

2015-16 UNAUDITED ANNUAL ACCOUNTS

1. EXECUTIVE SUMMARY

- 1.1 This covering report gives an overview of the Unaudited Annual Accounts for 2015-16 and a summary of the significant movements from 2014-15. It also gives information on the revenue outturn for 2015-16 and asks members to approve the unaudited financial statements for 2015-16 for issue. 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 £6.122m from £46.067m as at 31 March 2015 to £52.189m as at 31 March 2016. There are substantial sums earmarked within the General Fund amounting to £43.272m. The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2016-17 and this amounts to £4.743m. The unallocated General Fund balance **after** the 2% contingency amounts to £4.174m.
- 1.3 The balance of usable reserves has increased by £6.409m from £50.478m as at 31 March 2015 to £56.887m as at 31 March 2016. This is mainly as a result of the increase to the General Fund Balance of £6.122m in addition to an increase in the Capital Fund.
- 1.4 The balance of unusable reserves has increased by £35.725m from £110.479m as at 31 March 2015 to £146.204m as at 31 March 2016. The main reasons for this increase relates to the reduction in the pension fund reserve which matches the pensions liability, offset by the downward revaluation of the schools as noted above (under Long Term Assets) which is charged to the capital adjustment account.
- 1.5 The Comprehensive Income and Expenditure statement shows a deficit on the provision of services of £19.653m, a surplus on the revaluation of Long Term Assets of £0.578m and an actuarial gain on the pension fund assets/liability of £61.209m giving an accounting surplus of £42.134m. This does not represent an increase in available resources for the Council to spend.
- 1.6 The Balance Sheet shows that the net worth of the Council has increased to £203.091m compared to a net worth at 31 March 2015 of £160.957m. The main reason for this increase relates to the reduction in the pension liability as a result of an increase in the net discount rate over the period. An increase in the net discount rate will decrease the assessed value of liabilities as a lower value is placed on benefits paid in the future.
- 1.7 The performance against budget for financial year 2015-16 was an overall

underspend of £1.384m (0.55%). There was a net overspend of £0.074m in relation to departmental expenditure and a net underspend of £0.975m in relation to other central/non-departmental costs. The remainder of the underspend of £0.483m is in relation to funding and the over-recovery of Council Tax income. Included within the overall underspend are a number of one-off budget underspends which are unlikely to be recurring in future years.

- 1.8 Members are asked to approve the Unaudited Annual Accounts for the year ended 31 March 2016 for issue.

2015-16 UNAUDITED ANNUAL ACCOUNTS

2. INTRODUCTION

- 2.1 This covering report gives an overview of the Unaudited Annual Accounts for 2015-16 and a summary of the significant movements from 2014-15. It also gives information on the revenue outturn for 2015-16 and asks members to approve the unaudited financial statements in respect of 2015-16 for issue. There is a more comprehensive report on the revenue outturn elsewhere on this agenda.

3. RECOMMENDATIONS

- 3.1 Members approve the Unaudited Annual Accounts for the year ended 31 March 2016 for issue.

4. DETAIL**4.1 Introduction**

- 4.1.1 The Annual Accounts set out the financial statements of the Council and its group for the year ended 31 March 2016. Its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. 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). The 2015-16 Accounts have been prepared in accordance with this Code.
- 4.1.2 There is a statutory requirement to prepare a set of Accounts and submit them to the Council and the Controller of Audit. The date set by the Scottish Government for the submission of the Unaudited Annual Accounts is 30 June each year.
- 4.1.3 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.
- 4.1.4 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 include a Management Commentary in the Accounts. The contents of the Annual Accounts are noted below:

- Management Commentary
- Statement of Responsibilities for Annual Accounts
- Annual Governance Statement
- Remuneration Report
- Statement of Movement in Reserves
- Statement of Comprehensive Income and Expenditure
- Balance Sheet
- Cash Flow Statement
- Notes to the Financial Statements
- Council Tax and Non-Domestic Rate Income Accounts
- Group Accounts

4.1.5 There are no significant changes in accounting policies in 2015-16.

4.1.6 The Council also produces a set of summary accounts for 2015-16 and these are included as a separate item on the agenda.

4.2 Management Commentary

4.2.1 The Management Commentary outlines the key messages regarding the objectives and strategy of the Council and its financial performance for the year. It also looks forward, outlining the future financial plans for the organisation and the challenges and risks which are faced in making Argyll and Bute a place where people want to live, learn, work and do business.

4.2.2 The management commentary has been re-written this year to reflect guidance and feedback from Audit Scotland. It contains the following sections:

- Introduction
- Objective and Strategy of the Council
- Performance against our Priorities
- Finance Performance 2015-16
- Key Financial Indicators
- Plans for the Future
- Conclusion
- Acknowledgements.

4.3 Statement of Responsibilities for Annual Accounts

4.3.1 The Statement of Responsibilities for the Annual Accounts outlines the Council's responsibilities and also the responsibilities of the Head of Strategic Finance.

4.4 Annual Governance Statement

4.4.1 The Governance Statement states its view on the adequacy of its governance and internal control system. It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council during 2015-16 and that there are no significant weaknesses.

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 in addition to detail on employee exit packages.

4.6 Statement of Movement in Reserves

4.6.1 This Statement shows the movement on the different reserves held by the Council, analysed into usable reserves (resource backed reserves which can be used to fund expenditure) and unusable reserves (required purely for accounting purposes and are not backed by resources).

4.6.2 The total Council reserves have increased from £160.957m at 31 March 2015 to £203.091m at 31 March 2016, an increase of £42.134m. This reflects the Total Comprehensive Income and Expenditure of the Council shown in the Statement of Comprehensive Income and Expenditure.

4.6.3 The balance of unusable reserves has increased by £35.725m from £110.479m as at 31 March 2015 to £146.204m as at 31 March 2016. The main reasons for this increase relates to the reduction in the pension fund reserve which matches the pensions liability, offset by the downward revaluation of the schools as noted above (under Long Term Assets) which is charged to the capital adjustment account.

4.6.4 The balance of usable reserves has increased by £6.409m from £50.478m as at 31 March 2015 to £56.887m as at 31 March 2016. This is mainly as a result of the increase to the General Fund Balance of £6.122m in addition to an increase in the Capital Fund.

4.6.5 In respect of the General Fund Balance movement, there were £6.518m of earmarked reserves released to services and spent during 2015-16 and supplementary estimates of £0.039m drawn down for the Waverley and Hebridean Air Services. The contributions to earmarked reserves amount to £11.141m and there was a budgeted contribution of £0.154m agreed as part of the 2015-16 budget. The overall underspend on the revenue budget amounted to £1.384m which is transferred to the General Fund balance. All these factors contribute to the increase in the General Fund balance as noted below:

	£000
Balance on General Fund 31 March 2015	46,067
Released sums earmarked to service budgets 2015-16	(6,518)
Supplementary Estimates agreed during 2015-16	(39)
Contributions to earmarked reserves 2015-16	11,141
Budgeted contribution to General Fund 2015-16	154
Overall budget underspend as above	1,384
Balance on General Fund 31 March 2016	52,189

4.6.6 The General Fund balance at 31 March 2015 was £46.067m, of this a total of £30.193m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2016 amounts to £43.272m and Note 5 on page 70 provides further detail of the movement. There is also a separate report on Earmarked Reserves.

4.6.7 The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2016-17. This contingency is held to provide a working balance to help cushion the impact of uneven cash flows and cushion the impact of unexpected events. The unallocated General Fund balance after the 2% contingency amounts to £4.174m as noted below:

	£000
Balance on General Fund 31 March 2016	52,189
Earmarked Balances at 31 March 2016 (as per Earmarked Reserves report)	(43,272)
Contingency Balance increased 2.0% of net expenditure	(4,743)
Unallocated balance as at 31 March 2016	4,174

4.7 Statement of Comprehensive Income and Expenditure

4.7.1 The statement of comprehensive income and expenditure shows the accounting cost of providing services rather than the amount to be funded from taxation. The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the budgetary outturn in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2015-16 (The Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2015.

4.7.2 The Council ended the year with a surplus of £42.134m for 2015-16, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure comprises of a deficit on the provision of services of £19.653m, reduced by a surplus on the revaluation of Long Term Assets of £0.578m and an actuarial gain on the pension fund assets/liability of £61.209m.

4.7.3 The deficit on the provision of services of £19.653m compares to a surplus of £4.581m for 2014-15. The main factors contributing to this change is an increase in the Net Cost of Services of £23.864m (10.0%) as result of the impairment of Campbeltown Grammar School, Oban High School and Kirn Primary School which are due to be replaced by new schools.

4.7.4 The table below, sets out a reconciliation of the Deficit/(Surplus) on the provision of services of £19.653m as noted in the Statement of Comprehensive Income and Expenditure to the revenue budgetary outturn of £1.834m (underspend).

	£m	£m
Deficit on Provision of Services		(19.653)
Add Back:		
Depreciation	10.721	

Impairments of Asset charged to Services	25.006	
Interest Expense	21.617	
Pension Adjustment	10.912	
Other	0.846	
		69.102
Less:		
Loans Charges	(20.002)	
Capital Funding	(16.922)	
		(36.924)
Surplus on Revenue		12.525
Less: Earmarkings Carried Forward		(11.141)
Revenue Budgetary Outturn Reported to Management - Surplus		1.384

4.8 Balance Sheet

- 4.8.1 The balance sheet summaries the Council's assets as at 31 March 2016 and it is accompanied by explanatory notes. The net worth of the Council has increased to £203.091m compared to a net worth at 31 March 2015 of £160.957m, an increase of £42.134m. The main reason for this increase relates to the reduction in the pension liability as a result of an increase in the net discount rate over the period. An increase in the net discount rate will decrease the assessed value of liabilities as a lower value is placed on benefits paid in the future.
- 4.8.2 The value of long term assets has decreased from £527.060m at 31 March 2015 to £506.105m at 31 March 2016, a decrease of £20.955m (4.0%). The main reason for the decrease is due to the impairment of Oban High School, Campbeltown Grammar School and Kirn Primary School to reflect the reduction in the useful life of the asset as these schools are due to be replaced by new schools.
- 4.8.3 Total Current Assets has decreased from £71.119m as at 31 March 2015 to £64.036m at 31 March 2016. The main reason for this decrease relates to the amount of cash that was held at the yearend due to external debt having been repaid and not replaced.
- 4.8.4 Total current liabilities have decreased from £72.740m as at 31 March 2015 to £55.096m as at 31 March 2016. The main reason for this reduction is due to the repayment of external debt which had a life of less than one year.
- 4.8.5 Overall, long term liabilities have decreased from £364.482m at 31 March 2015 to £311.954m at 31 March 2016. The decrease of £52.528m is primarily due to the decrease in the IAS19 valuation of the pension scheme liability from £144.738m to £94.441m (£50.297m).

4.9 Cash Flow Statement

4.9.1 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. This is analysed into Operating, Investing and Financing Activities. The Cash and Cash Equivalents balance reduced by £15.906m to £7.940m. The operating activities generated cash of £11.802m this increase was partly offset by the purchase of assets under the investment activities which saw an out flow of £9.799m.

4.9.2 In terms of the financing activities the Council made a net repayment of external borrowing of £17.909m during the year to reduce its interest payments on the debt.

4.10 Notes to the Financial Statements

4.10.1 The notes section provides further information and explanation on some of the key figures included within the Accounts. The notes conform to the guidance issued by CIPFA/LASAAC within the Code of Practice on Local Authority Accounting.

4.11 Council Tax Income Account

4.11.1 The Council Tax Income Account shows the gross income raised from council tax levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement.

4.11.2 Council tax rates have been frozen at 2007-08 levels with the Band D rate being £1,178.

4.11.3 The income transferred to the General Fund for Council tax in 2015-16 was £43.373m. This compared to £43.371m in 2014-15.

4.12 Non Domestic Rate Income Account

4.12.1 The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate non-Domestic Rate Account.

4.12.2 Non Domestic Rate Income amounted to a share of £27.840m for 2015-16 allocated from the national pool. This compares to £31.002m in 2014-15. Our own net income amounted to £31.191m and we made a contribution to the national pool of £3.351m for 2015-16. These figures compared to income of £29.802m and a contribution from the national pool of £1.200m for 2014-15.

4.13 Group Accounts

4.13.1 Argyll and Bute Council Group comprise the following entities:

- Argyll and Bute Council
- Dunbartonshire and Argyll and Bute Valuation Joint Board
- Strathclyde Partnership for Transport

- Strathclyde Concessionary Travel Scheme Joint Committee.

In addition, the council's Common Good Funds have been fully consolidated into the Group Accounts.

4.13.2 The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £7.783m. This gives an overall net asset position for the Group of £210.874m, an increase of £43.140m over the previous financial year. As with the single entity Balance Sheet, the increase is mainly due to the decrease in the Pension Liability.

4.14 Performance Against Budget

4.14.1 The performance against budget for financial year 2015-16 was an overall underspend of £1.384m (0.55%), after adjusting to reflect the new amounts earmarked by departments at the year end. There was a net overspend of £0.074m in relation to departmental expenditure and a net underspend of £0.975m in relation to other central/non-departmental costs. The remainder of the underspend of £0.483m is in relation to funding and the over-recovery of Council Tax income. A summary of the final outturn position is noted within the table below:

Final Outturn Variance (Un-audited)				
2015-16				
Department	Actuals	Budget	Variance	
		Adjusted for Earmarking	(Overspend) Underspend	% age
	£	£	£	
Chief Executive's Unit	2,166,866	2,169,953	3,087	0.14%
Community Services	84,255,041	84,692,627	437,586	0.52%
Customer Services	37,895,604	38,110,876	215,272	0.56%
Development and Infrastructure Services	33,220,057	33,253,215	33,159	0.10%
Integration Services	57,769,324	57,005,844	(763,480)	-1.34%
Total Dept Controllable Expenditure	215,306,892	215,232,515	(74,377)	-0.03%
Joint Boards	1,345,998	1,351,980	5,982	0.44%
Loans Charges	20,001,921	21,373,436	1,371,515	6.42%
Pension Costs	2,983,857	1,904,249	(1,079,608)	-56.69%
Other	1,924,036	2,601,450	677,414	26.04%
Total Central/Non Dept Expenditure	26,255,812	27,231,115	975,304	3.58%
Total Expenditure	241,562,703	242,463,630	900,927	0.37%
Total Funding	254,088,300	253,605,550	482,750	0.19%
UNDERSPEND			1,383,677	

5. CONCLUSION

5.1 The Unaudited Annual Accounts have been prepared in accordance with professional and statutory requirements. The General Fund Balance has increased by £6.122m, which includes the revenue year-end outturn being

£1.384m better than budgeted. The net worth per the balance sheet increased by £42.134m to £203.091m. Overall the financial position of the Council remains stable.

6. IMPLICATIONS

6.1	Policy –	None.
6.2	Financial -	None, summarises the financial position for 2015-16.
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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20 June 2016

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For further information please contact Peter Cupples, Finance Manager Corporate Support 01546-604183.

Appendix 1 – Unaudited Annual Accounts 2015-16.