
Report to: Clackmannanshire Council

Date of Meeting: 27 June 2019

Subject: Draft Financial Statements 2018/19

Report by: Chief Finance Officer

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 these to the Council and to the Controller of Audit by 30 June of the next financial year. The draft Financial Statements continue to be finalised for audit and have been made available to Members in advance of the Council meeting. In addition to this all elected members have had the opportunity to attend a specific briefing on the draft Financial Statements on 24th June 2019 where copies of the draft statements were circulated.
- 1.4. 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 Budget Strategy report on this Council meeting agenda to provide for a fuller consideration of recent information.
- 1.5. 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 2018/19 draft Financial Statements;
- 2.2. approve the submission of these draft Financial Statements to the Controller of Audit no later than 30th June;
- 2.3. note that finalised audited financial statements will be presented to the Audit Committee in September 2019, 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 2018/19*. The Financial Statements show the actual figures for 2018/19 and the comparable figures for 2017/18.

Revenue Outturn

- 3.2. The financial results for 2018/19 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 £0.959m of reserves approved to support the 2018/19 budget.
- 3.3. Gross revenue expenditure for the year was £119.947m. This represents the running costs of the Council and indicates the significant size and complexity of the organisation. The General Fund started the year with a balance of £9.713m. The balance at 31 March 2019 is £8.608m, a net decrease of £1.105m.
- 3.4. Of the £8.608m balance at 31 March 2019, £4.239m 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)	£0.362m
Pupil Equity Funding (PEF)	£0.680m
Early Learning & Childcare (ELCC)	£0.095m
Clackmannanshire & Stirling Health & Social Care Partnership	£0.482m
Ring-fenced Housing & Community Safety Grants	£0.582m
Organisational Change Fund	£0.333m
Employment Fund	£1.149m
Miscellaneous commitments	£0.481m
City Deal	£0.075m
Total	£4.239m

- 3.5 The surplus achieved in the year compared to budget was £2.576m which is an increase in the surplus of £1.532m reported to Audit Committee in April. The surplus of £2.576m includes earmarked underspends of £2.042m for ring-fenced areas of spend such as PEF, ELCC, HSCP and DSM, resulting in a contribution to uncommitted reserves of £0.534m. In the year, £3.681m was also utilised from general reserves which resulted in net decrease in general reserves of £1.105m. £0.752m was also transferred from the capital receipts reserve to fund loan charges and statutory redundancy costs.
- 3.6 The Council's Reserves Strategy stipulates that it should retain uncommitted reserves at a minimum level of 3% of budgeted net expenditure, based on 2019/20 approved budget this equates to a figure of £3.766m. At the end of 2018/19, uncommitted reserves are £4.320m, therefore, £0.604m in excess of this minimum reserve figure which represents a level of 3.5% of budgeted net expenditure.
- 3.7 At the end of 2018/19, the Clackmannanshire locality of the Health and Social Care Partnership overspend was £1.095m before application of any agreed risk share. The current proposal is that the partnership overspend will be met through voting shares, for Clackmannanshire Council this equates to £0.613m (25%) of the total overspend of the Partnership of £2.452m. The final outturn reflects the risk sharing option which increases the contribution to reserves. As the risk sharing option has not been agreed at this time the contribution the council would received of £0.482m from the NHS has been reflected as an earmarked reserve. If the risk sharing option is agreed by the Partnership this would fall to uncommitted reserves improving the position.
- 3.8 The Housing Revenue Account achieved a surplus within the year of £6.124m against a budgeted surplus of £5.168m, £0.956m greater than budget. This is a movement of £0.372m greater than the forecast figure of £5.752m reported to Audit Committee in April. During the year £4.596m of this surplus has been used to fund capital expenditure which reduces the requirement to borrow and £0.364m was transferred to the General Fund as consideration for the transfer of 8 houses. This has resulted in contribution to reserves of £1.164m. The outcome of these results is that the opening housing reserve balance of £2.559m at the start of the year, has increased to £3.723m as at 31st March 2019, which equates to 19% of 2019/20 budgeted Housing Rents. This is £2.937m above minimum reserves of 4% which will be used to offset future capital expenditure and reduce the requirement to borrow.

Other Reserves

- 3.9 The opening balance on the Capital Receipts Reserve was £3.058m. The council previously earmarked £1.101m for the Employment Fund. As part of the Council's budget setting for 2019/20, £0.500m was released from the employment fund to reflect the reduced level of expected future costs. In the year £0.083m has been utilised to fund the statutory element of voluntary severance leaving a balance of £0.518m earmarked for the Employment Fund.
- 3.10 During 2018/19 receipts of £1.791m were received as a consequence of asset sales during the year. Of this, £0.500m was transferred to Capital Grants and Contributions Unapplied to create a Transformation Fund as approved in the Council's 2019/20 budget in line with the Scottish Governments policy for utilisation of capital receipts. £0.669m was also transferred to General reserves as per the approved budget in 2018/19. Of the remaining balance, £2.041m has been identified to support the 2019/20 approved budget leaving an uncommitted balance of £1.038m.

- 3.11 The opening balance on the Capital Grants and Contributions Unapplied account was £3.398m. During the year £0.500m has been added to create the Transformation Fund. In the year, £2.152m has been utilised for Tullibody South School and cycle walkway and safer street (CWSS), £1.071m has been added for new grants to be used in 2019/20, leaving a balance at 31 March 2019 of £2.813m.

Pensions Liability

- 3.12 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.
- 3.13 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 increased to £116.526m compared to £95.522m at March 2018. This increase in liability is primarily due to a reduction in the discount rate which is determined on a prescribed basis and an increase in inflation and salary inflation.

Provisions

- 3.14 There have been no new provisions created in the year. The Damages Claim and the Legal Cases PPP payments have been finalised and the remaining balance of £5k was released in the year.
- 3.15 The provision to cover the Council's estimated costs relating to the residency of 3 individuals have increased to 5 individuals, increasing the provision in the year by £0.450m to £0.856m.
- 3.16 The Council has made further progress in the year to settle equal pay claims with £6k being paid out during 2018/19. The Council's provision for equal pay is now £4k. There are minimal claims outstanding and work continues to finalise the known cases.
- 3.17 The voluntary severance provision of £280k was paid out in 2018/19. At the 31st March 2019 there were no new agreed Voluntary Severance costs for employees who would leave after the 31st March therefore there is no provision remaining at the 31st March 2019.
- 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. No payments have been made from this provision during the year and re-assessment of the liability at the year end determined the provisions were adequate at the current level (£5k short term and £21k long term).

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, Ordinarily Resident and Insurance set out in paragraphs 3.15, to 3.17, 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. A new contingent liability relating to pensions has also been identified. This reflects ongoing legal cases which could impact the pension liability. No Contingent Assets have been identified as at 31 March 19.

- 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 24th June 2019.

Capital Expenditure and Financing

- 3.21 During 2018/19 the Council spent £22.757m of Capital Expenditure, of this £22.720m was invested in its own assets with £0.037m granted to third parties including Common Good. This reflects an underspend of £9.831m on the budgeted programmes for both HRA and General Fund, and an increase in the projected underspend of £1.161m reported to Audit Committee in April 2019.
- 3.22 Capital expenditure in the year has been financed by capital receipts (£0.037m), government grants and contributions (£9.405m) and direct revenue funding (£4.675m). The remaining balance of £8.640m was funded through cash reserves.
- 3.23 The Councils gross external debt as at March 2019 stands at £137.2m, a decrease of £6.0m from the position as at March 2018. This was mainly due to the repayments towards finance leases of £0.968m and PWLB and SALIX loans of £5.071m and no new borrowing was undertaken in the year. This level of borrowing is in line with the Investment Strategy which focuses on the longer term goal of minimising 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

- 3.24 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

- 3.25 The Financial Statements, once submitted to the Controller of Audit will be made available for public inspection from the 1st July and will be subject to an audit period of up to three months.
- 3.26 The Council's final audited Financial Statements will be presented to Audit Committee along with the External Auditors Report in September 2019.

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 approved level. This position is an improvement on that previously forecast at Budget setting in March 2019 due to more favourable Quarter 4 outturn than anticipated at that time. The position although favourable remains challenging in light of the current financial climate.
- 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 2018/19.

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 2018/19

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

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Approved by

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