

2014-15 Unaudited Financial Statements

1. EXECUTIVE SUMMARY

- 1.1 This covering report gives an overview of the financial statements for 2014-15 and a summary of the significant movements from 2013-14. It also gives information on the revenue outturn for 2014-15 and asks members to note the financial statements for 2014-15. There is a more comprehensive report on the revenue outturn elsewhere on this agenda.
- 1.2 The balance on the General Fund has increased by £2.079m to £46.120m. There are substantial sums earmarked and committed in the General Fund Balance amounting to £30.193m. This leaves an unallocated balance of £15.927m, this represents 6.5% of the Council's budgeted net expenditure for 2015-16.
- 1.3 The total usable reserves including the General Fund Balance, Repairs and Renewals Fund and Capital Funds are £50.531m at 31 March 2015. There are unusable reserves (accounting reserves not backed by resources) of £110.479m at 31 March 2015.
- 1.4 Overall the performance against budget was an underspend of £2.125m for 2014-15. There was an overspend in Departmental costs of £0.997m this was more than offset by Central/Non-Departmental Costs being underspent by £2.240m and increased funding of £0.882m.
- 1.5 The total Comprehensive Income and Expenditure Statement is based on International Financial Reporting Standards accounting requirements which produces an outturn which is different than that reported to management. The statement shows a surplus on the provision of services of £4.634m, a deficit on the revaluation of Long Term Assets of £0.774m and an actuarial loss on the pension fund assets/liability of £17.675m giving an accounting deficit of £13.815m. This does not represent a decrease in available resources for the Council to spend.
- 1.6 Looking at the Balance Sheet the net worth of the Council has consequently reduced by £13.815m from £174.825m at 31 March 2014 to £161.010m at 31 March 2015. This is a reduction in the accounting worth of the Council explained by increases in long term assets and current assets being more than offset by a significant increase in the pension fund liability of £26.401m.

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2. INTRODUCTION

2.1 This covering report gives an overview of the financial statements for 2014-15 and a summary of the significant movements from 2013-14. It also gives information on the revenue outturn for 2014-15.

3. RECOMMENDATIONS

3.1 Members note the unaudited accounts.

4. DETAIL**4.1 Introduction**

4.1.1 There is a statutory requirement to prepare a set of Accounts and submit the Accounts to the Controller of Audit and the Council. The date set by the Scottish Government for submission of the Accounts is 30 June of each year.

4.1.2 It should be noted that the Accounts have still to be audited. The Audit Committee at its meeting in September will be advised by the external auditor of any material issues coming to light during the audit and any changes to the Accounts. The Audited Accounts, Audit Certificate and Auditors final report will be submitted to the November meeting of the Council. Figures are therefore subject to change.

4.1.3 Since 2010-11 Local Authorities have been required to prepare financial statements following International Financial Reporting Standards (IFRS). Under the Local Authority Accounts (Scotland) Regulations 2014 there is a requirement to replace the Explanatory Forward with a Management Commentary for accounts prepared in 2014-15. The financial statements comprise:

- Management Commentary (Replaces the Explanatory Forward)
- Statement of Responsibilities for the Statement of Accounts
- Statement of Governance and Internal Control
- Remuneration Report
- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information (includes Council Tax and NDR Income Accounts), and
- Group Accounts

4.1.4 There are no significant changes in accounting policies in 2014-15.

4.2 Management Commentary

4.2.1 The Management Commentary provides an overview of the key points in relation to the Financial Statements and a summary of the Council's performance for the year.

4.3 Statement of Responsibilities for the Statement of Accounts

4.3.1 The Statement of Responsibilities for the Statement of Accounts specifies the Council's responsibilities and also the responsibilities of the Head of Strategic Finance in respect of the Financial Statements.

4.4 Statement of Governance and Internal Control

4.4.1 In the Statement of Governance and Internal Control the Council states its view on the adequacy of its governance and internal control system. The statement concludes the system of governance and internal controls is operating effectively and outlines the reasons for that conclusion.

4.5 Remuneration Report

4.5.1 The Remuneration Report gives details of the remuneration policy, remuneration and pension benefits of senior councillors and senior officers and employee exit packages.

4.6 Statement of Movement in Reserves

4.6.1 The Council reserves are split into Usable and Unusable Reserves. Usable reserves are those which are backed by actual resources and can be applied to fund expenditure or reduce local taxation. Unusable reserves are not backed by resources and are required purely for accounting purposes, these reserves do not represent resources available for the Council to utilise.

4.6.2 The total Council reserves have decreased from £174.825m at 31 March 2014 to £161.010m at 31 March 2015, a decrease of £13.815m. This reflects the Total Comprehensive Income and Expenditure of the Council shown in the Statement of Comprehensive Income and Expenditure.

4.6.3 Unusable Reserves have decreased by £15.820m to £110.479m as result of a deficit on the revaluation of fixed assets of £0.774m, a charge of £17.675m in respect of Other Post-Employment Benefits (Pensions) partially offset by Statutory Adjustments of £2.470m.

4.6.4 The statutory adjustments amounting to £2.470m are made between Council reserves to reflect the correct charge to Council Tax for the year. In summary this adjustments represent the difference between:

- Principal repayment to the loans fund and the depreciation or amortisation of fixed assets, government grant and any gain/loss on sale of assets.
- Cash paid as pension contributions and the costs charged in accordance with IAS19.

- Statutory calculation of finance costs and the charges calculated 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.

4.6.5 The Usable Reserves have increased by £2.005m to £50.531m. The main reason for this is an increase in the General Fund Balance of £2.079m.

4.7 General Fund Balance

4.7.1 The balance on the General Fund at 31 March 2015 stands at £46.120m compared to £44.041m at 31 March 2014 an increase of £2.079m. The unallocated General Fund Balance stands at £15.927m at 31 March 2015. The Council has a policy of maintaining a minimum unallocated contingency balance in the General Fund equivalent to 1.5% of net revenue expenditure (£3.658m). This leaves a residual balance which has been earmarked for delivery of the Single Outcome Agreement of £12.269m. There are a range of balances earmarked within the General Fund, these total £30.193m and are laid out in the table below, there is a more comprehensive report on earmarking elsewhere on this agenda:

| Earmarking Category | Balance at 31 March 2015 £m |
|--|--|
| Strategic Housing Fund (Council Tax on Second Homes) | 7.672 |
| Unspent Grants | 0.801 |
| Contributions Carried Forward | 0.203 |
| Unspent Budget Carried Forward | 8.039 |
| School Budget Carry Forwards | 0.737 |
| Unspent Budget Required for Existing Legal Commitments | 0.145 |
| CHORD | 0.096 |
| Revenue Contribution to Capital | 3.000 |
| Investment in Affordable Housing | 9.500 |
| Total Earmarked Balance at 31 March 2015 | 30.193 |

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

| | £m |
|---|---------------|
| Balance on General Fund 31 March 2014 | 44.041 |
| Release of sums previously earmarked to service budgets 2014-15 | (5.925) |
| Contributions to earmarked reserves 2014-15 | 4.919 |
| Supplementary Estimates agreed during 2014-15 | (0.060) |
| Budgeted Contribution to General Fund Balance 2014-15 | 1.020 |
| Overall budget underspend | 2.125 |
| Balance on General Fund 31 March 2015 | 46.120 |

4.7.3 The release of sums already earmarked to service budgets of £5.925m consists of amounts previously earmarked for specific purposes, including unspent budget within the Devolved Management of Resources Scheme of Delegation for Schools, Strategic Housing Fund payment and unspent grant and third party contributions required for specific purposes.

4.8 Performance Against Budget

4.8.1 Overall, the performance against budget was an underspend of £2.125m (0.85%) for financial year 2014-15.

4.8.2 The table below is a summary of the year-end actual expenditure compared to the annual budget. More detail can be found in the Revenue Budget Monitoring – for the Year 2014-15 Corporate Overview Report.

| | (over) /under spend £m | % age of annual budget % |
|--|---|---|
| Chief Executive's Unit | 0.010 | 0.47% |
| Community Services | (0.134) | -0.10% |
| Customer Services | 0.992 | 2.60% |
| Development and Infrastructure Services | (1.865) | -6.03% |
| Total Departmental Controllable Expenditure | (0.997) | -0.48% |
| Joint Boards | 0.029 | 2.10% |
| Severance and Unfunded Pensions Costs | (0.703) | -46.15% |
| Loan Charges | 0.698 | 2.47% |
| Other | 2.216 | 26.96% |
| Total Central/Non Departmental Expenditure | 2.240 | 5.64% |
| Total Expenditure | 1.243 | 0.50% |
| Funding | 0.882 | 0.35% |
| Outturn Total | 2.125 | 0.85% |

4.8.3 The main reasons for the Departmental Budget Outturn an overspend of £0.997m are:

- Development and Infrastructure Services is overspent by £1.865m which is mainly in relation to winter maintenance, coastal protection costs and emergency road works. These have been partly offset by additional vacancy savings
- Community Services is overspent by £0.134m which is as a result of an overspend in the Education Service which is partly offset by an underspend within Adult Care
- Customer Services are reporting an underspend of £0.991m which is mainly due to procurement savings in School and Public Transport and the over-recovery of vacancy savings

4.8.4 The main reasons for the underspend in Central/Non-Departmental costs of £2.240m are:

- Severance and Unfunded Pension Costs was overspent by £0.703m as all the redundancy and retirement packages agreed by 31 March 2015 have been accounted for in 2014-15 even if the employee is planned to leave in future years.
- Loan Charges are £0.699m under budget due to income from investments.
- Other Costs were £2.216m below budget due to:
 - An underspend on utility costs of £1.237m
 - The provision for Equal Pay Claims was reduced by £0.218m.
 - The Council collected a total of £0.506m from the double Council Tax charge on empty homes. This balance was agreed to be earmarked for allocation by Area Committees. As part of Service Choices and the overall budget strategy there is a recommendation not to earmark this balance and instead credit any additional income collected to the General Fund. Of the £0.506m collected in 2014-15, £0.150m has already been allocated to a project in Campbeltown with £0.119m of this balance remaining unspent and required to be earmarked and carried forward into 2015-16. Therefore for 2014-15 there would be a total of £0.356m collected which would not be earmarked.

4.8.5 The performance against budget for Funding was a net underspend/over-recovery of income of £0.882m. This was as a result of:

- There is a year-end favourable position in relation to Council Tax of £0.744m (1.74%) where collections have exceeded the budget. This is mainly in relation to increased collections on older years of Council Tax.
- There is an over-recovery of income in relation to Scottish Government funding of £0.138m. This is in relation to the Scottish Government allocation of additional monies to fund the Council Tax Reduction Scheme.

4.9 Comprehensive Income and Expenditure Statement

4.9.1 The Council ended the year with a deficit of £13.815m for 2014-15, this is the accounting deficit based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure comprises of a surplus on the provision of services of £4.634m, reduced by a deficit on the revaluation of Long Term Assets of £0.774m and an actuarial loss on the pension fund assets/liability of £17.675m.

4.9.2 The surplus on the provision of services of £4.634m compares to a surplus of £1.694m for 2013-14. The main factors contributing to these changes are as follows:

- Taxation and Non-Specific Grant Income increased from £258.459m to £265.688m an increase of £7.229m (2.8%). This increase in income reflects a general year on year decrease in General Government Grants and increases in Council Tax income, Non-domestic Rates income and Government Capital Grants.
- Financing and Investment Income and Expenditure decreased by £1.165m (5.3%) due to a rise in interest and investment income.

- Other Operating Income and Expenditure decreased from £1.071m in 2013-14 to £0.874m in 2014-15 a decrease of £0.197m (18.4%). This is due to a gain on disposal of long term assets.

4.10 Balance Sheet

- 4.10.1 As indicated above the accounting net worth of the Council has decreased by £13.815m from £174.825m at 31 March 2014 to £161.010m at 31 March 2015.
- 4.10.2 The value of long term assets has increased from £514.498m at 31 March 2014 to £525.583m at 31 March 2015, an increase of £11.085m (2.2%). This comprises the net of capital expenditure in the year less the value of fixed assets disposed and downward revaluation of fixed assets.
- 4.10.3 Total current assets have increased from £57.652m at 31 March 2014 to £71.143m at 31 March 2015 an increase of £13.491m. The main reason for this being an increase in Cash and Cash Equivalents of £17.771m from £6.075m at 31 March 2014 to £23.846m at 31 March 2015.
- 4.10.4 Total current liabilities have increased from £48.746m at 31 March 2014 to £72.694m at 31 March 2015 an increase of £23.948m. Short term borrowing has increased by £22.270m from £11.442m at 31 March 2014 to £33.712m at 31 March 2015 and Short term creditors have increased by £2.566m from £32.982m to £35.548m.
- 4.10.5 Overall, long term liabilities have increased from £348.579m at 31 March 2014 to £363.022 at 31 March 2015. The increase of £14.443m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £118.337m to £144.738m (£26.401m) partly offset by a reduction in Borrowing Repayable within a period in excess of 12 Months of £10.068m.

4.11 Cash Flow Statement

- 4.11.1 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The Cash and Cash Equivalents balance increased by £17.771m. The Net Cash Flows from Operating Activities have increased by £8.206m which represents a decrease in the Councils expenditure being funded from taxation and grant income.
- 4.11.2 Cash outflows for Investment Activities have decreased from £10.133m during 2013-14 to £8.227m in 2014-15, as a result of a decrease in the purchase of long term assets and year on year reduction in the value of surplus cash investments made during the year. Cash flows from Financing Activities were an outflow of £0.995m during 2013-14 and an inflow of £12.457m during 2014-15, this change relates to £13.452m of other receipts from financing activities during 2014-15 which was in relation to Short and Long Term Borrowing.

4.12 Notes to Accounts

- 4.12.1 The Notes section gives further information and explanation to some of the key figures included in the accounts some of which are summarised below.

4.12.2 The significant future financial commitments arising from the Waste Management PPP and Schools NPDO PPP are summarised in notes 10 and 18.3. The Council is committed to future payments of £71.037m over the period to 2027 for the Waste PPP and £312.705m over the period to 2035 for the Schools NPDO PPP.

4.13 Council Tax Income Account

4.13.1 Income taken to the General Fund for council tax in 2014-15 amounted to £43.371m compared to £42.066m in 2013-14. This is an increase of £1.305m (3.1%).

4.13.2 The discounts and valuation which decreased by £0.953m from £13.560m in 2013-14 to £12.607m in 2014-15. There was minimal change to the provision for bad and doubtful debts. There was a minimal decrease in the amount recovered from council tax on second homes.

4.13.3 In 2014-15 council tax rates were frozen at 2013-14 levels of £1,178 for a band D dwelling.

4.14 Non Domestic Rate Income Account

4.14.1 Non Domestic Rate Income amounted to a share of £31.002m for 2014-15 allocated from the national pool. This compares to £28.492m in 2013-14. Our own net income amounted to £29.802m and we received a contribution from the national pool of £1.200m for 2014-15. These figures compared to income of £28.384m and a contribution from the national pool of £0.108m for 2013-14.

4.15 Capital Expenditure and Borrowing

4.15.1 Details of capital expenditure are as follows:

| | £'m | £'m |
|---|--------|---------------|
| Gross Capital Expenditure | | 36.281 |
| Less: | | |
| Capital Receipts | 0.148 | |
| Government Grants and Other Contributions | 16.438 | |
| Revenue Contributions | 1.241 | |
| | <hr/> | 17.827 |
| Balance Funded from Borrowing | | 18.454 |

4.15.2 The capital financing requirement at 31 March 2015 was £256.079m. This was financed as follows:

| | £'m |
|--------------------------------------|----------------|
| Long Term Borrowing | 131.180 |
| Short Term Borrowing | 42.198 |
| Schools NPDO Finance Lease Liability | 77.871 |
| Internal Funds | 4.830 |
| Capital Financing Requirement | 256.079 |

The external borrowing of the Council at 31 March 2015 amounted to £173.378m. The majority of this was financed by the Public Works Loan Board (£100.221m), with the remainder coming mainly from the money market.

- 4.15.3 During the year the Council completed £20.547m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £8.350m.

4.16 Group Accounts

- 4.16.1 For 2014-15 the Council is required to prepare Group Accounts. The Group Accounts comprise of a Statement of Movement in Reserves, a Comprehensive Income and Expenditure Statement, a Balance Sheet and notes. The group accounts incorporate Common Good Funds as subsidiaries and the Valuation Joint Board as an associate.

5. CONCLUSION

- 5.1 The unaudited financial statements have been prepared in accordance with professional and statutory requirements. The General Fund Balance has increased by £2.079m. The year-end outturn was £2.125m better than budgeted. The net worth per the balance sheet reduced by £13.815m to £161.010m. Overall the financial position of the Council remains stable.

6. IMPLICATIONS

- | | | |
|-----|--------------------|--|
| 6.1 | Policy – | None. |
| 6.2 | Financial - | None. No decision required on this report as it summarises the financial position for 2014-15. |
| 6.3 | Legal - | None. |
| 6.4 | HR - | None. |
| 6.5 | Equalities - | None. |
| 6.6 | Risk - | None. |
| 6.7 | Customer Service - | None. |

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Appendix 1 – Unaudited Financial Statements 2014-15.