Appendix 1

Financial Performance in 2016/17

General Revenue Budget

General Fund

The General Fund is the statutory fund into which all the receipts of the Council are paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise. The General Fund covers council services which are funded by Government Grant and Council Tax revenues.

It can be seen from Note 6 to the Accounting Statements that the General Fund balance at the end of the year was £25.963 million with £0.640 million of this earmarked for future use by Angus schools under the Devolved School Management (DSM) scheme. The opening balance on the General Fund at 1 April 2016 was £29.609 million including £0.813 million attributable to DSM. The movement on the General Fund Balance was therefore an decrease of £3.646 million. The budget set for 2016/17 assumed a deficit of £1.185 million but after adjustments for budget carry forwards and other earmarked sums this moved to a budgeted deficit of £14.148 million. Accordingly the closing balance of £25.663 million represents an overall favourable movement against budget of £10.202 million. This closing balance of £25.663 million includes a Devolved School Management (DSM) balance of £0.640 million but excludes the Car Parking reserve (£0.059 million), Arbroath Harbour reserve (£0.264 million) and other specific reserves (£0.279 million) which are included in Note 6 (£26.265 million). The £10.202 million favourable movement arises as follows: -

Description	£m
Underspends on directorate budgets	7.068
Additional Council Tax income	1.162
Underspend in Loan Charges – Principal Repayments & Interest	2.496
Increased Surplus – Tayside Contracts	0.229
Affordable Housing Transfer	(0.300)
All other items (Net effect)	(0.453)
Total	**10.202**

A significant underspend has been reported to committee during the financial year and it should be borne in mind that a significant proportion of the underspends are one off as a large amount of this figure was planned and is a result of officers preparing for the impact of further budget cuts in future years. A significant amount of the underspend was due to staff vacancies and this will not necessarily be repeated given the savings applied in setting the 2017/18 budget.

Of the closing General Fund balance of £25.663 million, £0.641 million is attributable to DSM and £24.688 million is committed or earmarked as follows:-

Description	£m
Working Balance/Contingency (per existing policy)	4.000
Earmarked monies	
-Budget Setting 2017/18	2.102
-Budget Setting – Severance Costs & Risks	1.100
- Unspent Grants, Government Grant Re-determination Monies, Prior Year Carry forwards - to be spent in future years	5.093
- CFCR provision (capital budget funding)	2.306
- 100% Carry forwards from 2016/17	4.993
- Transforming Angus Change Fund	2.237
- Affordable Housing Revenue Account Balance	2.857
Total	**24.688**

Allowing for DSM and these committed or earmarked sums leaves an uncommitted or un-earmarked balance of £0.334 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.

Housing Revenue Account
The Housing Revenue Account is funded by Council House rents and some specific Government Grants and deals with council house management transactions. The actual movement on the Housing Revenue Account for 2016/17 is a decrease of £0.769 million which has resulted in a surplus balance of £4.922 million at 31 March 2017

The Housing Revenue Account budget set for 2016/17 assumed a breakeven position. The closing balance of £4.922 million therefore represents an unfavourable movement against budget of £0.769 million. The closing Housing Revenue Account balance was in excess of the £1.000 million minimum policy level with £4.922 million earmarked as follows:-

Description	£m	£m
Working Balance/Contingency (per existing policy)		1.000
Earmarked monies		
- Survive & Thrive (scheme to provide grant support to private developers)	0.687	
- Early Repayment of Debt	1.359	
- Allowance for SHQS / New Build Housing	1.876	3.922
Total		**4.922**

Whilst broadly on budget in most areas, the 2016/17 surplus of £1.059 million has primarily been achieved as a result of underspends on staff costs, repairs & maintenance costs, central support costs and capital financing costs.

Capital Budget

The Council continues to make significant capital investment in Council Housing, schools, infrastructure, leisure, communities and town centres. £39.1 million (gross) was spent in 2016/17 and the major spend areas are detailed below. Funding of capital expenditure included £12.5 million from revenue, £1.5 million from receipts, and £15.7 million from Government grants & other contributions, with the balance of £9.4 million being met through internal funding and borrowing. Further information about the spending on capital projects is shown in Note 40 on page 74.

Major spend areas during the year included:

- £10.6 million on new provision / improvements of Council Housing stock;
- £2.4 million on the provision of new primary schools in the Arbroath area;
- £3.8 million on new build / refurbishment of the wider school estate;
- £4.5 million on flood alleviation / coastal protection works;
    - £9.5 million on road infrastructure;
    - £1.2 million on the construction of a new vehicle workshop; and
    - £1.6 million on agile facilities / estate rationalisation.

The Council is able to regulate its own capital spending limits within a Prudential Framework recommended by CIPFA and endorsed by the Scottish Government. The Council's performance monitoring confirms its overall capital spending of £39.1 million (gross) was managed within the "Prudential Framework" limits approved by the Council. There was an underspend of £7.0 million (15.2%) against the approved capital programme with the works and associated spend moving to 2017/18. This compares with 2015/16 where the underspend was £3.2 million (5.2%). Analysis of the 2016/17 underspend shows it is due in the main to internal and third party delays.

Capital expenditure commitments for the construction / enhancement / purchase of property, plant and equipment totalling some £37.790 million (gross) exist as at 31 March 2017, £17.025 million of which relates to the General Fund and £20.765 million relates to Housing. On a net basis, some £25.792 million of commitments exist in total at 31 March 2017, of which £8.471 million relates to the General Fund and £17.321 million relates to Housing. (Source: 2017/18 General Fund Provisional Capital Budget Volume and 2017/18 Housing Rent Setting Report – Appendix 1). Similar commitments at 31 March 2016 totalled £20.121 million (gross). The major commitments (on a gross basis) are detailed within Note 38 on page 73.

Capital Borrowing / Non Current Assets
The council has several sources of borrowing to fund capital expenditure, the most significant of which is the Public Works Loan Board (PWLB), a Government sponsored body set up with the primary purpose

of lending to U.K. local authorities. Capital debt being carried by the Council amounted to some £168.184 million at 31 March 2017, with £127.147 million attributable to the General Fund, £35.097 million to the Housing Revenue Account and £5.940 million to the former Tayside Police Joint Board. The costs associated with this Police debt are paid by Police Scotland.

On the General Fund, borrowing increases overall indebtedness and consequently the level of principal repayments and loan interest to be paid increases each year. The funding of Housing Revenue Account capital expenditure has previously included more significant amounts of borrowing. Due to the reduced nature of the 2016/17 capital plan, combined with levels of capital receipts and revenue funding available, it has however not been necessary to take any new Housing Revenue Account borrowing in 2016/17.

Funding of Capital Expenditure
The level of capital spend undertaken by local authorities is governed by the provisions of The Prudential Code whereby any borrowing is required to be prudent, sustainable and affordable.

Note 40 outlines the capital expenditure undertaken during 2016/17 by Angus Council and how this was funded. The gross capital expenditure of £39.103 million (excluding PFI/PPP life cycle investment) was funded through borrowing (19.0%), sale of assets (3.8%), contribution from revenue and Capital Fund (37.2%), with the remainder (40.0%) being met from grants received / other income.

The receipts which are generated from the sale of surplus assets (e.g. land, buildings, equipment) are used to fund capital expenditure (both General Fund and Housing). Whilst the majority of receipts are generally applied to the capital programme in the year of receipt, unused receipts are held in reserve for use in future financial years. Capital receipts may also be ring-fenced towards specific projects subject to prior committee approval (for example, the proceeds from the sale of vehicles are retained by the Communities directorate to be utilised towards the purchase of new vehicles).

Assets and Liabilities
The Balance Sheet on page 27 summarises the Council's assets and liabilities as at 31 March 2017 and explanatory notes are provided. Total net assets have decreased by £78.698 million to £389.300 million. Within this headline figure, there have been significant changes in both asset values and liabilities. Property, plant and equipment have increased by £25.649 million. On the liabilities side the pensions' liability has increased by £72.521 million. The major changes in the Council's Balance Sheet between March 2016 and March 2017 are explained in more detail in the following paragraphs.

Reserves
The Council complies with the requirements of the CIPFA Guidance Note on Local Authority Reserves and Balances issued in November 2008 and reviews at least annually its reserves position and future needs. At 31 March 2017 the Council's overall usable reserves stood at £40.811 million which is approximately 9.8 % of gross expenditure across all activities. These reserves provide cover for future revenue and capital expenditure in both General Fund services and Housing and are considered to provide an adequate level of protection against unforeseen events. These reserves will also provide flexibility to help meet future spending needs and pressures. Taking into account the uncommitted balance of £0.334 million and the policy contingency of £4.000 million, some £4.334 million of headroom exists within the General Fund Balance at 31 March 2017 which represents approximately 2% of the budgeted net expenditure on General Fund services for 2016/17, the same as the position in 2014/15. Taking into account commitments and the set contingency level, some £1.000 million of headroom exists within the HRA which represents approximately 3.8% of budgeted gross expenditure for 2016/17 and compares with 3.9% in 2015/16 (gross expenditure has been used as the HRA budgeted net expenditure is zero).

Non-current and Current Assets
Property, Plant & Equipment have increased in value by £25.649 million to £821.876 million. An increase in asset values resulting from major capital investment and a revaluation exercise of some assets was offset by depreciation charges for the year. Short term investments have increased by £5.003 million and cash equivalents has decreased by £2.978 million.

Pensions Position
The pension accounting requirements of International Accounting Standards (IAS 19) have been applied to the accounting statements. Under these requirements, costs of services delivered by the council are restated to include an actuarially assessed cost of the increased liability falling upon the council in respect of employee pensions under the Local Government Pension Scheme. This is as

opposed to the actual employer contributions paid during the year in accordance with the Scheme. Adjustments are made to ensure that the impact on council tax and housing rents from the IAS 19 presentational requirements is neutral.

The IAS19 requirements also lead to the creation of a Pension Asset or Pension Liability offset by a Pension Reserve. At the 31 March 2017 there was a Pension Liability of £197.186 million with a corresponding negative Pension Reserve. This Pension Liability is the difference between the value at 31 March 2016 of the Scheme's assets (investments, etc) attributable to the council and the present value of the liabilities relating to pensions for council employees (past and present). Thus if the council were to have discharged its responsibilities at 31 March 2017 there would have been a shortfall of some £197.186 million. The Pension Liability of £197.186 million compares with £124.665 million for the previous year – an adverse movement of £72.521 million.

As noted above, these liabilities are expressed in present value terms rather than the cash amount that will eventually be paid out in order to allow for the "time value of money". This is undertaken by discounting these future cash amounts by use of a corporate bond rate. The corporate bond rate used for the valuation as at 31 March 2017 was 2.87% (2015/16 3.7%). The increase in cost of future liabilities is a result of a change in the financial assumptions applied under the IAS 19 Standard.

It is also important to recognise that this snapshot scenario is not a provision within the Scheme. The Scheme is a long term operation and periodic actuarial assessment is made of the rate of contribution that the council as an employer has to pay to the Pension Fund to ensure that it meets its long term liability. The 2016/17 Local Government Finance Settlement and the council's budget process provided the resources required to meet the council's net service expenditure in 2016/17. It is anticipated that future settlements, aligned with the council's budget process, will provide sufficient resources to finance future liabilities. It is, therefore, considered appropriate to adopt a going concern basis for the preparation of the Accounting Statements.

Long-term and Short-term Borrowing
The Council's overall borrowing reduced by £0.613 million during the year. Short-term borrowing increased by £0.134 million whilst long-term borrowing decreased by £0.747 million. This reflects the funding of the capital programme this year and repayment of borrowing.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from market loans and from borrowing from the Public Works Loan Board. Further details are provided at Note 42. The Council regulates its capital spending limits within a prudential framework recommended by CIPFA and endorsed by the Scottish Government. Each year, the Council calculates its capital financing requirement (CFR) for the forthcoming year. The CFR is a prudent assessment of the external borrowings for capital investment purposes that are affordable and sustainable over the longer-term. The Council's external borrowings have only been for capital investment purposes.
The Council has low debt per head of population compared to other local authorities in Scotland in both General Fund services and Housing and the proportion of our net revenue income which is taken up by debt charges is expected to remain below the Scottish average for both these areas of service. The Council remained within its borrowing limits throughout 2016/17 and complied with its treasury management strategy for the year. The indicators listed in the key financial ratios section above, reflect a snapshot of the position as at 31 March 2017.

In line with proper treasury management practice, the Council does not borrow for specific projects or areas and it is not therefore possible to split the General Fund, HRA or former Tayside Police positions within the earlier indicators.

The Council's external borrowing remained below its capital financing requirement throughout the 2016/17 financial year.

Provisions, Contingencies and Write-offs
The council has a provision of £10.181 million included within short term debtors for bad debts (sales ledger, council tax, housing rents) as at 31 March 2017. There was a write-off against the bad debt provision during the year of irrecoverable debt due to the Council of £0.440 million for Council Tax and £0.376 million of sales ledger debts which was approved by the Head of Corporate Finance under delegated authority. £0.310 million was also written off in respect of council house rents.