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**Report to: Clackmannanshire Council**

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**Date of Meeting: 10 September 2020**

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**Subject: Draft Financial Statements 2019/20**

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**Report by: Chief Finance Officer**

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## **1.0 Purpose**

- 1.1. The Council is required by law to prepare a statement of accounts in accordance with 'proper practices' which set out its financial position at the end of each financial year. This is defined as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom prepared by the CIPFA/LASAAC Joint Committee.
- 1.2. The Code specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council, including group financial statements where Councils have material interests in subsidiaries, associates or joint ventures. The financial statements aim to identify the key factors affecting the finances of the Council and that affect the physical resources that the Council can control to provide services.
- 1.3. The Local Authority Accounts (Scotland) 1985 Regulations require the Chief Finance Officer, as the Council's s95 officer, to prepare the Statement of Accounts as soon as practicable after the end of each financial year and to submit for Audit to the Councils External Auditor. This is normally by the 30<sup>th</sup> June, however due to COVID 19 pandemic, this was extended in agreement with the External Auditors. A Management Commentary is included within the accounts that presents the collective view of those charged with governance and apply relevant sections of the Companies Act 2006 in respect of the preparation of a Strategic Report. The Management Commentary is signed by the Leader of the Council, Chief Executive and Chief Finance Officer (as s95 officer). The Management Commentary includes the financial outlook for the Council. However, there is also a separate Finance Update report on coming forward to the next Council meeting to provide for a fuller consideration of recent information.
- 1.4. The Council's Draft Financial Statements also include the annual Remuneration Report, and the Annual Governance Statement (AGS) which is signed on behalf of the Council by the Leader of the Council and the Chief Executive. Improvement actions associated with the AGS are incorporated within routine performance reporting using the Pentana system.

## **2.0 Recommendations**

Council is asked to:

- 2.1. note the 2019/20 draft financial statements;
- 2.2. note that the draft financial statements were submitted for audit to the Councils external auditors;
- 2.3. note that audited financial statements will be presented to the next appropriate Committee following conclusion of the audit, and
- 2.4. otherwise note the contents of the report.

### 3.0 Considerations

- 3.1. The accounts have been prepared in accordance with proper practices as set out in the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20*. The Financial Statements show the actual figures for 2019/20 and the comparable figures for 2018/19.

#### Revenue Outturn

- 3.2. The financial results for 2019/20 are positive and provide a platform from which to address the challenging times ahead. Against the background of reducing resources the Council has successfully delivered services within budget.
- 3.3. Gross revenue expenditure for the year was £122.615m. This represents the running costs of the Council and indicates the significant size and complexity of the organisation.
- 3.4. The surplus achieved in the year compared to budget was £5.154m. This includes carry-forward earmarked reserves of £3.816m for ring-fenced areas of spend such as PEF, ELCC and DSM. This results in a net underspend of £1.338m compared to budget which is a favourable movement on the overspend of £0.282m reported to Audit Committee in February 2020.
- 3.5. The General Fund started the year with a balance of £8.581m. The balance at 31 March 2020 is £11.857m. £1.878m was utilised from earmarked general reserves, and new earmarked reserves of £3.816m were created. These movements along with the underspend of £1.338m results in a net increase in general reserves of £3.276m.
- 3.6. Of the £11.857m balance at 31 March 2020, £5.632m is earmarked for specific purposes, much of which is for use either by individual services or to meet corporate liabilities. This committed balance can be summarised as follows:

Devolved School Management (DSM)	£0.499m
Pupil Equity Funding (PEF)	£0.554m
Early Learning & Childcare (ELCC)	£0.463m
Ring-fenced Housing & Community Safety Grants	£0.626m
Organisational Change Fund	£0.230m
Employment Fund	£1.528m
Transformation Fund	£1.000m
Miscellaneous commitments	£0.732m
<b>Total</b>	<b>£5.632m</b>

- 3.7 The Council's Reserves Strategy stipulates that it should retain uncommitted reserves at a minimum level of 3% of budgeted net expenditure, based on 2020/21 approved budget this equates to a figure of £3.850m. At the end of 2019/20, uncommitted reserves are £6.225m, therefore, £2.375m in excess of this minimum reserve figure which represents a level of 4.8% of budgeted net expenditure.
- 3.8 At the end of 2019/20, the Clackmannanshire locality of the Health and Social Care Partnership overspend was £0.957m before application of any agreed risk share. It was agreed by the three partners to contribute to the overspend on the basis of voting shares as has been done in previous years. This equated to an additional contribution of £0.239m (25%) over the amount budgeted. The final outturn reflects the additional contribution made by the Council towards the overspend.
- 3.9 The Housing Revenue Account achieved a surplus within the year of £7.097m against a budgeted surplus of £4.894m, £2.203m greater than budget. This is a movement of £1.928m greater than the forecast figure of £5.169m reported to Audit Committee in February 2020. During the year £6.176m of this surplus has been used to fund capital expenditure which reduces the requirement to borrow and a net amount of £0.140m was transferred to the General Fund as consideration for the purchase of Glentana Mill and transfer of land in Tullibody to the General Fund. This has resulted in a net contribution to reserves of £0.781m. The outcome of these in year results is that the opening housing reserve balance of £3.722m at the start of the year, has increased to £4.503m as at 31st March 2020, which equates to 23% of 2020/21 budgeted Housing Rents. This is £3.709m above minimum reserves of 4% which will be used to offset future capital expenditure and reduce the requirement to borrow.

#### **Other Reserves**

- 3.10 The opening balance on the Capital Receipts Reserve was £3.597m. Of this balance, £0.518m was earmarked capital element of the Employment Fund. In the year £0.087m has been utilised to fund the statutory element of voluntary severance leaving a balance of £0.431m earmarked for the Employment Fund.
- 3.11 During 2019/20 receipts of £0.605m were received as a consequence of asset sales during the year. £2.041m was also transferred to General reserves as per the approved budget in 2019/20. Of the remaining balance, £1.160m has been identified to support the 2020/21 approved budget leaving an uncommitted balance of £1.591m.
- 3.12 The opening balance on the Capital Grants and Contributions Unapplied account was £2.813m. Within this balance was earmarked receipts of £0.500m for the Transformation Fund. During the year £0.025m has been utilised from the Fund leaving a balance of £0.475m. In the year, £0.976m has been utilised for Early Learning & Childcare developments and £0.882m has been added for new grants to be used in future years, leaving a balance at 31 March 2020 including earmarked of £2.694m.

#### **Pensions Liability**

- 3.13 The estimation of the Council's net liability in respect of pensions payable is a complex set of judgements. It requires estimates of the life expectancy of scheme members, assumptions about changes in retirement ages and expected returns on pension fund assets such as stock market investments. The Council engages actuaries to provide expert advice about prevailing assumptions.

- 3.14 As a result of the latest valuation of our Pension accounts in accordance with International Accounting Standard 19 (IAS19), the net liability within the Balance Sheet reduced to £97.9m compared to £121.0m at March 2019. This reduction in liability is primarily due to an increased return on scheme assets.

### **Provisions**

- 3.15 There have been no new provisions created in the year. Movements on Provisions in the year are set out below.
- 3.16 The provision to cover the Council's estimated costs relating to the residency of 5 individuals was released in full during the year following confirmation that this claim was no longer being pursued.
- 3.17 The Council made payments of £12k in the year in respect of Equal Pay claims. Additional funds of £8k were added to the provision to offset these payments. The Council's provision has now been fully utilised and no known future costs.
- 3.18 The provision for Municipal Mutual Insurance Limited (MMI) was established in 2012/13 on the advice of our insurers to cover a potential 30% levy triggered under the Scheme of Arrangement in respect of the winding down of the former MMI. This exposure relates back to former District and Regional Council operations. £2k was paid out during the year and a re-assessment of the liability at the year end determined that the short term provision was sufficient at £5k and the long term provision should be increased by £23k to £44k.

### **Contingent Liabilities**

- 3.19 In order to reflect as yet potential uncertain and/ or unquantified timing and liabilities issues, aspects of those matters referenced in respect of Equal Pay and Insurance set out in paragraphs 3.17 and 3.18 above, are also reflected in the draft financial statements as contingent liabilities. In addition to this, the potential for claims of Historic Sexual Abuse remain as contingent liabilities. No Contingent Assets have been identified as at 31 March 20.

### **Capital Expenditure and Financing**

- 3.20 During 2019/20 the Council spent £20.71m on Capital Expenditure across both General Fund and HRA. Of this, £20.67m was invested in its own assets with £0.040m granted to third parties including Common Good. This reflects an underspend of £10.5m on the approved budgeted programmes for both HRA and General Fund, and an increase in the projected underspend of £2.4m reported to Audit Committee in February 2020.
- 3.21 Capital expenditure in the year has been financed by capital receipts (£0.016m), government grants and contributions (£10.3m) and direct revenue funding (£6.2m). The remaining balance of £4.2m was funded through external borrowing.
- 3.22 The Councils gross external debt as at March 2020 stands at £140.4m, an increase of £3.7m from the position as at March 2019. This was as a result of undertaking £5m PWLB borrowing offset by repayments in the year towards finance leases and loans of £1.3m. Further detail is provided in the Annual Treasury Report also on this agenda.

### **Group Accounts**

- 3.23 Group accounts are required to be prepared and included in the financial statements. The council's group accounts consist of; Clackmannanshire and Stirling Integration Joint Board, Central Scotland Valuation Joint Board, Coalsnaughton NHT, Common Good and CSBP Clackmannanshire Investments Ltd.

### **Public Inspection**

- 3.24 Following submission to the External Auditor the draft accounts were made available for public inspection on the Councils website.
- 3.25 Following conclusion of the External Audit, the Council's final audited Financial Statements will be presented to the next appropriate Committee along with the External Auditors Report.

## **4.0 Conclusion**

- 4.1 The results for the year are positive against the backdrop of the current economic climate. A surplus has been achieved in the year on General Fund which ensures our uncommitted reserves remain in excess of the Council's minimum level. This position is an improvement on that previously forecast at Budget setting in March 2020 due to a more favourable outturn than anticipated at that time. The position although favourable remains challenging in light of the current financial circumstances and the recent COVID19 Pandemic.
- 4.2 Regular updates on progress in implementing the Budget Strategy and performance monitoring has been provided to Elected members through Council and Committee reports during the year. These reports included management actions within services and corporately to improve the outturn position.
- 4.3 In summary, the Council has consistently applied its agreed budget, finance and investment strategies throughout 2019/20.

## **5.0 Sustainability Implications**

- 5.1 Not applicable

## **6.0 Resource Implications**

### *6.1 Financial Details*

- 6.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes
- 6.3 Finance have been consulted and has agreed the financial implications as set out in the report. Yes

### *6.4 Staffing*

## 7.0 Exempt Reports

7.1 Is this report exempt? Yes  (please detail the reasons for exemption below) No

## 8.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box )

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all

Our families; children and young people will have the best possible start in life

Women and girls will be confident and aspirational, and achieve their full potential

Our communities will be resilient and empowered so that they can thrive and flourish

(2) **Council Policies** (Please detail)

## 9.0 Equalities Impact

9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes  No

## 10.0 Legality

10.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

## 11.0 Appendices

11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Draft Financial Statements 2019/20

## 12.0 Background Papers


12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes  (please list the documents below) No

**Author(s)**

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**Approved by**

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