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**REPORT TO: MORAY COUNCIL EMERGENCY CABINET ON 1 JULY 2020**

**SUBJECT: UNAUDITED ACCOUNTS FOR 2019/20**

**BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)**

**1. REASON FOR REPORT**

- 1.1 The Emergency Cabinet is asked to consider the unaudited Annual Accounts for the year to 31 March 2020 for both the Moray Council and the Connected Charity Trust Funds administered by the Council.
- 1.2 This report is submitted to the Emergency Cabinet following a decision of Moray Council on 17 June 2020 to convene a meeting of the Emergency Cabinet as and when required until a new simplified Committee structure commences on 2 September 2020, due to the COVID-19 pandemic.

**2. RECOMMENDATION**

- 2.1 It is recommended that the Emergency Cabinet considers and notes:
- (i) the unaudited Annual Accounts for Moray Council for the year ended 31 March 2020; and
  - (ii) the Moray Council Connected Charity Trust Funds Trustees' Report and Financial Statements for the year ended 31 March 2020.

**3. BACKGROUND**

- 3.1 The unaudited Accounts for 2019/20 for the Council and for the Connected Charity Trust Funds administered by Moray Council will be posted to the Council's website after this meeting.

**Moray Council Annual Accounts**

- 3.2 These accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2-16/17 (the Code) which is underpinned by International Financial Reporting Standards (IFRS). They

summarise the Council's financial transaction for the year to 31 March 2020 and give a snapshot of the Council's net financial worth as at 31 March 2020.

- 3.3 The regulations require the unaudited Annual Accounts to be presented to the external auditor by 30 June and for the Council to consider before 31 August. The regulations have been relaxed in response to the COVID-19 pandemic but the relaxations mainly relate to the timing on the audit. The inspection period for the accounts, with the agreement of our external auditor, has been delayed to ensure that the advertised period is complied with. This was a risk mitigation and in fact the accounts have been prepared within the normal statutory limits, albeit only just.
- 3.4 The Code requires the Council to set out a statement not only of its own financial position but also of the financial position of all the entities or activities for which the Council is responsible or in which it has a significant financial interest. These entities are encompassed in the Group Accounts, which are included in the Annual Accounts. The Group Accounts for 2019/20 include Trust Funds and Common Goods as entities or activities for which the Council is responsible and the Moray Integration Joint Board, Grampian Valuation Joint Board and Moray Leisure Limited as associate bodies.
- 3.5 There are four core statements in the Annual Accounts: the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement. These are considered below.
- 3.6 **The Comprehensive Income and Expenditure Statement** expresses the income and expenditure of the Council over the past financial year in a format which complies with IFRS. This includes entries relating to revaluation of assets and other entries which, by statute, cannot be a charge to the Council Tax payer.
- 3.7 The Statement shows a surplus of £42,099,000, which includes a net increase of £12,179,000 for the revaluation of the Council's assets plus a decrease for the re-measurement of the liability for the Council's defined benefit pension fund of £21,437,000. This leaves a deficit on the Provision of Services of £8,483,000. After adjustment for items not chargeable to Council Tax or to housing rent payers, this "book deficit" equates to a surplus of £9,162,000. This is reflected in the Movement in Reserves Statement.
- 3.8 **The Movement in Reserves Statement** shows the movement on the different reserves held by the Council, analysed into unusable and usable reserves.
- 3.9 Unusable reserves arise from accounting entries required to comply with IFRS but which cannot impact on the level of Council Tax or housing rent payable.
- 3.10 Usable reserves align with the basis on which the Council sets its budgets. They therefore show the direct financial impact for the Council Tax payer and Council house tenant of the financial activities of the past year.
- 3.11 As noted in paragraph 3.7, usable reserves increased by £9,162,000. The largest part of this comprises an increase in General Fund reserves in

2019/20 of £6,131,000. Note 13 to the Accounts shows an analysis of the General Fund balance, which consists of a free reserve, the Devolved School Management (DSM), balance and various ear-marked or otherwise restricted funds.

- 3.12 The DSM balance increased by £456,000. Under the DSM scheme schools may carry forward unspent balances of up to 2.5% of the devolved budget or overspends of up to 5%. At the year end a number of schools had underspends in excess of this amount, due to the closure of schools following lockdown and the subsequent inability of suppliers to deliver goods which had been ordered towards the end of the financial year. The funds had been committed but cannot count as expenditure in the financial year as the goods had not been received. One school had an overspend in excess of 5% due to a concatenation of unusual circumstances during the year, relating to staff illnesses and changing roll numbers. A recovery plan is in place. In normal circumstances such departures from the DSM scheme would be reported to Children and Young People's Services Committee requested permission to carry forwards the amounts. Due to COVID-19 restrictions that was not possible and approval was required before the accounts were prepared in order that carry forwards could be recognised appropriately. In recognition of the mitigating circumstances the Chief Executive exercised his delegated powers under paragraph 5(7) of the Scheme of Delegation to authorise these carry forwards.
- 3.13 Ear-marked reserves are held for the expansion of Early Learning and Childcare (ELC) and for the Pupil Equity Fund (PEF). In both instances funding is given on a financial year basis and spent on an academic year basis, resulting in balances held at the year end of funds given for specific purposes. The movement on the funds at the year end was ELC increase of £364,000 and PEF increase of £77,000.
- 3.14 A new ear-marked reserve was approved by Policy and Resources Committee on 3 September 2019 for council priorities and financial stability. As approved by Policy and Resource Committee on 3 September 2019 and council on 12 February 2020 (minute refs) £2.881 million was transferred into the ear-marked reserve.
- 3.15 The balance of the General Fund is the free reserve. When the budget for 2020/21 was approved on 3 March 2020, it was estimated that there would be a free reserve of £10,004,000. The actual result for the year is a balance of £13,640,000 in free reserves. A full report on the budget variances for the year will be made to Council on 2 September. The main variance contributing to the difference is £1.8 million income to be retained under the Business Rates Incentivisation Scheme (this was notified to the Council in April 2020). The Council had also received additional funding totalling £1.2 million for a variety of initiatives. The funding was not spent in 2019/20 but at least some will be required in 2020/21. This will be assessed with departments and reported to members.
- 3.16 **The Balance Sheet** summarises the Council's assets and liabilities as at 31 March 2020. This includes pension liabilities falling due in future years, which will be financed by pension contributions through the Council's revenue expenditure. Assets of £959 million are partially offset by liabilities of £448

million, leaving a net worth of £512 million, which represents the total value of the Council's usable and unusable reserves. Assets and liabilities are measured by a variety of means and the COVID-19 outbreak means that there is less certainty around some of the estimations than would normally be the case.

- 3.17 **The Cash Flow Statement** shows the movement in cash and cash equivalent during the financial year, a decrease of £2 million.

### **Connected Charity Trust Funds administered by the Council**

- 3.18 All 26 councillors as trustees are responsible for preparing the Trustees Annual Report and the Financial Statements in accordance with applicable law and regulations. The law applicable to charities in Scotland requires the trustees to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). The trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period.
- 3.19 The financial statements for the Connected Charity Trust Funds have been prepared under the historic cost convention modified by the inclusion of investments at fair value, in accordance with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the principles of Accounting and Reporting by Charities: Statement of Recommended Practice 2015 (FRS 103), commonly referred to as the Charities SORP.
- 3.20 In line with Regulation 7 of the 2006 Regulations, these financial statements have been prepared on the basis that the trust funds for which the Council acts as sole trustee are connected charities. As such the accounts for these individual charities have been prepared on a collective basis.
- 3.21 During the year one trust was transferred into the Moray Council Charitable Trust. Moray Council now administers 29 registered charitable trusts for which it is sole trustee, with a total net worth at 31 March 2020 of £868,000.
- 3.22 Separate financial statements covering all the Council's charitable trusts are published on the Council's website.

## **4. SUMMARY OF IMPLICATIONS**

### **(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

The unaudited Annual Accounts have been completed within the target timescale.

**(b) Policy and Legal**

The Local Authority Accounts (Scotland ) Regulations 214 require a local authority to submit a set of accounts to its external auditor by 30 June and for the Council to consider these before 31 August.

The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which is underpinned by IFRS.

The Connected Charities unaudited financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and with the provisions of the trusts deeds.

**(c) Financial implications**

The Annual Accounts provide extensive information about the Council's and its Connected Charity Trust Funds' financial position at 31 March 2020

**(d) Risk Implications**

There are no risk implications arising directly from this report. The Annual Accounts will be subject to an audit by the Council's external auditors, Audit Scotland, who will provide assurance that the accounts for 2019/20 give a true and fair view of the financial position and income and expenditure of the Council and its Group for the year.

Audit Scotland will also audit the Council's Connected Charity Trust Funds Trustees' Report and Financial Statements and provide a report to members on their findings.

**(e) Staffing Implications**

Many staff across the Council provide information for inclusion in the Annual Accounts. The process commences before March and is only completed once the audit of the Accounts is finalised, which this year is anticipated to be in November.

**(f) Property**

There are no property implications arising from this report.

**(g) Equalities/Socio Economic Impact**

There are no equalities issues or impact on the socio-economic duty arising directly from this report.

**(h) Consultations**

Members of CMT have been consulted in the preparation of this report.

**5. CONCLUSION**

- 5.1 The unaudited Annual Accounts shows the Council's financial position as at 31 March 2020. The audited accounts for 2029/20 will be submitted to a Council meeting in November 2020 along with any findings and recommendations from our external auditors, Audit Scotland.**

Author of Report: Lorraine Paisey, Chief Financial Officer  
Background Papers:  
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