

**2018-19 UNAUDITED ANNUAL ACCOUNTS**

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**1. EXECUTIVE SUMMARY**

- 1.1 This covering report gives an overview of the Unaudited Annual Accounts for 2018-19 and a summary of the significant movements from 2017-18. It also gives information on the revenue outturn for 2018-19 and asks members to approve the Unaudited Annual Accounts for 2018-19 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 £16.571m, a surplus on the revaluation of Long Term Assets of £6.347m and an actuarial loss on the pension fund assets/liability of £36.739m giving an accounting deficit of £46.963m.
- 1.3 The Balance Sheet shows that the net worth of the Council has decreased to £250.182m compared to a net worth at 31 March 2018 of £297.145m. 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 £46.308m from £240.962m as at 31 March 2018 to £194.654m as at 31 March 2019. The main reason for the decrease relates to the decrease in the pension fund reserve of £49.811m which matches the increase in the pensions liability and an increase in the revaluation reserve of £6.330m which arises from revaluations of properties within the Council's 5 year rolling programme.
- 1.5 The balance of usable reserves has decreased by £0.655m from £56.183m as at 31 March 2018 to £55.528m as at 31 March 2019. This is mainly as a result of the decrease to the General Fund Balance of £0.862m in addition to small increases in the Capital Fund and Education Repairs and Renewals Fund.
- 1.6 The balance on the General Fund has decreased by £0.862m from £50.342m as at 31 March 2018 to £49.480m as at 31 March 2019. There are substantial sums earmarked within the General Fund amounting to £42.936m. The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2019-20 and this amounts to £4.838m. The unallocated General Fund balance **after** the 2% contingency amounts to £1.706m.
- 1.7 The performance against budget for financial year 2018-19 was an overall overspend of £1.118m, 0.45%. There was a net underspend of £1.037m in

relation to Council services departmental expenditure, a net underspend of £0.863m in relation to other central costs and an over recovery of Council Tax income of £0.109m. These underspends were achieved to help offset an overspend on Social Work, managed by the Health and Social Care Partnership of £3.127m.

- 1.8 Members are asked to approve the Unaudited Annual Accounts for the year ended 31 March 2019 for issue.

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**2. INTRODUCTION**

- 2.1 This covering report gives an overview of the Unaudited Annual Accounts for 2018-19 and a summary of the significant movements from 2017-18. It also gives information on the revenue outturn for 2018-19 and asks members to approve the Unaudited Annual Accounts for 2018-19 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 2019 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 2019. 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 2018-19 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 Annual 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
- The 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

## **4.2 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 this year reflecting on the comments from external auditors and taking into consideration good practice. It contains the following sections:

1. Introduction
2. Profile of Argyll and Bute Council
3. Corporate Strategy
4. Performance against our Priorities
5. Finance Performance 2018-19
6. Financial Statements
7. Key Financial Indicators
8. Plans for the Future
9. Conclusion
10. 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 2018-19 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 2018-19 (The Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2019. Internal income has now been removed from the Comprehensive Income and Expenditure Statement for 2018-19 and 2017-18 comparatives have also been restated.

4.7.2 The Council ended the year with a deficit of £46.963m for 2018-19, 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 £16.571m, reduced by a surplus on the revaluation of Long Term Assets of £6.347m and increased by an actuarial loss on the pension fund assets/liability of £36.739m.

4.7.3 The deficit on the provision of services of £16.571m compares to a deficit of £15.410m for 2017-18. The main factors contributing to this change is an increase in the Net Cost of Services of £10.822m offset by a decrease in other operating income and expenditure of £3.940, a decrease in financing and investment income and expenditure of £1.949m and an increase in the overall funding of £3.772m.

4.7.4 The table below, sets out a reconciliation of the Deficit/(Surplus) on the provision of services of £16.571m as noted in the Statement of Comprehensive Income and Expenditure to the revenue budgetary outturn of £1.118m overspend.

	£000	£000
<b>Deficit on Provision of Services</b>		<b>(16,571)</b>
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	22,128	
Impairments of Asset charged to services	11,887	
Capital Funding	(19,349)	
CFCR	(575)	
Pension Adjustment	13,072	
Statutory Repayment of Debt	(9,211)	
Repayment of Finance Leases	(3,783)	
Transfers to/from Other Statutory Reserves	(207)	
Other Adjustments	1,747	
		15,709
<b>Movement In General Fund Balance</b>		<b>(862)</b>
Adjust for earmarkings:		
Released sums earmarked to service budgets 2018-19	6,705	
Supplementary estimates agreed during 2018-19	32	
Budgeted Surplus in 2018-19 transferred to General Fund (for capital)	(2,408)	
Contributions to earmarked reserves 2018-19	(4,585)	
		(256)
<b>Revenue Budget Outturn</b>		<b>(1,118)</b>

## 4.8 Balance Sheet

4.8.1 The Balance Sheet shows that the net worth of the Council has decreased to £250.182m compared to a net worth at 31 March 2018 of £297.145m. 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 major changes are set out in the table below.

	31/03/2019 £000	31/03/2018 £000	Change £000	Main Reason
Long Term Assets	624,055	614,628	9,427	Asset revaluations.
Current Assets	92,072	89,714	2,358	Small increase in short term investments and cash held offset by a reduction in short term

				debtors at the end of the year.
Current Liabilities	(62,455)	(47,065)	(15,390)	Increase in short term borrowing taken to ensure there was sufficient cash over the year end period.
Long Term Liabilities	(403,490)	(360,132)	(43,358)	Increase in the pension liability offset by a reduction in long term borrowing.
<b>Total</b>	<b>250,182</b>	<b>297,145</b>	<b>(46,963)</b>	

#### 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 £297.145m at 31 March 2018 to £250.182m at 31 March 2019, a decrease of £46.963m.
- 4.9.3 The balance of unusable reserves has decreased by £46.308m from £240.962m as at 31 March 2018 to £194.654m as at 31 March 2019. The main reason for the decrease relates to the decrease in the pension fund reserve of £49.811m which matches the increase in the pensions liability and an increase in the revaluation reserve of £6.330m which arises from revaluations of properties within the Council's 5 year rolling programme.
- 4.9.4 The balance of usable reserves has decreased by £0.655m from £56.183m as at 31 March 2018 to £55.528m as at 31 March 2019. This is mainly as a result of the decrease to the General Fund Balance of £0.862m in addition to small increases in the Capital Fund and Education Repairs and Renewals Fund.
- 4.9.5 In respect of the General Fund Balance movement, this has decreased by £0.862m from £50.342m to £49.480m. There were £6.705m of earmarked reserves released to services and spent during 2018-19. The contributions to earmarked reserves amount to £4.585m and there was a surplus from the 2018-19 budget planned of £2.408m that was being directed towards capital. A supplementary estimate of £0.032m was agreed during the year. The overall overspend on the revenue budget amounted to £1.118m. All these factors contribute to the decrease in the General Fund balance as summarised in the table below.

	£000
Balance on General Fund 31 March 2018	50,342
Budgeted surplus 2018-19 (directed to capital)	2,408
Supplementary Estimate Agreed November 2018 for Kintyre Recycling	(32)

Released sums earmarked to service budgets 2018-19	(6,705)
Contributions to earmarked reserves 2018-19	4,585
Overall budget overspend	(1,118)
<b>Balance on General Fund 31 March 2019</b>	<b>49,480</b>

4.9.6 The General Fund balance at 31 March 2019 is £49.840m. The total earmarked balances amount to £42.936m. The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2019-20 and this amounts to £4.838m. The remaining General Fund balance (“unallocated balance”) amounts to £1.706m.

#### **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 £3.405m to £13.831m. The operating activities generated cash of £3.507m this increase was partly offset by the purchase of assets under the investment activities which saw an outflow of £2.226m. The financing activities were an inflow of £2.124m 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 £1,249.00 for 2018-19 compared to £1213.34 for 2017-18.

4.12.3 The income transferred to the General Fund for Council tax in 2018-19 was £49.868m. This compared to £48.080m in 2017-18.

#### **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 £33.035m for 2018-19 allocated from the national pool. This compares to £29.615m in 2017-18. Our own net income amounted to £35.816m and we made a contribution to the national pool of £2.781m for 2018-19. These figures compared to income of £35.916m and a contribution to the national pool of £6.301m for 2017-18.



## **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 £10.007m. This gives an overall net asset position for the Group of £260.189m, a decrease of £47.285m from the previous year. As with the single entity Balance Sheet, the decrease is mainly due to the increase in the pension liability.

## **4.15 Performance Against Budget**

4.15.1 The performance against budget for financial year 2018-19 was an overall overspend of £1.118m, 0.45% (2017-18 underspend of £2.598m, 1.04%), after adjusting to reflect the new automatic earmarking, as per policy, at the year end and taking account of the social work element of the Health and Social Care Partnership overspend.

4.15.2 There was a net underspend of £1.037m in relation to Council services departmental expenditure, a net underspend of £0.863m in relation to other central costs and an over recovery of Council Tax income of £0.109m. These underspends were achieved to help offset an overspend on Social Work, managed by the Health and Social Care Partnership of £3.127m. The main reasons for the year-end net overspend are noted below:

- Overspend within Social work related to slippage on delivery of agreed savings in addition to a proportion of unidentified savings carried from the beginning of the financial year - £3.127m
- Overspend in relation to Special Education Needs assistants as a result of increased demand – circa £0.280m
- Overspend on winter maintenance due to increased activity required as a result of the weather – circa £0.300m
- Overspend in relation to severance costs - £0.997m
- Underspend of £0.600m on loan charges as a result of deferring special repayments
- Planned underspend on fleet budget due to a decision to delay replacing vehicles that would give rise to this in-year underspend as well as further savings in 2019-20 – circa £0.670m
- Underspend on superannuation auto enrolment budget that is no longer required - £0.280m
- Additional vacancies savings as well as underspend on apprenticeship levy payment – circa £0.500m
- Underspend in relation to Non Profit Distributing Organisation (NPDO) insurance

and Hub Schools project as a result of one-off insurance savings and contract management bringing the contracted spend in below budget – circa £0.400m

- Increased income across the Council in within various services – circa £0.250m
- Additional Council Tax Income - £0.109m
- Refund of overpaid VAT - £0.767m.

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

Department	Actuals	Budget	Variance	Percentage
		Adjusted for Earmarkings	(Overspend) Underspend	
	£000	£000	£000	%
Chief Executive's Unit	2,374	2,499	125	5.00%
Education	76,207	75,974	(233)	(0.31%)
Customer Services	44,772	45,612	840	1.84%
Development and Infrastructure Services	33,598	33,903	305	0.90%
<b>Total Departmental Expenditure</b>	<b>156,951</b>	<b>157,988</b>	<b>1,037</b>	<b>0.66%</b>
Joint Boards	1,371	1,374	3	0.22%
Loans Charges	15,563	16,163	600	3.71%
Pension Costs	3,789	2,792	(997)	(35.71%)
Other	6,024	7,281	1,257	17.26%
<b>Total Central Expenditure</b>	<b>26,747</b>	<b>27,610</b>	<b>863</b>	<b>3.13%</b>
Social Work	59,344	56,216	(3,127)	(5.56%)
<b>Total Social Work Expenditure</b>	<b>59,344</b>	<b>56,216</b>	<b>(3,127)</b>	<b>(5.56%)</b>
<b>Total Expenditure</b>	<b>243,042</b>	<b>241,814</b>	<b>(1,227)</b>	<b>(0.51%)</b>
Total Funding	246,509	246,400	109	0.04%
<b>OVERSPEND</b>			<b>(1,118)</b>	

## 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 £0.862m, after taking into consideration the overspend for the year of £1.118m. The net worth per the balance sheet has decreased by £46.963m to £250.182m. Overall the financial position of the Council remains stable.

## 6. IMPLICATIONS

- |     |                      |   |
|-----|----------------------|---|
| 6.1 | Policy –             | None.   |
| 6.2 | Financial -          | None, summarises the financial position for 2018-19 |
| 6.3 | Legal -              | None.   |
| 6.4 | HR -                 | None.   |
| 6.5 | Fairer Scotland Duty | None.   |
| 6.6 | Risk -               | None.   |
| 6.7 | Customer Service -   | None.   |

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**19 June 2019**

**Gary Mulvaney - Policy Lead for Strategic Finance and Capital Regeneration  
Projects**

Appendix 1 – Unaudited Annual Accounts 2018-19