particular, they are not relevant for calculations undertaken for funding purposes, and have no impact on the employers' pension contribution rate.

7.9 Other Reserves

The following table details the usable reserves held by the council for the five year period 2019/20 to 2023/24.

Fund	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Committed General Fund	16,875	40,258	50,746	54,905	35,168
Uncommitted General Fund	2,994	2,261	2,081	2,220	2,000
HRA Fund	926	926	926	926	926
Capital Fund	57,917	45,580	38,640	34,929	28,306
Insurance Fund	9,317	7,596	7,307	7,058	6,823
Total	88,029	96,621	99,700	100,038	73,223

The reduction in the Capital Fund of £6.6 million from 2022/23 is a result of the planned usage of the fund to supplement the capital programme. The 2023/24 capital investment programme and treasury management plan agreed and acknowledged the use of the council's capital fund to support investment in General Services assets of £72.2 million as outlined in section 7.5 of this commentary.