

To: POLICY & RESOURCES ( FINANCE) SUB –COMMITTEE		Subject: ANNUAL ACCOUNTS 2005/2006 AND FINANCIAL OUTTURN POSITION
From: DIRECTOR OF FINANCE		
Date: 12th July 2006	Ref AC/JV/PH	

**1. Introduction**

- 1.1 The purpose of this report is to inform Committee that the annual statutory accounts of the Council for the year ended 31 March 2006 have been submitted to the Controller of Audit by the due date of 30 June. The Audit and Governance Panel at its meeting of 23 June 2006 approved the submission of these unaudited Accounts by the Director of Finance. The report also describes any major variations against the Council's annual budget for the year 2005/2006 within section 3 of the report.
- 1.2 Copies of these unaudited accounts are available in the Members library for information.

**2. General Fund Account**

- 2.1 The Council's budget for 2005/2006 was constructed to utilise £1.790m of brought forward balances. Net expenditure for the year was £16.502m giving an adverse variation of £14.712m. The major elements of the overall position highlighted within the annual accounts can be summarised as follows:

	<u>£000</u>
Provision for Equal Pay Compensation	23,552
Commitments to be c/f to 2006/2007	(1,684)
Savings on External Borrowing Costs	(1,691)
Improved PPP/Trading Surpluses	(269)
Departmental Expenditure Reviews 2005/2006	(4,367)
Increase in Revenue Support Grant	(494)
Increase in Local Tax Collection	(335)
Total Movement against Budget	<u>14,712</u>

- 2.2 The net expenditure for the year of £16.502m has been deducted from the overall balance of £12.638m brought forward from 2004/2005. This has resulted in a temporary deficit balance of £3.864m to be carried forward into 2006/2007.
- 2.3 The Council has recognised the need to fund the ongoing impact of the equal pay compensation framework and has taken the appropriate financial action within the timeframe of its current three-year financial planning period (appendix 1 details the

equal pay compensation funding 2005/06 to 2007/08). The overall effect of the above has resulted in an anticipated amount of unused resources totalling £1.991m. This compares with the anticipated level of available resources of £2m reported to the Committee within my previous Probable Outturn Report. This position can be summarised as follows:

	£000	£000
<b>Cumulative General Fund deficit as at 31<sup>st</sup> March 2006</b>		<b>3,864</b>
<b>Add: Earmarked Funds</b>		
Winter Maintenance Reserve	600	
Roads Maintenance Reserve	100	
Waste Disposal Fund	615	
External Funding Group Commitments	<u>369</u>	1,684
<b>Add: Approved Use of Balances in 2006/07</b>		
Care of Gardens Scheme	<u>116</u>	116
<b>Add: approved Contingency Level</b>		8,000
<b>Less : Budget Decisions</b>		
Budgeted balances to be generated during 2006/07	12,655	
Budgeted balances to be generated during 2007/08	<u>3,000</u>	15,655
 <b>Total Undistributed Resources within three-year Planning Period</b>		 <b><u>1,991</u></b>

## 2.4 Trading Activities

From an operational perspective all trading activities achieved financial surpluses the total of which amounts to £2.083m. However, due to the exceptional costs for equal pay compensation an amount of £7.991m requires to be included as a provision as at 31 March 2006. The overall impact is a resultant exceptional in year deficit of £5.908m across all trading activities. The financial position of each of the trading activities will return to normal in 2006/07.

## 3. Significant Movements against Budget for 2005/2006

### 3.1 Equal Pay Compensation Provision

The Council made a formal offer to those groups of employees that had been identified following an assessment of the relative risk from challenges under the Equal Pay Act 1970 and the Sex discrimination Act 1975. This offer, of 24 February 2006, is in the form of a compensation package extending up to 5 years dependant upon length of service. The overall provision of £23.552m is based on achieving a local settlement level of 90% with the balance of 10% being pursued through the formal Tribunal process.

### 3.2 Earmarked Funds carried forward into 2006/2007

Resources to an overall value of £1.684m have been identified during the closure of the 2005/06 financial year, which although budgeted for are earmarked for future expenditure requirements. These can be categorised into three broad categories:

- In order to even out the impact of potentially severe winters and to better utilise road maintenance resources the Council approved in December 2001 the ability to earmark resources into future periods. £0.7m has been set aside from the year end position to accommodate these commitments.
- Within the current financial planning period resources have been earmarked to build up a “sinking fund” to meet future costs associated with the ongoing development of a waste disposal strategy. The 2005/2006 financial year represents the commencement of this strategy and the sum of £0.615m represents this initial contribution.
- The ongoing success of the External Funding Group to attract new sources of funding to the Council is based upon extracting future commitment from external parties. To this end resources of £0.369m have been identified, from within the existing budgets, which are required to be carried forward to meet these ongoing match-funding obligations.

### 3.3 Savings on External Borrowing Costs

As previously reported, the Council was able to deliver significant debt management savings of £1.510m as a result of proactive initiatives within the Council’s long term debt portfolio and the planned reprofiling of loan debt. When the cash flow management savings of £0.181m are added to this then the result is an overall saving in external interest costs of £1.691m for the year ended 31 March 2006.

### 3.4 Improved PPP/Trading Surpluses

The combination of improved Trading Activity efficiency (£0.051m) and the final confirmation of improved dividend income from the Public Private Partnership arrangements (£0.218m) have contributed towards the council’s overall financial position.

### 3.5 Departmental Expenditure Reviews 2005/2006

In response to the development of the equal pay compensation framework the Council had a proactive review of all areas of non-essential expenditure during 2005/2006 which ultimately contributed some £4.367m towards these one-off costs. This primarily consists of the following:

	£000
Education - reduction in costs and proactive management of support staff vacancies	1.190
Housing & Property - operational efficiencies within Benefits verification and income from delay in disposal of Motherwell Town Centre.	0.792
Community Services - operational efficiencies and reprofiling of expenditure.	0.622

Finance	- operational efficiencies and staff turnover management.	0.522
Planning & Environment	- increased income generation	0.335
Miscellaneous	- savings in external funding requirements	0.324
Administration	- operational efficiencies in Administration Costs and additional income generation.	0.304
Chief Executive's	- Increased income in respect of Community and reprofiling of expenditure.	0.302
Other Areas (net)		<u>(24)</u> <u>4.367</u>

### 3.6 Increase in Revenue Support Grant

The Council has recently been notified by the Scottish Executive of the re-determinations of government grant support for the 2005/2006 year. Along with a total planned funding increase of £6.816m to support the implementation of areas such as Anti-Social Behaviour, Working for Families and Youth Justice, there is a residual increase of £0.501 from that previously anticipated.

### 3.7 Increase in Local Tax Collection

Council Tax collection exceeded the targeted figures by some £0.335m during 2005/2006. This was due to a combination of a small growth in the property base for the 2005/06 year, plus an anticipated windfall as collection rates exceed the 95% collection levels in prior years.

## 4. Other Areas of Income and Expenditure

- 4.1 A total of 21 projects have now been approved under the resources provided from The Energy Efficiency Fund, and the Housing and Property Department recorded expenditure of £0.339m on a total of 17 projects in the year. Annual revenue savings will be in the region of £0.155m once the payback periods have been achieved.
- 4.2 Outwith mainstream departmental budgets, which are both funded by the mechanism of the Revenue Support Grant, and span across a number of Council departments, several initiatives are given specific resources from the Scottish Executive. These include the Community Regeneration Fund, the Changing Children's Services Fund, Youth Justice Projects, the Anti-Social Behaviour Initiatives, the Community Voices Initiative and the Community Budgeting Pilot Project. Project expenditure achieved totalled £15.429m. Approval has now been granted from the Scottish Executive to carry forward the total value of unutilised resources into the 2006/07 financial year to the value of £2.591m.
- 4.3 In respect of the Strategic Waste Fund the Council has been able to utilise the full resources of £5.345m available from both capital and revenue sources.
- 4.4 Expenditure on the "Working for Families Fund" reached the level of £1.288m within the 2005/2006 year with an approved cumulative carry forward of unutilised resources of £1.049m being made into the 2006/2007 financial year.

## **5. Housing Revenue Account**

- 5.1 The level of efficiency achieved within the Housing Revenue Account for the 2005/2006 year has been confirmed at £0.934m which when added to the balance brought forward from the previous year results in a cumulative balance of £2.687m being available in future years. It may be prudent at this stage to consider setting aside a provision for current tenant arrears and this will be the subject of a further report by the Director of Housing & Property.
- 5.2 The most significant contribution to this position is the continued improvements being made by the Department in tackling the loss of rental income due from void rents.

## **6. Other Matters**

- 6.1 The Council has a controlling interest in a number of bodies that have been incorporated into summarised Group Account Financial statements. After consolidation, the accounts show a decrease in reserves and net assets of £495m or 45%. This is almost exclusively as a result of the incorporation of the Council's share of the combined deficits on the Police and Fire pension schemes. Given that both Police and Firefighters pension schemes are unfunded there are no attributable assets to offset future liabilities. However, the Scottish Executive effectively underwrites these liabilities through the Revenue Support Grant mechanism.
- 6.2 The accounting position in relation the Council's pension arrangements highlight a headline deficit based on the standard FRS17 calculation of £200.743m, a reduction from £233.091m in the previous year. This is a snapshot based upon the prevailing market conditions as at 31 March 2006. Employer contributions, however, are based upon the longer-term funding valuation as at 31 March 2005 and future years contribution rates have been set to return the funding level back to a full 100%.

## **7. Conclusion**

- 7.1 It is pleasing to report that the unaudited accounts have been submitted by the statutory deadline of 30<sup>th</sup> June, an important measure of effective financial management. The accounts highlight a short-term deficit in the overall General Fund position exclusively as a result of the prudent recognition of the Council's longer-term equal pay compensation commitments. The effective financial management throughout the year and continuing into the remaining years of the current three-year financial planning period will ultimately result in anticipated resources of £1.991m being available for future consideration.

## **8. Recommendations**

- 8.1 The Committee is requested to note this report.



**Director of Finance**

*For further information, please contact Paul Hughes on tel. ext. 2671*

## Equal Pay Compensation Funding 2005/06 to 2007/08

	£000	£000
<b>1. Balances Contained within Cumulative Surplus at 1.4.2006</b>		
a. surplus b/f from 2004/05 Audited Accounts	1,848	
b. Risks & Uncertainties b/f from 2004/05 Accounts	1,000	2,848
<b>2. Balances Generated during 2005/06</b>		
a. Departmental Underspends	4,000	
b. Review of Loan charge Profiles	1,000	
c. Review of Council Tax	200	5,200
<b>3. Balances to be Generated during 2006/07</b>		
a. Review of Loan charge Profiles	700	
b. Review of Council Tax	500	
c. One -off Growth in Revenue Estimates	1,533	
d. Excess Education "affordability" gap in Estimates	3,000	
e. Community Regeneration Fund Slippage (capitalisation)	1,830	
f. Departmental capitalisation of Expenditure	5,092	12,655
<b>4. Balances to be Generated during 2007/08</b>		
a. Excess Education "affordability" gap in Estimates	3,000	3,000
 <b>TOTAL RESOURCES</b>		 <b>23,703</b>