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**Report to: Clackmannanshire Council**

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**Date of Meeting: 28 June 2018**

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**Subject: Draft Financial Statements 2017/18**

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**Report by: Chief Accountant**

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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 control.
- 1.3. The Local Authority Accounts (Scotland) 1985 Regulations require the Chief Accountant, 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 these to the Council and to the Controller of Audit by 30 June of the next financial year.
- 1.4. The draft Financial Statements continue to be finalised for audit and have been made available in advance of the Council meeting in councillors rooms. The numbers within this report are presented in advance of the accounts being finalised, however any significant changes will be verbally updated at the time this paper is presented. In addition to this, all elected members have had the opportunity to attend a specific briefing on the draft Financial Statements on 26 June 2018 where copies of the draft statements were circulated.
- 1.5. A Management Commentary is included within the accounts, which is required to present 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 Accountant (as s95 officer). The Management Commentary includes the financial outlook for the Council. However, there is also a separate Budget Strategy report on this Council meeting agenda to provide for a fuller consideration of recent information.

- 1.6. 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. approve the 2017/18 draft Financial Statements
- 2.2. approve the submission of these draft Financial Statements to the Controller of Audit no later than 30th June 2018
- 2.3. note that finalised audited financial statements will be presented to Council in September 2018
- 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 2017/18*. The Financial Statements show the actual figures for 2017/18 and the comparable figures for 2016/17.

### Revenue Outturn

- 3.2 The financial results for 2017/18 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 therefore not requiring the full £1.457m of reserves approved to support the 2017/18 budget, only £0.621m was utilised.
- 3.3 Gross revenue expenditure for the year was £117.138m, this represents the running costs of the Council and indicates the significant size and complexity of the organisation.
- 3.4 Of the £16.097m usable reserves balance at 31 March 2018, £5.888m 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:

	£m
Devolved School Management	0.300
Organisational Change Fund	0.350
Employment Fund	1.846
Sum approved in support of 2018/19 budget	0.959
City Deal	0.150
Other	1.518
PEF funding	<u>0.765</u>
<b>Total</b>	<b><u>5.888</u></b>

- 3.5 The earmarked balance also reflects the approval by Council in March 2018 to support its 2018/19 General Services Revenue Budget through the utilisation of £0.959m from reserves.
- 3.6 The surplus figure reported to Audit and Finance Committee in March of £0.661m was after applying all reserves set aside for the year (£4.718m Budget column). The surplus that would have been achieved at the year end, if the full £4.718m of reserves had been used, would have been £3.974m (see Actual column below).

	Budget	Actual	Amended Actual	Unused Reserves
<b>Budgeted expenditure 2017/18</b>	120,520	117,138	117,138	
<b>Budgeted income 2017/18</b>	(115,802)	(116,394)	(116,394)	
<b>Deficit / (surplus)</b>	4,718	744	744	
<b>Reserves required to balance the budget</b>				
Contribution from Reserves	(1,457)	(1,457)	(621)	(836)
Capital Stimulus Fund	(622)	(622)		(622)
Application of unapplied Capital receipt	(1,575)	(1,575)		(1,575)
Contribution from Earmarked Reserves	(941)	(941)		(941)
Contribution from Uncommitted Reserves	(123)	(123)	(123)	0
	(4,718)	(4,718)	(0)	(3,974) *
<b>Deficit/ (surplus) after reserves applied in full</b>	<b>(0)</b>	<b>(3,974)</b>		

\* of this amount £2.073m now earmarked for 2018/19

However as the actual outturn was an overspend of £0.744m it only required to be funded by reserves of £0.621m reserves and £0.123m uncommitted reserves (amended actual column above). The £1.457m reserve set aside to support the budget in 2017/18 was therefore not fully utilised by £0.836m, along with the others reserves shown above amounting to £3.974m (end column). As a result earmarked reserves have increased for 2018/19 as a number of projects such as PEF £765m and devolved schools £0.3m did not complete in year and will need to be funded in 2018/19, along with £0.959m to support the 2018/19 budget. The above figures are based on the management reporting during the year, but the treatment in the accounts requires a number of technical adjustments to take place, which result in a different outturn and reserve movement in the accounts.

- 3.7 The Housing Revenue Account shows a surplus within the year of £1.2m. Although income increased by £0.2m expenditure against it also increased by £0.9m. After accounting adjustments are taken into account this results in a deficit in the annual accounts of £0.801m. A significant proportion of this related to a loss on sale of non-current assets of £0.4m a swing from 2016/17 of £0.5m. The Housing Revenue Account reserve showed an increase of £0.7m to £2.6m (2016/17: £1.9m) at the year end. This was the result of an adjustment between the accounting and funding basis of £1.5m. This is £1.8m above minimum reserves of 4% which will be used to offset future capital expenditure and reduce the requirement to borrow.

Housing stock fell from 4,967 to 4,960 at the year end.

## **Reserves**

- 3.8 The reserves balances are currently being finalised and will these will form part of the full accounts.

## **Pensions Liability**

- 3.9 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 a stock market investments. The Council engages actuaries to provide expert advice about prevailing assumptions.
- 3.10 As a result of the latest valuation of our Pension accounts, in accordance with International Accounting Standard 19 (IAS19), we have witnessed a significant improvement in our Balance Sheet position. Our net liability now stands at £96.8m compared to £163.3m at March 2017. This reduction in the deficit is mainly due to investment returns being much higher than originally predicted. The gain on the fund in year was £75.7m (2016/17 loss £49.9m).

## **Provisions**

- 3.11 The provision for legal costs associated with the ongoing dialogue with the Council's PPP Facilities Management provider, about the legal interpretation of contractual definitions, has now been settled, below the rate provided for. The remaining balance of £20k on the provision is maintained for legal costs which may accrue post the year end.
- 3.12 A new provision of £376k has been made in 2017/18 to cover the Council's estimated costs associated with the ongoing dialogue with the Falkirk IJB, relating to the residency of 3 individuals. The new provision relates to the potential costs incurred in 2017/18, however the dialogue continues to confirm our legal responsibilities. There is also a contingent liability relating to this dispute for the period prior to 2017/18.
- 3.13 The Council has made further progress in the year to settle equal pay claims with £61k being paid out during 2017/18. The Council's provision for equal pay has consequently been re-assessed at £10k at 31 March 2018, with a further £21K being released as no longer required. It is considered that this remaining sum will be sufficient to meet any potential claims that may arise.
- 3.14 In line with IAS37 the Council created a provision of £280k in 2017/18 to cover the costs of voluntary severance that have been agreed, but not paid before 31 March 2018.
- 3.15 During 2016/17, a provision of £300k was brought forward from 2015/16 relating to a contractual claim for damages in respect of a Housing Revenue Account kitchens and bathrooms contract. This provision was fully utilised in settling the final phase of this contractual dispute and an additional provision of £150k was established at the end of 2016/17.

This case has now been concluded. Payments of £10k have been made in-year and the estimated final costs are now calculated at £122k. Therefore there has been a reduction in the provision of £18k at the year end.

- 3.16 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 Municipal Mutual Insurance Limited (MMI). This exposure relates back to former District and Regional Council operations. £2k has been added to the provision based on a re-assessment of the liability taking the overall provision carried forward to £26k.

### **Contingent Liabilities**

- 3.17 In order to reflect as yet potential uncertain and/ or unquantified timing and liabilities issues, the draft financial statements contain information about such events as contingent liabilities.
- 3.18 The previous contingent liability in respect of the Kitchen Contract has been removed as the provision has now been agreed.
- 3.19 A new contingent liability relating to potential historic sexual abuse cases has been added in year. The press interest in such cases has led to a higher risk that historic cases could come forward but quantification of such events is difficult. The amount included is an estimate based on the information currently available and will be refined over time.
- 3.20 Further details of the provisions and contingent liabilities summarised in this report were provided to elected members at the briefing which was held on 26th June 2018.
- 3.21 No Contingent Assets have been identified at 31 March 2018.

### **Capital Expenditure and Financing**

- 3.22 During 2017/18 the Council spent £17.753m of Capital Expenditure, of this £17.594m was invested in its own assets with £159k granted to third parties including Common Good. This reflects an underspend of £10.1m on the budgeted programme, and an increase in the projected underspend of £1.759m reported to Audit and Finance Committee in March 2018.
- 3.23 Capital expenditure in the year has been financed by capital receipts (£432k), government grants and contributions (£7.308m) and direct revenue funding (£5.674m) leaving a balance of £4.339m requiring to be financed from borrowing. The balance was partly funded through cash reserves and a mixture of long and short term borrowing. Principal repayments against borrowing of £7.122m were made in the year.
- 3.24 The Councils gross external debt as at March 2018 stands at £143.288m, a decrease of £2.860m from the position as at March 2017. Borrowing was in line with the Investment Strategy which focuses on the longer term goal of reducing the overall level of debt liabilities carried by the Council. Further detail is provided in the Annual Treasury Report also on this agenda.

### **Group Accounts**

- 3.25 With the formation of the Clackmannanshire and Stirling Integrated Joint Board, group accounts are now required to be prepared and included in the financial statements. The required statements and supporting notes are included towards

the end of the Council's Draft financial Statements and show the group position for the Council, Integrated Joint Board, Central Scotland Valuation Joint Board and CSBP Clackmannanshire Investments Ltd.

### **Public Inspection**

- 3.26 The Financial Statements, once submitted to the Controller of Audit will be made available for public inspection from the 30th June and will be subject to an audit period of up to three months.
- 3.27 The Council's final audited Financial Statements will be presented to Council along with the External Auditors Annual Audit Report in September 2018.

### **4.0 Conclusion**

- 4.1 The results for the year are positive against the backdrop of the current economic climate, however, the deficit has been recorded in year on the General Fund which has resulted in uncommitted reserves falling but remain in excess of the Council's approved level. In 2018/19 the Council will need to ensure the position is managed to maintain this 3% level going forward.
- 4.2 Elected members have received regular updates on progress in implementing the Budget Strategy through Council and performance monitoring reports during the year, including 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 2017/18.

### **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 has 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? 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 )

- The area has a positive image and attracts people and businesses
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- The Council is effective, efficient and recognised for excellence

(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

**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

**Council draft financial statements 2016/17**

**Author(s)**

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Paula Tovey	Chief Accountant (Interim)	2078
Nikki Bridle	Chief Executive (Acting)	2002

**Approved by**

<b>NAME</b>	<b>DESIGNATION</b>	<b>SIGNATURE</b>
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