

2017-18 UNAUDITED ANNUAL ACCOUNTS

1. EXECUTIVE SUMMARY

- 1.1 This covering report gives an overview of the Unaudited Annual Accounts for 2017-18 and a summary of the significant movements from 2016-17. It also gives information on the revenue outturn for 2017-18 and asks Council to approve the unaudited financial statements in respect of 2017-18 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 £15.441m, a surplus on the revaluation of Long Term Assets of £52.780m and an actuarial gain on the pension fund assets/liability of £96.302m giving an accounting surplus of £133.641m.
- 1.3 The Balance Sheet shows that the net worth of the Council has increased to £285.205m compared to a net worth at 31 March 2017 of £151.564m. The main reason for this increase relates to an increase in the land and buildings value due to the valuation of four new schools added into the balance sheet, Campbeltown, Oban, Kirn and Dunoon refurbishment, a reduction in the pension liability offset by an increase in long term liabilities due to the leases for the two new schools that are financed through the Design, Build, Finance and Maintain (DBFM) model (Campbeltown and Oban).
- 1.4 The balance of unusable reserves has increased by £135.938m from £93.115m as at 31 March 2017 to £229.053m as at 31 March 2018. The main reasons for this increase relates to the increase in the revaluation reserve due mainly as a result of the two new schools offset by a decrease in the pension fund reserve which matches the pensions liability.
- 1.5 The balance of usable reserves has decreased by £2.297m from £58.449m as at 31 March 2017 to £56.152m as at 31 March 2018. This is mainly as a result of the decrease to the General Fund Balance of £3.178m offset by small increases in the Capital Fund and the Repairs and Renewals Fund.
- 1.6 The General Fund balance at 31 March 2017 was £53.489m; of this a total of £41.519m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2018 amounts to £43.717m and Note 5 in the Accounts provides further detail of the movement.
- 1.7 The performance against budget for financial year 2017-18 was an overall underspend of £2.567m (1.03%), after adjusting to reflect the new amounts earmarked by departments at the year end and taking account of the social work

element of the Health and Social Care Partnership overspend. There was a net underspend of £0.958m in relation to departmental expenditure and a net underspend of £0.877m in relation to other central/non-departmental costs. The remainder of the underspend of £0.732m is in relation to funding and the over-recovery of Council Tax income.

- 1.8 Council are asked to approve the Unaudited Annual Accounts for the year ended 31 March 2018 for issue.

2017-18 UNAUDITED ANNUAL ACCOUNTS

2. INTRODUCTION

- 2.1 This covering report gives an overview of the Unaudited Annual Accounts for 2017-18 and a summary of the significant movements from 2016-17. It also gives information on the revenue outturn for 2017-18 and asks Council to approve the unaudited financial statements in respect of 2017-18 for issue. There is a more comprehensive report on the revenue outturn elsewhere on this agenda.

3. RECOMMENDATIONS

- 3.1 Council are asked to approve the Unaudited Annual Accounts for the year ended 31 March 2018 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 2018. 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 2017-18 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 2017-18.

4.1.6 The Council also produces a set of summary accounts for 2017-18 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 2017-18 performance and also includes detail on the plans for the future which includes the work of the Transformation Board and progress with the Rural Growth Deal. The commentary includes the following:

- Objectives and Strategy of the Council
- Performance against our Priorities
- Finance Performance 2017-18
- 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 2017-18 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 was a new statement last year. It shows how the Council funding is spent across services. It also compares to the expenditure shown in the 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 2017-18 (The Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2018.

4.7.2 The Council ended the year with a surplus of £133.641m for 2017-18, 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 £15.441m, reduced by a surplus on the revaluation of Long Term Assets of £52.780m and an actuarial gain on the pension fund assets/liability of £96.302m.

4.7.3 The deficit on the provision of services of £15.441m compares to a deficit of £4.638m for 2016-17. The main factors contributing to this change is an increase in the Net Cost of Services of £9.985m (4.2%), an increase in financing and investment income and expenditure of £3.211m, offset by an increase in the overall funding of £5.762m.

4.7.4 The table below, sets out a reconciliation of the Deficit/(Surplus) on the provision of services of £15.441m as noted in the Statement of Comprehensive Income and Expenditure to the revenue budgetary outturn of £2.567m (underspend).

| | £000 | £000 |
|--|----------|----------------|
| Deficit on Provision of Services | | 15,441 |
| Remove statutory adjustments that don't feature in budget outturn: | | |
| Depreciation | (21,378) | |
| Impairments of Asset charged to services | (7,581) | |
| Capital Funding | 17,243 | |
| CFCR | 4,135 | |
| Pension Adjustment | (14,776) | |
| Statutory Repayment of Debt | 10,361 | |
| Repayment of Finance Leases | 2,042 | |
| Transfers to/from Other Statutory Reserves | 629 | |
| Other Adjustments | (2,938) | |
| | | (12,263) |
| Movement In General Fund Balance | | 3,178 |
| Adjust for earmarkings: | | |
| Released sums earmarked to service budgets 2017-18 | (10,602) | |
| Supplementary estimates agreed during 2017-18 | (123) | |
| Budgeted Surplus in 2017-18 transferred to General Fund | 193 | |
| Contributions to earmarked reserves 2017-18 | 4,787 | |
| | | (5,745) |
| Revenue Budget Outturn | | (2,567) |

4.8 Balance Sheet

- 4.8.1 The Balance Sheet shows that the net worth of the Council has increased to £285.205m compared to a net worth at 31 March 2017 of £151.564m. The main reason for this increase relates to an increase in the land and buildings value due to the valuation of four new schools added into the balance sheet, Campbeltown, Oban, Kirn and Dunoon refurbishment, a reduction in the pension liability offset by an increase in long term liabilities due to the leases for the two new schools that are financed through the Design, Build, Finance and Maintain (DBFM) model (Campbeltown and Oban).
- 4.8.2 The value of Long Term Assets includes property, plant and equipment as well as other intangible assets. They have increased by £106.348m from £509.123m as at 31 March 2017 to £615.471m as at 31 March 2018. The main reason for the increase is in relation to the valuation of four new schools, Campbeltown, Oban, Kirn and Dunoon refurbishment.

- 4.8.3 Total Current Assets has increased by £11.068m from £77.672m as at 31 March 2017 to £88.740m at 31 March 2018. The main reason for this increase relates to a small increase in short term investments, cash held and debtors at the end of the year.
- 4.8.4 Total current liabilities have decreased by £1.409m from £48.461m as at 31 March 2017 to £47.052m as at 31 March 2018. 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 Total long term liabilities have decreased by £14.816m from £386.770m as at 31 March 2017 to £371.954m as at 31 March 2018. The main reason for this decrease relates to a reduction in the pension liability offset by the finance lease liabilities for the two new schools under the DBFM model.

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 increased from £151.564m at 31 March 2017 to £285.260m at 31 March 2018, an increase of £133.641m.
- 4.9.3 The balance of unusable reserves has increased by £135.938m from £93.115m as at 31 March 2017 to £229.053m as at 31 March 2018. The main reasons for this increase relates to the increase in the revaluation reserve due mainly as a result of the two new schools offset by a decrease in the pension fund reserve which matches the pensions liability.
- 4.9.4 The balance of usable reserves has decreased by £2.297m from £58.449m as at 31 March 2017 to £56.152m as at 31 March 2018. This is mainly as a result of the decrease to the General Fund Balance of £3.178m offset by 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 £10.602m of earmarked reserves released to services and spent during 2017-18 and a supplementary estimate of £0.123m drawn down to meet the increased cost of the settled pay award. The contributions to earmarked reserves amount to £4.787m and there was a small surplus from the 2017-18 budget of £0.193m. The overall underspend on the revenue budget amounted to £2.567m. All these factors contribute to the increase in the General Fund balance as summarised within the table below:

| | |
|--|----------|
| | £000 |
| Balance on General Fund 31 March 2017 | 53,489 |
| Released sums earmarked to service budgets 2017-18 | (10,602) |
| Supplementary Estimates agreed and used during 2017-18 | (123) |
| Contributions to earmarked reserves 2017-18 | 4,787 |
| Budgeted contribution to General Fund 2017-18 | 193 |
| Overall budget underspend as above | 2,567 |
| Balance on General Fund 31 March 2018 | 50,311 |

4.9.6 The General Fund balance at 31 March 2017 was £53.489m; of this a total of £41.519m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2018 amounts to £43.717m and Note 5 in the Accounts provides further detail of the movement.

4.9.7 The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2018-19. 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, over and above the contingency, amounts to £1.868m.

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 increased by £2.537m to £10.426m. The operating activities generated cash of £9.208m this increase was partly offset by the purchase of assets under the investment activities which saw an outflow of £11.438m. The financing activities were an inflow of £4.767m 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 rate for Band D was £1,213.34 for 2017-18 compared to £1,178.00 for 2016-17.

4.12.3 The income transferred to the General Fund for Council tax in 2017-18 was £48.080m. This compared to £44.051m in 2016-17.

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 £29.615m for 2017-18 allocated from the national pool. This compares to £30.446m in 2016-17. Our own net income amounted to £35.947m and we made a contribution to the national pool of £6.332m for 2017-18. These figures compared to income of £30.787m and a contribution to the national pool of £0.341m for 2016-17.

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
- Live Argyll (Leisure Trust).

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 £10.329m. This gives an overall net asset position for the Group of £295.534m, an increase of £137.417m from the previous year. As with the single entity Balance Sheet, the increase is mainly due to annual revaluations new schools as well as a reduction in the pension liability.

4.15 Performance Against Budget

4.15.1 The performance against budget for financial year 2017-18 was an overall underspend of £2.567m (1.03%), after adjusting to reflect the new amounts earmarked by departments at the year end and taking account of the social work element of the Health and Social Care Partnership overspend. There was a net underspend of £0.958m in relation to departmental expenditure and a net underspend of £0.877m in relation to other central/non-departmental costs. The remainder of the underspend of £0.732m is in relation to funding and the over-recovery of Council Tax income. The main reasons for the year-end underspend are noted below:

- 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 part of savings options in future years.
- Non Profit Distributing Organisation (NPDO) costs were lower than expected due to insurance and utility cost savings arising as a result of the annual renegotiation of insurance costs and contract management arrangements which are in place.
- Savings in pensions costs due to a superannuation budget no longer required (removed from the 2018-19 budget) and lower than anticipated pension costs.

- Loans charges were underspent by £0.500m as a decision was taken to defer some of the special repayments of principal to allow some underspend to be transferred to the General Fund balance.
- Additional funding received as part of the budget announcement in 2018-19, but paid in 2017-18.
- Council tax income was better than expected partly due to better than expected collection of double Council Tax on empty homes and growth in the tax base. This has also been reflected in the 2018-19 budget.
- These underspends were partly offset by an overspend on winter maintenance, lower than expected income from planning fees and increased demand for Additional Support Needs and placements in residential schools

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

| Final Outturn Variance (Un-audited) | | | | |
|--|--------------------|---------------------------------|-------------------------------|--------------|
| 2017/18 | | | | |
| Department | Actuals | Budget | Variance | % age |
| | | Adjusted for Earmarkings | (Overspend) Underspend | |
| Chief Executive's Unit | 2,409,184 | 2,479,125 | 69,940 | 2.82% |
| Community Services | 79,766,285 | 79,435,211 | (331,073) | (0.42%) |
| Customer Services | 40,037,393 | 41,343,626 | 1,306,233 | 3.16% |
| Development and Infrastructure Services | 34,181,985 | 34,095,168 | (86,817) | (0.26%) |
| Total Departmental Expenditure | 156,394,847 | 157,353,130 | 958,283 | 0.61% |
| Integration Services | 57,579,226 | 56,424,128 | (1,155,098) | (2.05%) |
| Joint Boards | 1,352,303 | 1,374,371 | 22,068 | 1.61% |
| Loans Charges | 18,583,976 | 19,083,976 | 500,000 | 2.62% |
| Pension Costs | 2,358,705 | 2,727,399 | 368,694 | 13.52% |
| Other | 7,632,489 | 8,773,813 | 1,141,324 | 13.01% |
| Total Non-Departmental Expenditure | 87,506,699 | 88,383,687 | 876,988 | 0.99% |
| Total Expenditure | 243,901,546 | 245,736,817 | 1,835,271 | 0.75% |
| Total Funding | 251,256,208 | 250,524,053 | 732,155 | 0.29% |
| UNDERSPEND | | | 2,567,426 | |

5. CONCLUSION

5.1 The Unaudited Annual Accounts have been prepared in accordance with professional and statutory requirements. The General Fund Balance has decreased by £3.178m, which includes the revenue year-end outturn being £2.567m better than budgeted. The net worth per the balance sheet increased by £133.641m to £285.205m. Overall the financial position of the Council remains stable.

6. IMPLICATIONS

- 6.1 Policy – None.
- 6.2 Financial - None, summarises the financial position for 2017-18.
- 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 Annual Accounts 2017-18.