

**2016-17 UNAUDITED ANNUAL ACCOUNTS**

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**1. EXECUTIVE SUMMARY**

- 1.1 This covering report gives an overview of the Unaudited Annual Accounts for 2016-17 and a summary of the significant movements from 2015-16. It also gives information on the revenue outturn for 2016-17 and asks Members to approve the unaudited financial statements in respect of 2016-17 for issue. There is a more comprehensive report on the revenue outturn elsewhere on this agenda.
- 1.2 The Comprehensive Income and Expenditure statement shows a deficit on the provision of services of £4.998m, a surplus on the revaluation of Long Term Assets of £1.290m and an actuarial loss on the pension fund assets/liability of £48.407m giving an accounting deficit of £52.115m.
- 1.3 The Balance Sheet shows that the net worth of the Council has decreased to £151.204m compared to a net worth at 31 March 2016 of £203.319m. The main reason for this decrease relates to the increase in the pension liability as a result of a decrease in the net discount rate over the period. A decrease in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future.
- 1.4 The balance of unusable reserves has decreased by £53.449m from £146.204m as at 31 March 2016 to £92.755m as at 31 March 2017. The main reasons for this decrease relates to the increase in the pension fund reserve which matches the pensions liability.
- 1.5 The balance of usable reserves has increased by £1.334m from £57.115m as at 31 March 2016 to £58.449m as at 31 March 2017. This is mainly as a result of the increase to the General Fund Balance of £1.072m in addition to small increases in the Capital Fund and the Repairs and Renewals Fund.
- 1.6 The balance on the General Fund has increased by £1.072m from £52.417m as at 31 March 2016 to £53.489m as at 31 March 2017. There are substantial sums earmarked within the General Fund amounting to £41.509m in addition to £4m that has been set aside for budget smoothing in 2019-20. The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2017-18 and this amounts to £4.671m. The unallocated General Fund balance **after** the 2% contingency amounts to £3.309m.
- 1.7 The performance against budget for financial year 2016-17 was an overall underspend of £2.883m (1.16%) after adjusting to reflect the new amounts

earmarked by departments at the year end. There was a net underspend of £1.083m in relation to departmental expenditure and a net underspend of £1.066m in relation to other central/non-departmental costs. The remainder of the underspend of £0.779m is in relation to funding and the over-recovery of Council Tax income. The year-end underspend was largely expected and planned for during the year.

- 1.8 Members are asked to approve the Unaudited Annual Accounts for the year ended 31 March 2017 for issue.

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**2. INTRODUCTION**

- 2.1 This covering report gives an overview of the Unaudited Annual Accounts for 2016-17 and a summary of the significant movements from 2015-16. It also gives information on the revenue outturn for 2016-17 and asks Members to approve the unaudited financial statements in respect of 2016-17 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 2017 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 2017. 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 2016-17 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
- Expenditure and Funding Analysis
- Statement of Comprehensive Income and Expenditure
- Balance Sheet
- Statement of Movement in Reserves
- 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 2016-17.

4.1.6 The Council also produces a set of summary accounts for 2016-17 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 updated to reflect 2016-17 performance and also includes detail on the plans for the future which includes the development of the medium to longer term financial strategy and the work being taken forward by the Transformation Board. The commentary includes the following:

- Objectives and Strategy of the Council
- Performance against our Priorities
- Finance Performance 2016-17
- Key Financial Indicators
- Plans for the Future.

## **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 2016-17 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 Expenditure and Funding Analysis**

- 4.6.1 The expenditure and funding analysis is a new statement this year. It shows how the Council funding is spent across services. It also compares to the expenditure shown in statement of comprehensive income and expenditure and details the differences between the two. The differences are as a result of accounting statutory adjustments that are required within the statement of comprehensive income and expenditure, for example, depreciation, pension adjustments etc.

## **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 2016-17 (The Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2017.
- 4.7.2 The Council ended the year with a deficit of £52.115m for 2016-17, 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 deficit on the provision of services of £4.998m, reduced by a surplus on the revaluation of Long Term Assets of £1.290m and increased by an actuarial loss on the pension fund assets/liability of £48.407m.
- 4.7.3 The deficit on the provision of services of £4.998m compares to a deficit of £19.425m for 2015-16. The main factors contributing to this change is a decrease in the Net Cost of Services of £23.484m (8.9%), a decrease in financing and investment income and expenditure of £3.337m, offset by a decrease in the overall funding of £12.485m.
- 4.7.4 The table below, sets out a reconciliation of the Deficit/(Surplus) on the provision of services of £4.998m as noted in the Statement of Comprehensive Income and Expenditure to the revenue budgetary outturn of £2.883m (underspend).

	£000	£000
<b>Deficit on Provision of Services</b>		<b>4,998</b>
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	(23,261)	
Impairments of Asset charged to services	(1,993)	
Capital Funding	11,375	
Pension Adjustment	(6,929)	
Statutory Repayment of Debt	13,958	
Transfers to/from Other Statutory Reserves	271	
Other Adjustments	509	(6,070)
<b>Movement In General Fund Balance</b>		<b>(1,072)</b>
Adjust for earmarkings:		
Released sums earmarked to service budgets 2016-17	(8,614)	
Supplementary estimates agreed during 2016-17	(110)	
2016-17 budget rounding surplus paid back to General Fund	6	
Contributions to earmarked reserves 2016-17	6,907	(1,811)
<b>Revenue Budget Outturn - Surplus</b>		<b>(2,883)</b>

## 4.8 Balance Sheet

- 4.8.1 The Balance Sheet shows that the net worth of the Council has decreased to £151.204m compared to a net worth at 31 March 2016 of £203.319m. The main reason for this decrease relates to the increase in the pension liability as a result of a decrease in the net discount rate over the period. A decrease in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future.
- 4.8.2 The value of long term assets has increased from £506.105m at 31 March 2016 to £509.190m at 31 March 2017, an increase of £3.085m (0.6%). The main reason for the increase is due to the revaluation of investment properties.
- 4.8.3 Total Current Assets has increased from £64.001m as at 31 March 2016 to £77.590m at 31 March 2017. The main reason for this increase relates to the increase in short term investments at the end of the year.

4.8.4 Total current liabilities have decreased from £54.828m as at 31 March 2016 to £48.806m as at 31 March 2017. 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 increased from £311.959m at 31 March 2016 to £386.770m at 31 March 2017. The increase of £74.811 is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £94.441m to £149.777m (£55.336m) and an increase in long term borrowing of £16.418m.

#### 4.9 Statement of Movement in Reserves

4.9.1 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).

4.9.2 The total Council reserves have decreased from £203.319m at 31 March 2016 to £151.204m at 31 March 2017, a decrease of £52.115m. This reflects the Total Comprehensive Income and Expenditure of the Council shown in the Statement of Comprehensive Income and Expenditure.

4.9.3 The balance of unusable reserves has decreased by £53.449m from £146.204m as at 31 March 2016 to £92.755m as at 31 March 2017. The main reasons for this decrease relates to the increase in the pension fund reserve which matches the pensions liability.

4.9.4 The balance of usable reserves has increased by £1.334m from £57.115m as at 31 March 2016 to £58.449m as at 31 March 2017. This is mainly as a result of the increase to the General Fund Balance of £1.072m in addition to small increases in the Capital Fund and the Repairs and Renewals Fund.

4.9.5 In respect of the General Fund Balance movement, there were £8.614m of earmarked reserves released to services and spent during 2016-17 and a supplementary estimate of £0.110m drawn down to meet the increased cost of funding the Scottish Living Wage across Adult Social Care. The contributions to earmarked reserves amount to £6.907m and there was a small rounding surplus from the 2016-17 budget of £0.006m. The overall underspend on the revenue budget amounted to £2.883m 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 2016	52,417
Released sums earmarked to service budgets 2016-17	(8,614)
Supplementary Estimates agreed during 2016-17	(110)
Contributions to earmarked reserves 2016-17	6,907
2016-17 budget rounding surplus paid back to General Fund	6
Overall budget underspend	2,883

<b>Balance on General Fund 31 March 2017</b>
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<b>53,489</b>
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4.9.6 The General Fund balance at 31 March 2016 was £52.417m of this a total of £43.272m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2017 amounts to £41.509m and Note 5 to the Accounts provides further detail of the movement. There is also a separate report on Earmarked Reserves. The Council also agreed, at its meeting in February 2017 that £4m would be set aside to be used towards budget smoothing within the year 2019-20.

4.9.7 The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2017-18. 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 £3.309m as noted below:

	£000
Balance on General Fund 31 March 2017	53,489
Earmarked Balances at 31 March 2017 (as per Earmarked Reserves report)	(41,509)
Contingency Balance increased 2.0% of net expenditure	(4,671)
Budget Smoothing 2019-20	(4,000)
<b>Unallocated balance as at 31 March 2017</b>	<b>3,309</b>

#### **4.10 Cash Flow Statement**

4.10.1 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 £0.051m to £7.889m. The operating activities generated cash of £10.654m this increase was partly offset by the purchase of assets under the investment activities which saw an out flow of £18.915m. The financing activities were an inflow of £8.210m which reflect the increased borrowing taken by the Council.

#### **4.11 Notes to the Financial Statements**

4.11.1 The notes section provides further information and explanation on some of 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.

#### **4.12 Council Tax Income Account**

4.12.1 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.

4.12.2 Council tax rates have been frozen at 2007-08 levels with the Band D rate being £1,178 for 2016-17.

4.12.3 The income transferred to the General Fund for Council tax in 2016-17 was £44.051m. This compared to £43.373m in 2015-16.

#### **4.13 Non Domestic Rate Income Account**

4.13.1 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.

4.13.2 Non Domestic Rate Income amounted to a share of £30.446m for 2016-17 allocated from the national pool. This compares to £27.840 in 2015-16. Our own net income amounted to £30.869m and we made a contribution to the national pool of £0.423m for 2016-17. These figures compared to income of £31.191m and a contribution to the national pool of £3.351m for 2015-16.

#### **4.14 Group Accounts**

4.14.1 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.

4.14.2 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 £6.554m. This gives an overall net asset position for the Group of £157.758m, a decrease of £53.449m from the previous year. As with the single entity Balance Sheet, the decrease is mainly related to the increase in the pension liability due to the change in discount rate used.

#### **4.15 Performance Against Budget**

4.15.1 The performance against budget for financial year 2016-17 was an overall underspend of £2.883m (1.16%) after adjusting to reflect the new amounts earmarked by departments at the year end. There was a net underspend of £1.083m in relation to departmental expenditure and a net underspend of £1.066m in relation to other central/non-departmental costs. The remainder of the underspend of £0.779m is in relation to funding and the over-recovery of Council Tax income. The year-end underspend was largely expected and planned for during the year, for example:

- Additional savings were generated during the year as a consequence of deliberate decisions not to fill posts which became vacant during the year and had been identified for removal as Service Choices savings during 2017/18.
- NPDO costs were lower than expected due to insurance and utility cost savings arising as a result of the annual renegotiation of insurance costs, part

of the contract management arrangements which are in place, and lower than expected energy prices.

- Loans charges were underspent as borrowing decisions were intentionally deferred resulting in savings on interest payments.
- Council tax income was better than expected partly due to better than expected collection of sums outstanding for previous years by sheriff officers due to enhanced contract management activity.

4.15.2 A summary of the final outturn position is noted within the table below:

<b>Final Outturn Variance (Un-audited)</b>				
<b>2016-17</b>				
<b>Department</b>	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>	<b>% age</b>
		<b>Adjusted for Earmarkings</b>	<b>(Overspend) Underspend</b>	
Chief Executive's Unit	2,041,862	2,042,081	219	0.01%
Community Services	84,088,898	84,104,991	16,093	0.02%
Customer Services	38,280,640	39,167,488	886,848	2.26%
Development and Infrastructure Services	29,010,729	29,145,987	135,258	0.46%
<b>Total Departmental Expenditure</b>	<b>153,422,129</b>	<b>154,460,547</b>	<b>1,038,418</b>	<b>0.67%</b>
Integration Services	56,206,876	56,206,876	0	0.00%
Joint Boards	1,388,546	1,374,371	(14,175)	(1.03%)
Loans Charges	19,578,599	20,623,139	1,044,540	5.07%
Pension Costs	2,977,369	2,977,369	0	0.00%
Other	6,102,437	6,137,621	35,184	0.57%
<b>Total Non-Departmental Expenditure</b>	<b>86,253,827</b>	<b>87,319,376</b>	<b>1,065,549</b>	<b>1.22%</b>
<b>Total Expenditure</b>	<b>239,675,956</b>	<b>241,779,923</b>	<b>2,103,967</b>	<b>0.87%</b>
Total Funding	249,465,684	248,687,036	778,648	0.31%
<b>UNDERSPEND</b>			<b>2,882,615</b>	

## 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 £1.072m, which includes the revenue year-end outturn being £2.883m better than budgeted. The net worth per the balance sheet decreased by £52.115m to £151.204m. Overall the financial position of the Council remains stable.

## 6. IMPLICATIONS

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|-----|--------------|--|
| 6.1 | Policy –     | None.  |
| 6.2 | Financial -  | None, summarises the financial position for 2016-17. |
| 6.3 | Legal -      | None.  |
| 6.4 | HR -         | None.  |
| 6.5 | Equalities - | None.  |

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|-----|--------------------|-------|
| 6.6 | Risk -             | None. |
| 6.7 | Customer Service - | None. |

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**15 June 2017**

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Appendix 1 – Unaudited Annual Accounts 2016-17.