

EAST AYRSHIRE COUNCIL

COUNCIL MEETING – 22 JUNE 2006

FINANCIAL STATEMENTS 2005/06

Report by Executive Head of Finance

1 PURPOSE OF REPORT

- 1.1** To submit the Financial Statements for the year ended 31 March 2006 to the Council and to seek approval to forward them to the Controller of Audit.

2 BACKGROUND

- 2.1** The Local Authority Accounts (Scotland) 1985 Regulations require the Executive Head of Finance to prepare Accounts as soon as practicable after the end of each financial year and to submit these to the Authority and to the Controller of Audit by 30 June of the next financial year.

3 INTRODUCTION

- 3.1** The Financial Statements show the actual figures for 2005/06 and the equivalent amounts for 2004/05. The Statements are set out in the format required by The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice.

4 2005/06 OUT-TURN

4.1 Overall Position

- 4.1.1** Gross revenue expenditure for the year was £360.697m. This represents the running costs of all Council services and illustrates the significant size and complexity of the Council's business.
- 4.1.2** The Financial Statements show capital expenditure in the year of £24.410m. This represents a considerable level of investment in Council assets including schools, roads and housing.
- 4.1.3** For 2005/06 there was a revenue fund surplus of £0.041m. When added to the balance brought forward from 2004/05 there is a cumulative surplus of £16.887m of which £8.541m is earmarked for use by individual departments in terms of the Councils budgetary arrangements. This arises from a variety of sources including slippage against planned commitments, income in excess of targeted levels, and limited national availability of staff in certain professional areas.

4.1.4 The uncommitted balance has reduced from £9.510m to £8.346m following the requirement for Equal Pay Compensation payments of £7.457m offset by a range of favourable variances including a higher than budgeted Building and Works surplus, increased Council Tax Yield, improved Benefit Subsidy recovery and reduced debt charges. The uncommitted balance remains within the range set out in the Council's reserves strategy which sets the optimum level of between 2% and 4% of the net budgeted expenditure which equates to between £5.8m and £11.7m.

4.2 Trading Operations

4.2.1 The Local Government in Scotland Act 2003 requires significant trading operations to break even over a three year period and guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) defines those operations where disclosure of performance is required.

4.2.2 A review of potential Trading Operations requiring disclosure in the Financial Statements carried out in 2004 concluded that whilst no new disclosure requirements were evident, all of the Trading Accounts maintained by the Council and disclosed previously should continue to be disclosed on the basis that the services' charging arrangements have not moved significantly from the former CCT arrangements and that the Trading Accounts maintained are regarded as an essential performance management mechanism. It was noted that the Act allows this to be reviewed on a case by case basis however and departments consider the efficiency, effectiveness and appropriateness of these arrangements as part of their service review programme. As a result, in 2006/07 Outdoor Amenities, Leisure Management, Street Cleansing, Refuse Collection and On-Site Services will no longer operate as trading operations and will instead form part of the respective departmental budgets.

4.2.3 All of the Council's trading operations delivered an outcome better than their statutory financial target with the exception of catering and cleaning trading operations. Accounting guidance requires Equal Pay compensation attributable to catering and cleaning staff to be shown against the appropriate trading services and therefore the Financial Statements show them to be in a deficit position for the three year accounting period.

5 APPROPRIATIONS

5.1 Renewals and Repairs Fund

5.1.1 The Housing Revenue Account shows a closing balance for the year of £0.381m. As in previous years Members are asked to approve the transfer of this surplus to the Renewals and Repairs Fund. The net effect of these transactions would be a closing balance of £1.966m available for the HRA within the Fund.

5.1.2 Excluding the impact of Equal Pay Compensation, all Trading Operations achieved surpluses for the year and in accordance with previously approved Council policy on year-end flexibility it is proposed to transfer the approved element of those surpluses to the Renewals and Repairs Fund, with the individual amounts earmarked for the relevant Trading Operation.

Trading Operation	Budgeted Surplus	Actual Surplus	Variance	Proposed Transfer to Renewals and Repairs Fund	Balance to General Fund
	£000	£000	£000	£000	£000
Onsite	169	197	28	14	183
Roads	40	80	40	20	60
Vehicle Maintenance	10	72	62	31	41
Street Lighting	10	93	83	42	51
Refuse Collection	25	57	32	16	41
Street Cleaning	20	82	62	31	51
Leisure Management	12	20	8	4	16
Outdoor Amenities	29	63	34	17	46
Building and Works	690	3.236	2.546	100	3.136
Total	1.005	3.900	2.895	0.275	3.625

5.1.3 The Outdoor Amenities trading operation utilised a transfer from the Renewals and Repairs Fund of £0.118m during 2005/06.

5.2 Capital Fund

5.2.1 The Council previously approved the establishment of a Capital Fund. It has been the practice to credit income from the sale of surplus assets to the fund and it is proposed that this be continued. In order to ensure that adequate resources are available for the management of assets including costs of assessment, demolition and disposal, a Property Disposal Fee is levied on all such sales. This results in a net credit to the Capital Fund of £0.413m for the year and a closing balance of £5.890m.

5.3 Insurance Fund

5.3.1 The Financial Reserves Strategy points to a need to build up the Insurance Fund to a level which will enable the extent of external insurance cover to be reduced. This will be done in tandem with the completion of the Risk Management Centre at London Road Headquarters. The Fund will be used as a buffer to cope with possible peaks and losses and the aim is to have an established balance of £5m. Work on the Risk Management Centre is scheduled to commence in October 2006 and consequently a transfer of £1.743m is proposed to increase the Fund balance to £3.250m in anticipation of a further appropriation in March 2007 to reach the suggested level.

6 GROUP ACCOUNTS

- 6.1** New guidance issued by Audit Scotland has resulted in a requirement to include the Council's interest in the Kilmarnock Leisure Centre Trust and joint boards within the financial statements. A Group Income and Expenditure Account and Group Balance Sheet are therefore included for the first time which reflect the Council's financial interest in these organisations.

7 PUBLIC INSPECTION

- 7.1** The Financial Statements once submitted to the Controller of Audit will, at her request, be made available for public inspection and will be the subject of audit for a period of up to three months.

8 RECOMMENDATIONS

It is recommended that members:

- 8.1** approve the transfer of £0.381m from the Housing Revenue Account to the Renewals and Repairs Fund;
- 8.2** approve the transfer of £0.275m from Trading Operations to the Renewals and Repairs Fund;
- 8.3** approve the transfer of £0.413m to the Capital Fund indicated in paragraph 5.2.1;
- 8.4** approve the transfer of £1.743m to the Insurance Fund indicated in paragraph 5.3.1;
- 8.5** approve the Financial Statements for 2005/06 accordingly and instruct that they be forwarded to the Controller of Audit; and
- 8.6** otherwise note the contents of this report.

Alex McPhee
Executive Head of Finance

AMcP/DMW
12 June 2006
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LIST OF BACKGROUND PAPERS

NIL

Members wishing further information should contact Alex McPhee, Executive Head of Finance, Telephone (01563) 576300.