

2013-14 Unaudited Financial Statements

1. EXECUTIVE SUMMARY

- 1.1 This covering report gives an overview of the financial statements for 2013-14 and a summary of the significant movements from 2012-13. It also gives information on the revenue outturn for 2013-14 and asks members to note the financial statements for 2013-14.
- 1.2 The balance on the General Fund has reduced by £1.597m. The total balance on the General Fund Reserve is £44.541m. There are substantial sums earmarked and committed in the General Fund Reserve amounting to £30.372m. The free General Fund Reserve is £14.196m, this unallocated balance represents 5.8% of the Council's budgeted net expenditure for 2014-15.
- 1.3 The total usable reserves including the General Fund Reserve are £49.026m at 31 March 2014. There are unusable reserves (accounting reserves not backed by resources) of £126.299m at 31 March 2014.
- 1.4 During 2013-14 expenditure excluding Joint Boards and severance was underspent by £1.342m. Additional income from redistributed Joint Board reserves of £0.170m an underspend in severance costs of £0.698m, savings in other costs of £1.120m and an increase in council tax income of £0.530m resulted in an overall underspend against budget of £3.860m. Further detail on the year-end outturn position is contained in the revenue budget monitoring report.
- 1.5 The total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £2.194m, a surplus on the revaluation of Long Term Assets of £4.387m and an actuarial loss on the pension fund assets/liability of £11.998m. This gives a total of £5.417m and is an accounting deficit rather than a decrease in available resources for the Council to spend.
- 1.6 The net worth of the Council has reduced by £5.417m from £180.742m at 31 March 2013 to £175.325m at 31 March 2014. This is merely a reduction in the accounting worth of the Council and does not represent a decrease in the spending power of the Council. Whilst there are increases in long term assets these are offset by a significant increase in the pension fund liability of £18.473m.
- 1.7 Council tax income has reduced from £47.376m in 2012-13 to £42.066m in 2013-14. This is as a result of the replacement of council tax benefit with the council tax reduction scheme which is now funded through Scottish Government Grant.

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2. INTRODUCTION

2.1 This covering report gives an overview of the financial statements for 2013-14 and a summary of the significant movements from 2012-13. It also gives information on the revenue outturn for 2013-14.

3. RECOMMENDATIONS

3.1 Audit Committee note the unaudited accounts.

4. DETAIL**4.1 Introduction**

4.1.1 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.

4.1.2 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.

4.1.3 From 2010-11 onwards Local Authorities are required to prepare financial statements following International Financial Reporting Standards (IFRS). Under these standards the financial statements comprise:

- Explanatory Foreword
- Statement of Responsibilities for the Statement of Accounts
- Statement of Governance and Internal Control
- Remuneration Report
- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information (includes Council Tax and NDR Income Accounts), and
- Group Accounts

4.1.4 Where there is a significant change in accounting policy it is applied retrospectively by adjusting opening balances and comparative amounts for prior years as if the policy had always been applied. There are no such changes in accounting policy required for the 2013-14 year.

4.2 Explanatory Foreword

4.2.1 The Explanatory Foreword provides an overview of the key points in relation to the Financial Statements and a summary of the Council's financial performance for the year. It also highlights any significant changes in accounting policies.

4.3 Statement of Responsibilities for the Statement of Accounts

4.3.1 The Statement of Responsibilities for the Statement of Accounts specifies the Council's responsibilities and also the responsibilities of the Head of Strategic Finance in respect of the Financial Statements.

4.4 Statement of Governance and Internal Control

4.4.1 In the Statement of Governance and Internal Control the Council states its view on the adequacy of its governance and internal control system. The statement concludes the system of governance and internal controls is operating effectively and outlines the reasons for that conclusion.

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 and employee exit packages.

4.6 Statement of Movement in Reserves

4.6.1 The Council reserves are split into Usable and Unusable Reserves. Usable reserves are those which are backed by actual resources and can be applied to fund expenditure or reduce local taxation. Unusable reserves are not backed by resources and are required purely for accounting purposes, these reserves do not represent resources available for the Council to utilise.

4.6.2 The total Council reserves have decreased from £180.742m at 31 March 2013 to £175.325m at 31 March 2014, a decrease of £5.417m. This is represented by a Surplus on Provision of Services of £2.194m offset by a deficit in Other Comprehensive Income and Expenditure of £7.611m.

4.6.3 Unusable Reserves have decreased by £4.139m from £130.438m at 31 March 2013 to £126.299m at 31 March 2014. The main reasons for this are an increase in the Pension Reserve Liability of £18.473m, which is partly offset by a surplus on the revaluation of fixed assets of £4.387m and the transfer of £10.998m from the Comprehensive Income and Expenditure Statement for Capital Grants.

4.6.4 The Usable Reserves have decreased from £50.304m at 31 March 2013 to £49.026m at 31 March 2014, a decrease of £1.278m. The main reason for this is a decrease in the General Fund Balance of £1.597m.

4.6.5 A number of adjustments are made between Council reserves to reflect the correct charge to Council Tax for the year. The net adjustment to the surplus per the Comprehensive Income and Expenditure Statement to reflect the impact on Council Tax is a debit of £3.791m. In summary this debit represents the difference between:

- Principal repayment to the loans fund and the depreciation or 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 IAS19.
- Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the Code.
- Capital element of finance lease payments on the schools NPDO contract and other finance leases and the amounts paid under the contracts.

4.6.6 The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Account of £2.194m less the adjustments to reflect impact on Council Tax of £7.611 equates to the decrease on the balance on the General Fund of £5.417m.

4.7 General Fund Reserve

4.7.1 The balance on the General Fund at 31 March 2014 stands at £44.541m compared to £46.138m at 31 March 2013. A decrease of £1.597m. The “free” General Fund Balance stands at £14.169m at 31 March 2014. This equates to 5.8% of the net revenue expenditure for 2014-15. The Council has a policy of maintaining a minimum unallocated balance in the General Fund Reserve equivalent to 1.5% of net revenue expenditure (£3.658m). This surplus free general fund balance is £10.511m compares an estimated balance at the time the revenue budget was prepared of £6.627m. There are a range of balances earmarked within the General Fund, these total £30.372m and are laid out in the table below:

Earmarking Category	Balance at 31 March 2014 £'000
Strategic Housing Fund (Council Tax on Second Homes)	7,484
Unspent Grants and Third Party Contributions	1,234
Unspent Budget Carried Forward	7,298
School Budget Carry Forwards	887
Unspent Budget Required for Existing Legal Commitments	196
CHORD	420
Revenue Contribution to Capital	3,000
Investment in Affordable Housing	9,500
Severance Costs	27
Reserve Committed for 2014-15 Budget	326

- 4.7.2 £12.5m was earmarked as a contribution to capital to fund the Dunoon and Campbeltown schools, as agreed as part of the 2012-13 budget in February 2012. Subsequently Council agreed in August 2012 to transfer £9.5m towards investment in affordable housing, leaving £3m from reserves as a contribution to the school projects.
- 4.7.3 The Unspent Budget Carried Forward earmarked reserves totalling £7.298m include any earmarking of unspent budget which does not qualify for automatic carry-forward, which would include unspent grants and where there are existing legal commitments. Proposals to earmark unspent budget must be supported by a business case, which would include the purpose of the earmarking linked to the objectives in the corporate and service plans. The amount earmarked at the 31 March 2014 consists of those proposals which are contained within the accompanying report entitled Reserves and Balances.

4.7.4 The movement in the General Fund can be summarised as follows:

	£m	£m
Balance on General Fund 31 March 2013		46.138
Release of sums previously earmarked to service budgets 2013-14		(9.314)
Supplementary Estimates agreed during 2013-14		(0.062)
Budgeted Contribution from General Fund Balance 2013-14		(1.051)
		35.711
Add outturn for 2013-14		
Increase in council tax income	0.530	
Joint Boards Reserve Redistribution	0.170	
One-off Severance Costs for 2013-14	0.698	
Net underspend on departmental and other expenditure compared to budget	2.462	
Surplus against budget 2013-14		3.860
Contributions to Earmarked Reserves 2013-14:		
Council Tax collection on second homes	2.061	
Funds earmarked by departments from budgets	2.909	
		4.970
Balance on General Fund 31 March 2014		44.541

4.7.5 The release of sums already earmarked to service budgets of £9.314m consists of funds released to services of amounts previously earmarked for specific purposes, including unspent budget within the Devolved Management of Resources Scheme of Delegation for Schools, Strategic Housing Fund payment and unspent grant and third party contributions required for specific purposes.

4.8 Performance Against Budget

4.8.1 At the year-end expenditure excluding Joint Board requisitions and severance was underspent by £1.342m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend £m	% age of annual budget £m
Chief Executive's Unit	0.097	4.27%
Community Services	0.013	0.01%
Customer Services	1.629	4.37%
Development and Infrastructure Services	<u>(0.397)</u>	<u>(1.08%)</u>
Departmental Outturn	1.342	0.63%
Non-Departmental expenditure	1.120	3.19%
Joint Boards and Severance Costs etc.	<u>0.868</u>	<u>19.33%</u>
Expenditure Outturn	3.330	1.32%
Funding	<u>0.530</u>	<u>0.21%</u>
Outturn Total	3.860	1.53%

4.8.2 The underspend in the Chief Executives Unit relates to vacancy savings. In Community Services there was an overall underspend due to a reduction in demand for some services. The underspend in Customer Services is due to procurement savings. The overspend in Development and Infrastructure Services mainly relates to the additional costs associated with winter maintenance and coastal protection. The projected year-end position for the departments was forecast and monitored during 2013-14 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable.

4.9 Comprehensive Income and Expenditure Statement

4.9.1 The Council ended the year with an accounting deficit of £5.417m for 2013-14 compared to a surplus of £3.665m in 2012-13, 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 £2.194m, a surplus on the revaluation of Long Term Assets of £4.387m, reduced by an actuarial loss on the pension fund assets/liability of £11.998m.

4.9.2 The surplus on the provision of services of £2.194m compares to a surplus of £19.795m for 2012-13. The main factors contributing to these changes are as

follows:

- Taxation and Non-Specific Grant Income decreased from £274.177m to £258.459m a decrease of £15.718m (5.7%). This decrease in income reflects a general year on year decrease in General Government Grants and a reduction in Council Tax income due to the transfer of funds in respect of Police and Fire which have been transferred out of local government.
- Financing and Investment Income and Expenditure increased from £19.888m in 2012-13 to £22.045m in 2013-14 an increase of £2.157m (10.8%). The increase is due to a rise in interest payable and similar charges, a fall in interest and investment income and a decrease in the expected return on pension assets.
- Other Operating Income and Expenditure decreased from £2.974m in 2012-13 to £1.137m in 2013-14 a decrease of £1.837m (62%). This is due to a decrease in the loss on disposal of long term assets.
- The Net Cost of Services has increased from £231.520m in 2012-13 to £233.083m in 2013-14 an increase of £1.563m (0.7%). This is an increase in expenditure in accounting terms and does not necessarily represent a true increase in spend on services by the Council. This increase would have been greater but for the transfer of Police and Fire services out of local government in 2013-14 (Expenditure in 2012-13 of £11.856m).

4.10 Balance Sheet

- 4.10.1 As indicated above the accounting net worth of the Council has decreased by £5.417m from £180.742m at 31 March 2013 to £175.325m at 31 March 2014.
- 4.10.2 The value of long term assets has increased from £500.353m at 31 March 2013 to £514.498m at 31 March 2014, an increase of £14.145m (2.8%). This comprises the net of an overall upward revaluation of fixed assets, capital expenditure in the year, less the value of fixed assets disposed.
- 4.10.3 Total current assets have decreased from £63.678m at 31 March 2013 to £57.562m at 31 March 2014 a decrease of £6.026m. The main reason for this being a decrease in Cash and Cash Equivalents of £5.793m from £11.868m at 31 March 2013 to £6.075m at 31 March 2014.
- 4.10.4 Total current liabilities have increased from £42.899m at 31 March 2013 to £48.186m at 31 March 2014 an increase of £5.287m. Short term borrowing has increased by £7.703m from £3.739m at 31 March 2013 to £11.442m at 31 March 2014, partly offset by Short term creditors which have decreased by £2.313m from £35.295m to £32.982m.
- 4.10.5 Overall, long term liabilities have increased from £340.390m at 31 March 2013 to £348.639 at 31 March 2014. The increase of £8.249m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £99.864m to £118.337m partly offset by a reduction in Borrowing Repayable within a period in excess of 12 Months of £8.351m.

4.11 Cash Flow Statement

4.11.1 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The Cash and Cash Equivalents balance at 31 March 2013 was £111.868m and decreased by £5.793m to £6.075m at 31 March 2014. The Net Cash Flows from Operating Activities have decreased from £27.191m at 31 March 2013 to £5.396m at 31 March 2014, this decrease of £21.795m represents a decrease in the Council's expenditure being funded from taxation and grant income. Cash outflows for Investment Activities have decreased from £29.473m during 2012-13 to £10.194m in 2013-14, as a result of a decrease in the purchase of long term assets partly and year on year reduction in the value of surplus cash investments made during the year. Cash flows from Financing Activities were an inflow of £1.337m during 2012-13 and £0.995m during 2013-14, this change relates to £0.342m of other receipts from financing activities during 2013-14 which was in relation to Short and Long Term Borrowing.

4.12 Notes to Accounts

4.12.1 The Notes section gives further information and explanation to some of the key figures included in the accounts some of which are summarised below.

4.12.2 The significant future financial commitments arising from the Waste Management PPP and Schools NPDO PPP are summarised in notes 11 and 19.3. The Council is committed to future payments of £76.469m over the period to 2027 for the Waste PPP and £321.327m over the period to 2035 for the Schools NPDO PPP.

4.13 Council Tax Income Account

4.13.1 Income taken to the General Fund for council tax in 2013-14 amounted to £42.066m compared to £47.376m in 2012-13. This is a decrease of £5.310m (11.2%). This is as a result of the replacement of council tax benefit with the council tax reduction scheme which is now funded through Scottish Government Grant.

4.13.2 In 2013-14 council tax rates were frozen at 2012-13 levels of £1,178 for a band D dwelling. There was minimal change in total council tax levied excluding second homes.

4.13.3 The discounts and valuation which increased by £5.767m from £7.793m in 2012-13 to £13.560m in 2013-14. There was minimal change to the provision for bad

and doubtful debts. There was an increase of £0.270m in the amount recovered from council tax on second homes from £1.654m in 2012-13 to £1.924m in 2013-14, this increase in income recovered is in line with a reduction in the total council tax levied on these properties.

4.14 Non Domestic Rate Income Account

4.14.1 Non Domestic Rate Income amounted to a share of £28.492m for 2013-14 allocated from the national pool. This compares to £26.479m in 2012-13. Our own net income amounted to £28.374m and we received a contribution from the national pool of £0.108m for 2013-14. These figures compared to income of £27.255m and a contribution to the national pool of £0.776m for 2012-13. This increase in income reflects the general year on year increase in funding received from the Scottish Government.

4.15 Capital Expenditure and Borrowing

4.15.1 Details of capital expenditure are as follows:

	£'m
Gross Capital Expenditure	32.685
Less: Capital Receipts	0.310
Government Grants and Other Contributions	10.998
Revenue Contributions	3.910
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Balance Funded from Borrowing	17.467

4.15.2 The capital financing requirement at 31 March 2014 was £256.463m. This was financed as follows:

	£'m
Long Term Borrowing	9.661
Short Term Borrowing	151.520
Schools NPDO Finance Lease Liability	79.604
Internal Funds	15.678
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	256.463

The external borrowing of the Council at 31 March 2014 amounted to £161.181m. The majority of this was financed by the Public Works Loan Board (£108.066m), with the remainder coming mainly from the money market.

4.15.3 During the year the Council completed £0.702m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.141m.

4.16 Group Accounts

4.16.1 For 2013-14 the Council is required to prepare Group Accounts. The Group Accounts comprise of a Statement of Movement in Reserves, a Comprehensive Income and Expenditure Statement, a Balance Sheet and notes. The group accounts incorporate Common Good Funds as subsidiaries and the Valuation Joint Board as an associate.

5. CONCLUSION

5.1 The unaudited a financial statement have been prepared in accordance with professional and statutory requirements. The General Fund has reduced by £1.597m. The year-end outturn was £3.860m better than budgeted. The net worth per the balance sheet reduced by £5.417m to £175.325m. Overall the financial position of the Council remains stable.

6. IMPLICATIONS

6.1	Policy –	None.
6.2	Financial -	None. No decision required on this report as it summarises the financial position for 2013-14.
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 Financial Statements 2013-14.