

2009-10 UNAUDITED ACCOUNTS

1. SUMMARY

- 1.1 The accounting surplus for the year per the Income and Expenditure Account is £1.705m. The balance on the General Fund has decreased by £0.460m. Once contributions to PPP smoothing funds, second home council tax income awaiting distribution and funds earmarked during 2009-10 are adjusted the surplus for 2009-10 compared to budget amounts to £1.032m.
- 1.2 The free General Fund Reserve is £4.529m. There are substantial sums earmarked and committed in the General Fund Reserve amounting to £27.638m giving a total balance on the General Fund of £32.167m.
- 1.3 The unallocated balance of £4.529m represents 1.7% of the Council's budgeted net expenditure for 2010-11. A separate report on earmarking of the General Fund balance and the "free" general fund balance has been submitted.
- 1.4 The net worth of the Council has decreased by £61.463m from £108.254m at 31 March 2009 to £46.791m at 31 March 2010. This is merely a decrease in the accounting worth of the Council and does not represent a decrease in the spending power of the Council.
- 1.5 Fixed assets have increased in value by £19.029m. The Council had a net cash deficit of short term borrowing at 31 March 2010 of £12.166m compared a net cash deficit of cash investments, bank and short term borrowing of £5.253m at 31 March 2009. The Council used short term cash investments to repay debt during 2009-10 thereby reducing exposure to external investments.
- 1.6 Both the Roads and Lighting and Catering and Clearing Trading Accounts met the requirement for a 3 year rolling breakeven position.
- 1.7 Council tax income has increased from £45.811m in 2008-09 to £46.664m in 2009-10.
- 1.8 Group Accounts have been prepared and show a significant increase in the overall net liability position
- 1.9 The Statement of Governance and Internal Control has been prepared on a group basis and indicates areas for further development in the internal control systems of the Council.
- 1.10 Prior year adjustments have been processed in respect of a major change in accounting practice for PFI and similar contracts. These adjustments have no impact on the General Fund Balance as at 31 March 2009.

2. RECOMMENDATIONS

2.1 Members note the unaudited accounts.

3. DETAIL

3.1 Introduction

3.1.1 There is a statutory requirement to prepare a set of Accounts and submit the Accounts to the Controller of Audit and the Council. The date set by the Scottish Government for submission of the Accounts is 30 June of each year.

3.1.2 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.

3.1.3 In relation to the format of the Accounts the Code of Practice on Local Authority Accounting in the United Kingdom 2009 (the SORP) requires presentation of an income and expenditure account which shows the surplus or deficit in accordance with the SORP and a separate statement that adjusts and reconciles this for central government regulation to give the movement on the General Fund Reserve which in crude terms is equivalent to the impact on council tax.

3.2 Income & Expenditure Account

3.2.1 The Council ended the year with an accounting surplus of £1.705m for 2009-10 compared to a surplus of £5.808m for 2008-09. This is the accounting surplus based on the SORP compliant accounts rather than the movement in the General Fund Balance.

3.2.2 Income from taxation and government grants totalled £264.251m for 2009-10 compared to £254.916m for 2008-09. An increase of £9.335m (3.7%). This includes revenue support grant up from £174.047m in 2008-09 to £179.139m in 2009-10, non domestic rates up from £35.058m in 2008-09 to £38.448m in 2009-10 and council tax up from £45.811m in 2008-09 to £46.664m in 2009-10.

3.2.3 Net operating expenditure increased from £249.108m in 2008-09 to £262.546m in 2009-10. An increase of £13.438m (5.4%).

3.3 General Fund Balance

3.3.1 The balance on the General Fund at 31 March 2010 stands at £32.167m compared to £32.627m at 31 March 2009. A decrease of £0.460m. The "free" General Fund Balance stands at £4.529m at 31 March 2010. This equates to 1.7% of the budgeted net revenue expenditure for 2009-10. There are a range of balances earmarked within the General Fund Balance. These total £27.638m.

3.3.2 The net surplus on the Income and Expenditure Account of £1.705m less the adjustments required to be excluded when determining the movement of the general fund balance of £2.165m equates to the decrease in the balance on the General Fund of £0.460m.

3.3.3 The net adjustment to the surplus per the Income and Expenditure Account to reflect the impact on council tax is a debit of £2.165m. In summary this debit represents the difference between:

- Principal repayment to the loans fund and the depreciation on amortisation of fixed assets and government grant and any gain/loss on sale of assets
- Cash paid as pension contributions and the costs charged in accordance with FRS17.
- Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the SORP.
- Capital element of schools NPDO Payment and build-up of debtor to reflect the residual value of the NPDO schools at the end of the contract.

3.3.4 The table below summarises the surplus for the year of £1.032m compared to budget. This is after adjusting for earmarked funds carried forward. In summary departmental underspends against budget, savings on loan charges and additional council tax income are the main factors giving rise to the surplus.

	£'m
Increase in council tax income	0.589
Savings in loan charges	0.133
Net underspend on departmental expenditure compared to budget	<u>0.310</u>
Surplus against budget 2009-10	<u>1.032</u>

3.3.5 The overall movement in the General fund is summarised in the table below. In addition to the surplus compared to budget of £1.032m funds have been earmarked which in total amount to £5.237m. These together with the transfers to services during 2009-10 from the General Fund of £6.729m reconcile to the yearend General Fund balance.

	£m	£m
Balance on General Fund 31 March 2009		32.627
Less budgeted transfer to services 2009-10		<u>6.729</u>
		25.898
Add surplus against budget 2009-10		1.032
Add earmarked funds for 2009-10		
Council Tax on second homes	1.776	
Contribution to smoothing funds	1.354	
Funds earmarked by departments	2.107	
		<u>5.237</u>
Balance on General Fund 31 March 2010		<u>32.167</u>

- 3.3.6 A separate report on earmarking of the General Fund balance and the “free” general fund balance has been submitted.
- 3.3.7 Despite the overall expenditure within services being contained within budget, the savings in loans charges and the increase in Council Tax income, the General Fund balance has decreased. Additional funding was allocated from the General Fund balance during 2009-10 to fund the design stage of Process for Change and the Council Modernisation, these have contributed to the reduction in the available balance.

3.4 Statement of Total Recognised Gains and Losses

- 3.4.1 This analyses the decrease in the net worth of the Council from 31 March 2009 of £108.254m to £46.791m at 31 March 2010 based on the Balance Sheet. This is a decrease in the net worth of the Council in accounting terms and does not represent a decrease in the spending power of the Council. The increase in pensions liability of £74.367m offset by an increase from revaluation of fixed assets of £11.199m are the main factors giving rise to the decrease in net worth.

The pension liability represents the best estimate of the current value of pension benefits that will be funded by Argyll and Bute Council. The liability has increased from £32.517m in 2008-09 to £107.969m in 2009-10. Pension benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the ‘time value of money, whereby the value of cash received now is regarded as higher than cash received, for example, ten years time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used. The corporate bond rate used for the valuation as at 31 March 2010 (5.5%) is significantly lower than that used at 31 March 2009 (6.9%). This has contributed to a significant increase in the estimated current value of the pension liability.

3.5 Balance Sheet

- 3.5.1 As indicated above the accounting net worth of the Council has decreased by £61.463m from £108.254m at 31 March 2009 to £46.791m at 31 March 2010.
- 3.5.2 The value of fixed assets has increased from £452.051m at 31 March 2009 to £471.080m at 31 March 2010. An increase of £19.029m (4.2%). This comprises a net upward revaluation of fixed assets and capital expenditure less the value of fixed assets disposed of.
- 3.5.3 Current assets have decreased from £33.196m at 31 March 2009 to £24.506m at 31 March 2010. This is a decrease of £8.690m. The decrease is mainly in relation to a reduction in cash investments reflecting the decision to make repayments of long term borrowing with surplus cash.
- 3.5.4 Current liabilities have increased from £50.482m at 31 March 2009 to £53.060m at 31 March 2010. The increase of £2.578m is as a result of an increase in borrowings and deferred liabilities due within 12 months and an increase in accrued expenditure.

3.5.5 In comparing current assets and current liabilities then current liabilities at 31 March 2010 of £53.060m exceed current assets of £24.506m by £28.554m. Current liabilities are 216% of current assets. At 31 March 2009 current liabilities of £50.482m exceeded current assets of £33.196m by £17.286m. Current liabilities were 152% of current assets. This reflects the decision to repay long term borrowing with surplus cash.

3.5.6 Overall long term liabilities have increased from £327.473m at 31 March 2009 to £396.668m at 31 March 2010. The increase of £69.195m masks some significant movements.

- Long term borrowing has decreased from £145.724m to £131.242m as the Council repaid debt during the year and reduced its cash balances placed with financial institutions as a direct result of the “credit crunch”. A reduction of £14.482m.
- The FRS17 valuation of the pension scheme liability increased from £32.517m to £107.969m. An increase of £75.452m.
- Deferred government grants increased by £10.666m. This increase represents £12.822m of capital grants received in the year offset by £2.156m credit to revenue.

3.5.7 It should be noted that at 31 March 2010 fixed assets valued at £471.080m exceed the level of long term borrowing and deferred government grants of £202.537m by £268.543m. Long term borrowing and deferred government grants represent 43% of the value of fixed assets. The equivalent figures at 31 March 2009 were fixed assets of £452.051m with long term borrowing and deferred government grants of £206.353m representing 46% of the value of the fixed assets.

3.5.8 In summary capital expenditure and revaluations have increased the value of fixed assets but that is partially offset by an increase in deferred government grants, cash has been used to reduce long term borrowing and there has been an increase in the liability associated with the Strathclyde Pension Fund.

3.6 Cash Flow Statement

3.6.1 The Cash Flow Statement reports the flow of cash in and out of the Council. It covers revenue, capital and financing cash flows. The main points to note from this statement are as follows:

- The net increase in cash of £6.037m is consistent with change in cash and bank and short term borrowing movement in the balance sheet.
- The net cash outflow from financing of £13.957m is consistent with the decrease in long term borrowing as per the movement in the balance sheet.
- The reduction in the net cash out flow from capital from £7.431m for 2008-09 to £5.482m for 2009-10 is due mainly to a reduction in the purchase of fixed assets.

- The net cost of servicing finance has increased from £16.940m in 2008-09 to £17.522m in 2009-10, this is largely due to a reduction in interest received as a result of cash investments being used to repay long term borrowing.
- The net cash flow from revenue activities increased from £26.914m in 2008-09 to £33.279 in 2009-10 and this is due to an increase in the Revenue Support Grant received.

3.7 Notes to Accounts

- 3.7.1 The notes give further information and explanation to some of the key figures included in the accounts.
- 3.7.2 Notes 2.1 and 2.2 relate to trading accounts. The Council had previously decided to remove Waste and Leisure services from a trading account environment and the Building Maintenance trading account ended upon housing stock transfer. This leaves only Roads and Lighting and Catering and Cleaning.
- 3.7.3 Roads and Lighting achieved a surplus of £0.171m for 2009-10 and has met its 3 year breakeven targets with a rolling surplus 3 year of £0.776m.
- 3.7.4 Catering and Cleaning achieved a surplus of £0.680m for 2009-10. It has a rolling 3 year surplus of £0.622m. The deficit in previous years was a result of additional Single Status costs. Adjustments relating to outstanding Single Status appeals have been processed, therefore it is anticipated that the service breakeven in future years.
- 3.7.5 The significant future financial commitments arising from the Waste Management PPP and Schools NPDO PPP are summarised in notes 7 and 13.3. The Council is committed to future payments of £100.558m over the period to 2027 for the Waste PPP and £370.885m over the period to 2035 for the Schools NPDO PPP.
- 3.7.6 Note 12 shows the Council's capital financing requirement (the amount of funding required to fully support its accumulated capital investment). This amounted to £274.450m at 31 March 2010 and this was financed as follows:

	£m
Long term borrowing	130.878
Short term borrowing	12.639
Schools NPDO Finance Lease Liability	85.856
General Fund Balance	32.167
Other internal funds	12.910
Total CFR	274.450

3.8 Council Tax Income Account

- 3.8.1 Income taken to the General Fund for council tax in 2009-10 amounted to £46.664m compared to £45.811m in 2008-09. This is an increase of £0.853m (1.9%). It is an increase of £0.589m compared to the budget of £44.3m adjusted for council tax on second homes.

3.8.2 In 2009-10 council tax rates were frozen at 2007/08 levels of £1,178 for a band D dwelling. The total council tax levied excluding second homes increased by £0.247m (0.5%) from £52.702m in 2008-09 to £52.949m in 2009-10.

3.8.3 Discounts, valuation and provision for bad and doubtful debts increased by £0.092m from £8.606m in 2008-09 to £8.698m in 2009-10.

3.9 Non Domestic Rate Income Account

3.9.1 Non Domestic Rate Income amounted to a share of £38.448m for 2009-10 allocated from the national pool. This compares to £35.058m in 2008-09. Our own net income amounted to £25.115m and we received a contribution from the national pool of £13.333m for 2009-10. These figures compared to income of £20.241m and a contribution from the national pool of £14.816m for 2008-09.

3.10 Group Accounts

3.10.1 For 2009-10 the Council is required to prepare Group Accounts. The Group Accounts comprise of an income and expenditure account, balance sheet, reconciliation statements and notes. The group accounts incorporate Common Good Funds as subsidiaries and Police, Fire and Valuation Joint Board as associates.

3.10.2 Group Accounts have been prepared and show a significant increase in the overall net liability position. This net liability position of the group accounts is a result of the Police and Fire Pension Schemes being unfunded and reflects the proper accounting treatment as determined by FRS 17. The technical accounting treatment has no impact on the underlying basis for meeting the Police and Fire Boards' current and on-going pension liabilities. These will continue to be met from Government Grants and contributions from constituent authorities.

3.11 Statement of Governance and Internal Control 2009-10

3.11.1 The Statement of Governance and Internal Control covers the whole of the group accounts rather than just the Council on its own. The statement is drawn from the Internal Audit Manager's statement on the adequacy and effectiveness of the internal control system of the Council and also similar statements from other group bodies.

In addition, this statement shows how the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal.

3.12 Major Changes in Accounting Practice

3.12.1 The accounting requirements for Private Finance Initiative (PFI) and similar contracts have changed and have to be accounted for under International Financial Reporting Standards (IFRS). The new accounting requirements apply in respect of all new contracts entered into from 1 April 2009 and all existing contracts at 31 March 2009. The Schools NPDO contract has now been accounted for under these new arrangements and the 2008-09 accounts

restated.

- 3.12.2 The impact of the prior year adjustment on the 2008-09 Audited Financial Statements is to recognise the five schools built under the NPDO contract as “on Balance Sheet”. Operational Land and Buildings was increased by £88.4m representing the construction cost of the schools, these were re-valued as at 1 April 2008 and an initial impairment recognised. These assets were depreciated and the depreciation charged to the Education Service in the Income and Expenditure Account. At the same time a liability of £88.4m by the operator was recognised.
- 3.12.3 The impact on the Income and Expenditure account was to split out the annual unitary charge payment into the following elements:
- Fair value of services during the year, charged to Education in the Income and Expenditure Account.
 - Finance cost on the outstanding Balance Sheet Liability, charged to Interest Payable and Similar Charges in the Income and Expenditure Account.
 - Contingent rent, charged to Interest Payable and Similar Charges in the Income and Expenditure Account.
 - Payment towards the financing liability, applied to write down the Balance Sheet liability towards the PFI operator.

Previous accounting entries to build up an asset on the Council’s Balance Sheet over the life of the contract were reversed.

- 3.12.4 The overall impact on the 2008-09 Income and Expenditure Account was to reduce the surplus for the year from £8.167m to £5.808m. There was no impact on the overall General Fund balance with all prior year adjusting entries being reversed through the Statement of Movement on the General Fund Balance.

3.13 Budget Monitoring

- 3.13.1 A separate report on the year end monitoring position has been submitted.

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