

ANGUS COUNCIL

ANGUS COUNCIL – 29 JUNE 2017

2016/17 FINANCIAL OUTTURN AND DRAFT ACCOUNTS UPDATE

REPORT BY HEAD OF CORPORATE FINANCE

ABSTRACT

This report provides details of the unaudited financial outturn position on both a revenue and capital basis for 2016/17 for Angus Council and an update with regard to the preparation of the 2016/17 Annual Accounts.

1. RECOMMENDATIONS

1.1 It is recommended that the Council:-

- i Note the update with regard to the preparation of the 2016/17 Annual Accounts and that, in accordance with statutory requirements, they will be submitted to Audit Scotland by the 30 June 2017 deadline;
- ii Note that the Council's Annual Accounts will be published on the council's website on or around 30 June 2017.
- iii Note the revenue budget performance and associated commentary as set out in Section 4 and Appendix B of this report;
- iv Note the capital budget performance and associated commentary as set out in Section 4 and Appendix D of this report;
- v Approve the end of year 100% budget carry forwards as set out in Section 4 (and Appendix C) of this report in accordance with the Council's budget carry forward scheme subject to none of these being affected by changes arising from the audit process;
- vi Approve the allocation of £0.6 million to the Angus Integration Joint Board to help meet the costs of severance arising from the Help to Live at Home project, this sum to be taken from the Council's £1.1 million contingency fund for severance and other budget risks as outlined in Section 5.

2. ALIGNMENT TO ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT

2.1 This report contributes as a whole to the local outcome(s) contained within the Angus Community Plan and Single Outcome Agreement 2013-2016. The careful management of the Council's limited financial resources forms a vital part of ensuring services can be delivered across Angus. The prioritised re-use of underspends against the original budget set also make a significant contribution to the delivery of outcomes for local people.

3. BACKGROUND

3.1 The Council is required by law to prepare Annual Accounts which set out its financial position at the end of each financial year. These Accounts are prepared by the Head of Corporate Finance and his team on a draft basis for submission to the Controller of Audit in order that they may scrutinise their accuracy and completeness. In preparing the draft Accounts the Council must comply with recognised accounting practice as it applies to local authorities. The Accounts represent the culmination of the year's financial transactions and are an essential means of demonstrating the proper stewardship of public funds as well as budget performance and financial control. The Council is legally obliged to complete the draft Accounts and submit them by 30 June to Audit Scotland to facilitate subsequent review by the appointed External Auditors.

3.2 Members are asked to note that the information presented in this report is based on the management structure and Directorate names which applied during the 2016/17 financial year.

3.3 Annual Accounts Process

Angus Council's 2016/17 Annual Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting. The Code is based on International Financial Reporting Standards (IFRS). Notably the provision of IFRS compliant statements adds significant additional complexity and workload requirements to the annual accounts process and in turn this has increased the pressures placed on Council officers to deliver the accounts within the prescribed timescales.

In light of this, Report 69/11 outlined that:-

- Draft accounts would not be formally submitted to the Council in June prior to their being forwarded to Audit Scotland by 30 June; but
- Copies of the draft accounts will be made available on the Council's website;
- The draft annual accounts will be submitted to the first Scrutiny and Audit Committee following the recess at which the Head of Corporate Finance will address any queries arising;
- A report detailing the Council's budget performance for the financial year would be submitted to the June full Council meeting.

3.4 This report therefore concentrates upon the financial outturn information arising from the draft Accounts to provide members with an appreciation of how the Council has performed financially in 2016/17. The 2016/17 annual accounts are on schedule for submission to Audit Scotland by the 30 June 2017 deadline.

4. **CURRENT POSITION**

4.1 Background

The draft Accounts have been progressed to a point where the Comprehensive Income & Expenditure statement has been completed and, therefore, information can be provided on the Council's financial outturn position for 2016/17.

4.2 Overall General Fund Balance Position

The opening balance on the General Fund at 1 April 2016 was £29.609 million including £0.813 million held on behalf of schools under the Devolved School Management scheme.

4.3 The budgeted position on the General Fund Balance for 2016/17 was a deficit of £1.185 million however, this position changed to a budgeted deficit of £14.148 million after adjusting for budget carry forwards and various other accounting requirements. These factors would have resulted in an estimated General Fund balance of £15.461 million at 31 March 2017.

4.4 The actual movement on the General Fund Balance for 2016/17 is a decrease of £3.064 million in comparison to the decrease of £14.148 million highlighted above which has resulted in a balance of £26.545 million at 31 March 2017. The balance at 31 March 2017 therefore represents an overall favourable movement against budget of £11.084 million (£14.148 million-£3.064 million). Members will recall that some of this favourable movement had already been identified through the in-year budget monitoring activity which takes place and had accordingly been captured when the Council set its 2017/18 budget in February 2017.

4.5 Appendix A summarises the main components of the favourable movement on the General Fund Balance which consists of the following main items:-

Table 1 – General Fund Movement

	£m
Underspends on Directorate budgets	7.650
Underspend in Loan Charges (Principal Repayments & Interest)	2.496
Additional Council Tax Income	1.162
Increased Surplus – Tayside Contracts	0.229
All other Items (Net effect)	(0.453)

Total	11.084
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4.6 Overall Housing Revenue Account Balance Position

The opening balance on the Housing Revenue Account at 1 April 2016 was £5.691 million.

4.7 The budgeted Housing Revenue Account position for 2016/17 was for a breakeven position which would have resulted in an unchanged balance of £5.691 million at 31 March 2017.

4.8 The actual movement on the Housing Revenue Account for 2016/17 is an increase of £1.059 million which has resulted in a balance of £6.750 million at 31 March 2017. This is largely in line with the projected position for in-year budget monitoring but further comment is given in Appendix B(ii).

4.9 Revenue Budget Versus Actual

Appendix B (i) provides detail of the budget versus actual outturn for 2016/17 for each General Fund directorate. It should be noted that given the Council's difficult financial position and the issues faced setting the 2017/18 revenue budget the EMT made the decision to remove the 50% budget carry forward flexibility scheme which was previously applicable to Directorate uncommitted underspends.

4.10 100% budget carry forwards

Committee report 48/17 to Angus Council, in February 2017 approved utilising £2.993 million of the projected underspend at that time on 100% carry forward proposals on priority areas, subject to outturn positions. A further £0.181 million was approved under delegated authority by the Head of Corporate Finance giving a total approved of £3.174 million.

4.11 Due to a further review of submissions by officers against the outturn positions it is possible to reduce the approved carry forward total of £3.174 million by £0.038 million to £3.136 million. Details of the changes are attached in Appendix C for members to consider.

4.12 Beyond the approved carry forwards, additional 100% carry forward requests from directorates have now been reviewed and those recommended for approval (totalling £1.771million) are also detailed in Appendix C. Additional requests under the delegated authority limit of £0.020 million have been reviewed and £0.086 million has been approved.

4.13 Although this is a significant sum it largely represents unavoidable financial commitments which will arise during 2017/18 and provides all Directorates and the Chief Executive's Unit with flexibility in managing their budgets in an increasingly difficult financial environment.

4.14 The 100% carry forwards can be summarised as follows:-

Table 2 – 100% Carry Forwards

	Approved £m	Revised £m
1 st Tranche report 48/17	2.993	2.955
1 st Tranche under delegated authority	0.181	0.181
Final Tranche (this report)	-	1.771
Final Tranche under delegated authority	-	0.086
Total	3.174	4.993

4.15 It will be noted from Appendix B (i) that all Directorates and the Chief Executive's unit operated within their controllable budget, albeit there were in most instances over and under spends with regard to individual business units within directorates. Finance service contacts in conjunction with directorate support officers will be looking at the reasons for these overall variances in more detail in early course but some initial commentary is provided in Appendix B(ii) in respect of the General Fund and Housing Revenue Account.

4.16 Capital Budget Versus Actual

Budget monitoring information on both General Fund and Housing capital expenditure is presented to relevant committees throughout the financial year so that the Council is aware of progress.

4.17 Table 3, below, sets out the year end position on the overall General Fund and Housing capital programmes for 2016/17 on a net basis (i.e. after the deduction of direct funding contributions).

Table 3 – Net Capital Expenditure 2016/17

Directorate / Division	2016/17 Actual Expenditure Net £m	2016/17 Monitoring Budget Net £m	(Over) / Under Spend £m	Percentage Spend Against Budget %
<u>General Fund</u>				
Chief Executive's	0.088	0.090	0.002	97.8%
Communities	16.965	18.771	1.806	90.4%
Children & Learning	4.708	5.303	0.595	88.8%
Adult Services (IJB)	0.034	0.242	0.208	14.0%
Resources	1.596	1.274	(0.322)	125.3%
Total General Fund	23.391	25.680	2.289	91.1%
Communities – Housing	8.141	10.278	2.137	79.2%
Total Net Capital Expenditure	31.532	35.958	4.426	87.7%

- 4.18 Table 4, below, details how the actual net expenditure of £31.532 million has been funded and compares this with the funding anticipated when the monitoring budget was set:

Table 4 – Capital Funding 2016/17

Funding Source	General Fund £m	Housing £m	Total £m	Monitoring Budget £m	Variance £m
Borrowing	7.442	0.000	7.442	8.870	1.428
General Capital Grant	12.599	0.000	12.599	12.323	(0.276)
Corporate / HRA Receipts	0.291	1.006	1.297	1.850	0.553
Corporate / HRA Revenue	1.609	7.135	8.744	11.465	2.721
Corporate Capital Fund	1.450	0.000	1.450	1.450	0.000
Total Funding	23.391	8.141	31.532	35.958	4.426

- 4.19 Appendix D to this report provides a brief commentary on the capital budget performance of council directorates during the year. The Capital Projects Monitoring Group will be reviewing the year end position in more detail.
- 4.20 Reserves
The main usable reserves and their balance at 31 March 2017 are shown below together with the equivalent balances at 31 March 2016:-

Table 5 – Usable Reserves

	Balance As At 31/3/17 £m	Balance As At 31/3/16 £m	Movement £m
General Fund	26.5	29.6	(3.1)
Housing Revenue Account	6.7	5.7	1.0
Capital Fund	1.8	2.8	(1.0)
Renewal and Repairs Fund	4.0	3.1	0.9
Insurance Fund	1.3	1.1	0.2
Usable Capital Receipts	2.4	0.3	2.1
New Unapplied Grants	0.5	0.3	0.2
Other Reserves	<u>0.6</u>	<u>0.6</u>	<u>0.0</u>
Total	43.8	43.5	0.3

- 4.21 The 31 March 2017 General Fund balance includes £0.6 million of resources earmarked under the Devolved School Management (DSM) scheme which are sums specifically ring-fenced for use by the Council's schools. Excluding these the total balance is £25.9 million, of which £25.6 million is committed or earmarked as follows:-

Table 6 – General Fund Commitments

	£m
Working Balance/Contingency (per existing policy)	4.0
2017/18 Budget Setting	2.1
2017/18 Budget Strategy – Severance Costs & Risks	1.1
Earmarked monies (including Earmarked Grants, Re-determinations & Prior Year carry forwards)	5.7
Long Term Affordability Report (62/17) – Principal Repayments	2.3
Proposed 100% Revenue Budget Carry Forwards	5.0
Transforming Angus Fund (committee report 83/14 refers)	2.2
Affordable Housing Revenue Account	3.2
Total Committed Within General Fund Balances	25.6

- 4.22 This leaves an uncommitted or un-earmarked balance of £0.3 million and the future use of this sum will require to be considered as part of the ongoing delivery of the 2017/18 budget and the development of the budget strategy for 2018/19 and beyond.
- 4.23 The Housing Revenue Account balance of £6.7 million is, as anticipated, above the policy level of £1.0 million. The balance will be taken into account in the ongoing commitment to: deliver new build and affordable housing; maintain the Scottish Housing Quality Standard; and as part of the budget strategy for 2018/19 and beyond.
- 4.24 The Capital Fund balance (£1.8 million) relates to funding decisions within the Financial Plan and is almost wholly committed, while the Renewal and Repairs Fund balance (£4.0 million) provides resources to assist the Council to respond to requirements to keep its property, roads, play parks, cemeteries and IT assets properly maintained. Most of this sum is also committed. The balance on the Insurance Fund (£1.3 million) will be reviewed in the context of potential liabilities. The Other Reserves (£0.6 million) include the Arbroath Harbour and Car Parking Reserves.
- 4.25 Following finalisation of the Accounts they will be submitted to Audit Scotland for auditing. They will also be advertised for public inspection affording opportunity for members of the public to examine the accounts and raise matters with the external auditors. The Accounts will also be submitted to the Scrutiny & Audit Committee for detailed review.

5 HELP TO LIVE AT HOME SEVERANCE COSTS

- 5.1 In agreeing the budget settlement with the Angus Integration Joint Board (Report 56/17 refers) the Council noted that savings of £0.820 million from the Help to Live at Home project were anticipated to arise in 2017/18 with further savings expected to arise in 2018/19. It was also noted that severance costs would arise in order to deliver those savings.
- 5.2 Report 61/17 to the Special Budget Setting meeting in February stated “Given experience with earlier phases of Help to Live at Home on severance costs and taking into account other risks within the budget it is proposed that £1.1 million of the current year’s projected underspend be earmarked for these purposes on a contingency basis.”
- 5.3 In setting the 2017/18 budget the Council also noted that predicting the severance costs arising from Help to Live at Home was difficult because these depend wholly on the individual circumstances of each employee being released. It is now clear that those severance costs will be significantly more than expected at around £1.8 million. Although these are significant costs they are one-off in nature and will deliver recurring savings of £1.5 million p.a.
- 5.4 The Angus Integration Joint Board does not have sufficient resources to meet this one-off costs on its own. It is therefore proposed that the following package be deployed to meet these severance costs:-

Funding Source	£m
Angus IJB Reserves (2016/17 underspend)	0.6
Allocation from Angus Council contingency fund (proposed in this report)	0.6

Balance for Angus IJB to seek to fund from existing resources	0.6
Total Funding	1.8

- 5.5 The above proposals will require to be considered and agreed by the IJB. The element of cost the IJB would require to meet from existing resources is a significant risk and its possible the IJB may need to seek further support from the Council if it cannot contain this one off cost during 2017/18.
- 5.6 To be clear the recurring savings of £1.5 million p.a. cannot be achieved without reducing the workforce and incurring severance costs which are legally and properly due to those staff affected. Members are accordingly asked to approve the allocation of £0.6 million to the Angus Integration Joint Board to help meet the costs of severance arising from the Help to Live at Home project, this sum to be taken from the Council's £1.1 million contingency fund for severance and other budget risks.

6. FINANCIAL IMPLICATIONS

- 6.1 The Annual Accounts for 2016/17 have been concluded to a stage sufficient to allow revenue outturn information to be prepared and commented upon as detailed in this report. In summary the Council delivered a revenue underspend on General Fund Services of £11.084 million and £1.059 million on Housing Revenue Account Services.
- 6.2 Net capital expenditure of £23.391 million (General Fund) and £8.141 million (Housing) has been incurred in 2016/17. This is some £2.289 million below and £2.137 million below the respective net budgeted positions of £25.680 million and £10.278 million.
- 6.3 Overall the Council's reserves showed an increase of £0.3 million and most of that increase is committed for future use.
- 6.4 The draft Annual Accounts will be submitted to Audit Scotland for 30 June 2017 and thereafter considered by the Scrutiny & Audit Committee at their first meeting after the summer recess.
- 6.5 The recommended allocation of £0.6 million of one-off funds to the Angus IJB as set out in Section 5 can be met from resources specifically earmarked for this purpose.

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

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Appendix A – Draft Summary Outturn (Main Variances)
Appendix B (i) & (ii) – Revenue Budget Performance
Appendix C – Carry Forwards
Appendix D – Capital Budget Performance