

2019-20 UNAUDITED ANNUAL ACCOUNTS

1. EXECUTIVE SUMMARY

- 1.1 This covering report gives an overview of the unaudited annual accounts for 2019-20 and a summary of the significant movements from 2018-19 and asks members to approve the unaudited annual accounts for 2019-20 for issue.
- 1.2 The Comprehensive Income and Expenditure Statement (CIES) shows a surplus on the provision of services of £7.134m, a surplus on the revaluation of long term assets of £11.910m and an actuarial surplus on the pension fund assets/liability of £64.660m giving an accounting surplus of £83.704m.
- 1.3 The balance sheet shows that the net worth of the Council has increased to £326.371m compared to a net worth at 31 March 2019 of £242.667m. The main reason for this increase relates to the increase in asset revaluations as well as the decrease in the pension liability.
- 1.4 The balance of unusable reserves has increased by £83.340m from £187.139m as at 31 March 2019 to £270.479m as at 31 March 2020. Part of the movement is the increase in the pensions reserves which is linked to the decrease in the pensions liability with the remainder of the movement accounting adjustments required through the capital adjustment account and revaluation reserve.
- 1.5 The balance of usable reserves has increased by £0.364m from £55.528m as at 31 March 2019 to £55.892m as at 31 March 2020. This is mainly as a result of a small increase in the general fund balance of £0.190m in addition to small increases to the capital fund and repairs and renewals fund.
- 1.6 The general fund balance at 31 March 2020 was £49.670m, this is an increase of £0.190m from last year. There are substantial sums earmarked within the general fund amounting to £43.375m. The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2020-21 and this amounts £4.929m. The remaining unallocated balance amounts to £1.366m.
- 1.7 The Business Continuity Committee are asked to approve the unaudited annual accounts for the year ended 31 March 2020 for issue.

2019-20 UNAUDITED ANNUAL ACCOUNTS

2. INTRODUCTION

- 2.1 This covering report gives an overview of the unaudited annual accounts for 2019-20 and a summary of the significant movements from 2018-19 and asks members to approve the unaudited annual accounts for 2019-20 for issue.

3. RECOMMENDATIONS

- 3.1 The Business Continuity Committee are asked to approve the unaudited annual accounts for the year ended 31 March 2020 for issue.

4. DETAIL**Introduction**

- 4.1 The annual accounts set out the financial statements of the Council and its group for the year ended 31 March 2020. 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 2019-20 accounts have been prepared in accordance with this Code.
- 4.2 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 usually 30 June each year. Scottish Government has interpreted provisions within the Coronavirus (Scotland) Act 2020 to modify the Public Finance and Accountability (Scotland) Act 2000 for the financial year ending 31 March 2020 and have extended the administrative deadlines for local government accounts by 2 months. Therefore, the Council is required to prepare its unaudited 2019-20 accounts by 31 August 2020 and to submit signed accounts by 20 November 2020. The Council continued to work to the 30 June deadline for the unaudited accounts, however, Audit Scotland, have advised that it will be October before they complete the audit of our accounts and into November for issue of the annual report and audit certificate.
- 4.3 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 include a management commentary in the accounts. The contents of the annual accounts are summarised in the paragraphs that follows.

- 4.4 **Management Commentary:** this 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 by the Council.
- 4.5 **Statement of Responsibilities for the annual accounts:** this outlines the Council's responsibilities and also the responsibilities of the Council's Section 95 Officer.
- 4.6 **Annual Governance Statement:** this 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 2019-20 and that there are no significant weaknesses.
- 4.7 **Remuneration Report:** this report provides details of the remuneration policy, remuneration and pension benefits of senior councillors and senior officers in addition to detail on employee exit packages.
- 4.8 **Expenditure and Funding Analysis:** this shows how the Council funding is spent across services. It also compares to the expenditure shown in Comprehensive Income and Expenditure Statement (CIES) and details the differences between the two. The differences are as a result of accounting statutory adjustments that are required within the CIES, for example, depreciation, pension adjustments etc.
- 4.9 **Comprehensive Income and Expenditure Statement (CIES):** This statement 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. These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2020.

The Council ended the year with a surplus of £83.704m for 2019-20, 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 surplus on the provision of services of £7.134m, a surplus on the revaluation of long term assets of £11.910m and a surplus on the pension fund assets/liability of £64.660m.

The table below, sets out a reconciliation of the surplus on the provision of services of £7.134m as noted in the CIES to the revenue budgetary outturn of a £0.502m underspend.

	£000	£000
Surplus/(Deficit) on Provision of Services		7,134
<i>Remove statutory adjustments that don't feature in budget outturn:</i>		
Depreciation	22,662	
Impairment of Assets charged to services	(287)	
Capital Funding	(31,136)	
CFCR	(812)	
Pension Adjustment	18,238	
Statutory Repayment of Debt	(11,098)	
Repayment of Finance Leases	(5,651)	
Transfers to/from Other Statutory Reserves	(174)	
Other Adjustments	1,314	
		(6,944)
Movement In General Fund Balance		190
<i>Adjust for earmarkings:</i>		
Released sums earmarked to service budgets 2019-20	13,548	
Supplementary estimates agreed during 2019-20	94	
Budgeted Surplus in 2018-19 transferred to General Fund (for capital)	(212)	
Repayment of Social Work Overspend by HSCP	(100)	
Contributions to earmarked reserves 2019-20	(13,018)	
		312
Revenue Budget Underspend/(Overspend)		502

- 4.10 **Balance Sheet:** the balance sheet shows that the net worth of the Council has increased to £326.371m compared to a net worth at 31 March 2019 of £242.667m. The main changes are set out in the table below.

	31/03/2020 £000	31/03/2019 £000	Change £000	Main Reason
Long Term Assets	648,377	624,055	24,322	Asset revaluations.
Current Assets	88,364	92,072	(3,708)	Small increase in short term investments and a reduction in cash held at the end of the year.
Current Liabilities	(47,115)	(62,455)	15,340	Reduction in short term borrowing.
Long Term Liabilities	(363,255)	(411,005)	47,750	Reduction in pension liability.
Total	326,371	242,667	83,704	

- 4.11 **Statement of Movement in Reserves:** this 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). The balance of unusable reserves has increased by £83.340m from £187.139m as at

31 March 2019 to £270.479m as at 31 March 2020. Part of the movement is the increase in the pensions reserves which is linked to the decrease in the pensions liability with the remainder of the movement accounting adjustments required through the capital adjustment account and revaluation reserve.

The balance of usable reserves has increased by £0.364m from £55.528m as at 31 March 2019 to £55.892m as at 31 March 2020. This is mainly as a result of a small increase in the general fund balance of £0.190m in addition to small increases to the capital fund and repairs and renewals fund.

The general fund balance at 31 March 2020 was £49.670m, this is an increase of £0.190m from last year. The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2020-21 and this amounts £4.929m. The remaining unallocated balance amounts to £1.366m. The movement in the general fund balance as well as the remaining unallocated balance is summarised in the table below.

	£000
Balance on General Fund as at 31 March 2019	49,480
Budgeted surplus 2019-20	212
Part repayment of Social Work overspend 2017-18	100
Supplementary estimate agreed in-year	(94)
Released sums earmarked to service budgets 2019-20	(13,548)
Contributions to earmarked reserves 2019-20	13,018
Overall budget underspend	502
Balance on General Fund as at 31 March 2020	49,670
Earmarked balances as at 31 March 2020	(43,375)
Contingency Balance 2% of budget	(4,929)
Unallocated Balances as at 31 March 2020	1,366

- 4.12 **Cash Flow Statement:** this 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 decreased by £5.046m to £8.785m. The operating activities generated cash of £3.244m, the investing activities generated cash of £4.480m and this was offset by an outflow of cash of £12.770m on financing activities relating to repayments of borrowing.
- 4.13 **Notes to the Financial Statement:** there are a number of notes that provide 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.
- 4.14 **Council Tax Income Account:** this accounts 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 CIES. Council Tax rate for Band D was £1,308.83 for 2019-20 compared to £1,249.00 for 2018-19. The income transferred to the general fund for Council Tax in 2019-20 was £52.533m. This

compared to £49.868m in 2018-19.

- 4.15 **Non Domestic Rate Income Account:** this account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. Non Domestic Rate Income amounted to a share of £35.231m for 2019-20 allocated from the national pool. This compares to £33.035m in 2018-19. Our own net income amounted to £37.374m and we made a contribution to the national pool of £2.143m for 2019-20. These figures compared to income of £35.565m and a contribution to the national pool of £2.530m for 2018-19.
- 4.16 **Group Accounts:** the group accounts include Dunbartonshire and Argyll and Bute Valuation Joint Board, Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee as associates as the Council has "significant influence" over their financial and operating policies. Live Argyll is a wholly owned subsidiary of Argyll and Bute Council and is consolidated within the group accounts on a line by line basis. The Council's Common Good funds have also been fully consolidated in the Group Accounts.

The effect of inclusion of the associates, subsidiary and Common Good funds on the group balance sheet is to increase both reserves and net worth by £11.003m. This gives an overall net asset position for the group of £337.374m, an increase of £84.937m from the previous year.

- 4.17 The outbreak of COVID-19, declared by the World Health Organisation as a Global Pandemic on 11 March 2020, has impacted global financial markets. We are faced with an unprecedented set of circumstances.

At the valuation date of our assets, our valuers' consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Our valuations are therefore reported on the basis of "material valuation uncertainty" as per VPS3 and VPGA10 of the RICS Red Book Global. It is likely that our external auditors will express an opinion that will include a comment about this material valuation uncertainty.

The financial outlook is significantly exacerbated by the extent to which COVID-19 will impact on both future years expenditure including loss of income and the future years funding. There is a lack of clarity at the current time over how the additional funds made available by the UK and Scottish Government to combat the impact of COVID-19 will meet the 2020-21 additional costs and loss of income, and whether there will be any further additional funding to support the medium to longer term implications of COVID-19. The Council are closely monitoring the financial impact to assess the effect it is having on the delivery of agreed savings options and the cost pressures it is creating.

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 £0.190m, after taking into consideration the underspend of the year of £0.502m. The net worth per the balance sheet has increased by £83.704m to £326.371m. Overall the financial position

of the Council remains stable, however the COVID-19 pandemic will place significant financial challenges on the Council within 2020-21 and beyond.

6. IMPLICATIONS

6.1	Policy –	None.
6.2	Financial -	None, summarises the financial position for 2019-20
6.3	Legal -	None.
6.4	HR -	None.
6.5	Fairer Scotland Duty	None.
6.6	Risk -	None.
6.7	Customer Service -	None.

Kirsty Flanagan
Section 95 Officer
16 June 2020

Gary Mulvaney - Policy Lead for Financial Services and Major Projects

Appendix 1 – Unaudited Annual Accounts 2019-20