

**2008/09 UNAUDITED ACCOUNTS**

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**1. SUMMARY**

- 1.1 The accounting surplus for the year per the Income and Expenditure Account is £9.149m. The balance on the General Fund has increased by £2.768m. Once contributions to PPP smoothing funds, second home council tax income awaiting distribution and funds earmarked during 2008-09 are adjusted the surplus for 2008-09 compared to budget amounts to £0.933m.
- 1.2 The free General Fund Reserve is £Xm. There are substantial sums earmarked and committed in the General Fund Reserve amounting to £Xm giving a total balance on the General Fund of £33.774m.
- 1.3 The unallocated balance of £Xm represents X% of the Council's budgeted net expenditure for 2009-10. A separate report on earmarking of the General Fund balance and the "free" general fund balance is to follow.
- 1.4 The net worth of the Council has decreased by £18.182m from £113.842m at 31 March 2008 to £95.660m at 31 March 2009. This is merely a decrease in the accounting worth of the Council and does not represent a decrease in the spending power of the Council.
- 1.5 Fixed assets have increased in value by £15.586m. The Council had net short term borrowing at 31 March 2009 of £3.747m compared a net investment of cash, bank and short term borrowing of £38.849m at 31 March 2008. The Council used cash balances to repay debt during 2008-09 and reduce exposure to external investments.
- 1.6 The Roads and Lighting Trading Account met the requirement for a 3 year rolling breakeven position. The Catering and Cleaning Trading Account returned a surplus of £0.973m for the year, however failed to achieve a 3 year rolling breakeven position.
- 1.7 Council tax income has decreased from £46.493m in 2007-08 to £45,811m in 2008-09. However Council tax income exceeded budget by £0.474m after adjusting for the council tax on second homes.
- 1.8 Group Accounts are currently being prepared and it is anticipated these will be available on the day of the Council meeting.
- 1.9 The statement of internal control is prepared on a group basis and indicates areas for further development in the internal control systems of the Council. This cannot be finalised until the Group Accounts are complete and should be available on the day of the Council meeting.

## **2. RECOMMENDATIONS**

2.1 Members note the unaudited accounts.

## **3. DETAIL**

### **3.1 Introduction**

3.1.1 There is a statutory requirement to prepare a set of Accounts and submit the Accounts to the Controller of Audit and the Council. The date set by the Scottish Government for submission of the Accounts is 30 June of each year.

3.1.2 It should be noted that the Accounts have still to be audited. The Audit Committee at its meeting in September will be advised by the external auditor of any material issues coming to light during the audit and any changes to the Accounts. The Audited Accounts, Audit Certificate and Auditors final report will be submitted to the November meeting of the Council. Figures are therefore subject to change.

3.1.3 In relation to the format of the Accounts the SORP requires presentation of an income and expenditure account which shows the surplus or deficit in accordance with the SORP and a separate statement that adjusts and reconciles this for central government regulation to give the movement on the General Fund Reserve which in crude terms is equivalent to the impact on council tax.

3.1.4 The Council is required to prepare group accounts. These will be presented towards the end of the Accounts and will be circulated separately for the Council meeting as they are still being prepared.

### **3.2 Income & Expenditure Account**

3.2.1 The Council ended the year with an accounting surplus of £9.149m for 2008-09 compared to a surplus of £5.065m for 2007-08. This is the accounting surplus based on the SORP compliant accounts rather than the movement in the General Fund Balance.

3.2.2 Income from taxation and government grants totalled £254.916m for 2008-09 compared to £221.946m for 2007-08. An increase of £32.970m (12.9%). This includes revenue support grant up from £142.282m in 2007-08 to £174.047m in 2008-09, non domestic rates up from £33.171m in 2008-09 to £35.058m in 2008-09 and council tax down from £46.493m in 2007-08 to £45.811m in 2008-09.

- 3.2.3 Net operating expenditure increased from £216.881m in 2007-08 to £245.767m in 2008-09. An increase of £28.886m (13.3%).

Both central government funding in the form of revenue support grant and expenditure have increased substantially on the face of the income and expenditure account. This is not new funding/expenditure but a change in the way the Scottish Government release funding to Local Authorities. The 2008-09 Finance Settlement saw the mainstreaming into the general revenue support grant the majority of previously ring fenced specific grants, such as Supporting People and the National Priorities Action Fund (NPAF). This change in funding mechanism accounts for what appears to be a significant increase in expenditure.

### 3.3 General Fund Balance

- 3.3.1 The balance on the General Fund at 31 March 2009 stands at £33.774m compared to £31.006m at 31 March 2008. An increase of £2.768m. The "free" General Fund Balance stands at £Xm at 31 March 2009. This equates to X% of the budgeted net revenue expenditure for 2009-10. There are a range of balances earmarked within the General Fund Balance. These total £Xm.
- 3.3.2 The net surplus on the Income and Expenditure Account of £9.149m less the adjustments required to be excluded when determining the movement of the general fund balance of £6.381m equates to the increase in the balance on the General Fund of £2.768m.
- 3.3.3 The net adjustment to the surplus per the Income and Expenditure Account to reflect the impact on council tax is a debit of £6.381m. In summary this debit represents the difference between:
- Principal repayment to the loans fund and the depreciation on amortisation of fixed assets and government grant and any gain/loss on sale of assets
  - Cash paid as pension contributions and the costs charged in accordance with FRS17.
  - Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the SORP.
  - Capital element of schools NPDO Payment and build-up of debtor to reflect the residual value of the NPDO schools at the end of the contract.
- 3.3.4 The table below summarises the surplus for the year of £0.933m compared to budget. This is after adjusting for earmarked funds carried forward. In summary departmental expenditure was contained within budget and savings on loan charges and additional council tax income are the main factors giving rise to the surplus.

	£
Increase in council tax income	0.474
Savings in loan charges	0.465
Net overspend on departmental expenditure compared to budget	<u>(0.006)</u>
Surplus against budget 2008-09	0.933

3.3.5 The overall movement in the General fund is summarised in the table below. In addition to the surplus compared to budget of £0.933m funds have been earmarked which in total amount to £Xm. These together with the transfers to services during 2008-09 from the General Fund of £9.002m reconcile to the yearend General Fund balance.

	£m	£m
Balance on General Fund 31 March 2008		31.006
Less budgeted transfer to services 2008-09		<u>9.002</u>
		22.004
Add surplus against budget 2008-09		0.933
Add earmarked funds for 2008-09		
Council Tax on second homes	1.787	
Contribution to smoothing funds	2.920	
Funds earmarked by departments	x.xxx	
		<u>x.xxx</u>
Balance on General Fund 31 March 2009		<u>33.774</u>

3.3.6 A separate report on earmarking of the General Fund balance and the “free” general fund balance is to follow.

3.3.7 Despite a number of financial pressures identified during the year the Council has been able to maintain its General Fund Balance. In overall terms expenditure was contained within budget.

#### 3.4 Statement of Total Recognised Gains and Losses

3.4.1 This analyses the decrease in the net worth of the Council from 31 March 2008 of £113.842m to £95.660m at 31 March 2009 based on the Balance Sheet. This is a decrease in the net worth of the Council in accounting terms and does not represent a decrease in the spending power of the Council. The increase in pensions liability of £31.919m offset by an increase from revaluation of fixed assets of £7.753m are the main factors giving rise to the decrease in net worth. The increase in the pension liability is due to lower than expected returns from asset investment markets and this do not represent a change in the resources available to the Council.

### 3.5 Balance Sheet

- 3.5.1 As indicated above the accounting net worth of the Council has decreased by £18.182m from £113.842m at 31 March 2008 to £97.076m at 31 March 2009.
- 3.5.2 The value of fixed assets has increased from £333.828m at 31 March 2008 to £349.414m at 31 March 2009. An increase of £15.586m (4.7%). This comprises a net upward revaluation of fixed assets and capital expenditure less the value of fixed assets disposed of.
- 3.5.3 Current assets have decreased from £63.920m at 31 March 2008 to £36.097m at 31 March 2009. This is a decrease of £27.823m. The decrease is mainly in relation to a reduction of £35.216m in cash and bank reflecting the decision to make premature repayments of long term borrowing with surplus cash.
- 3.5.4 Current liabilities have increased from £40.211m at 31 March 2008 to £51.498m at 31 March 2009. The increase of £11.287m can largely be attributed to the need to arrange some short term borrowing around 31 March 2009 following the use of surplus cash to repay long term borrowing.
- 3.5.5 In comparing current assets and current liabilities then current liabilities at 31 March 2009 of £51.498m exceed current assets of £36.097m by £15.401m. Current liabilities are 143% of current assets. At 31 March 2008 the position was current assets at 31 March 2009 were £63.920m and this exceeded current liabilities of £40.211m by £23.709. Current liabilities are 63% of current assets.
- 3.5.6 Overall long term liabilities have decreased from £245.352m at 31 March 2008 to £241.582m at 31 March 2009. The decrease of £3.770m masks some significant movements.
- Long term borrowing has decreased from £187.476m to £145.724m as the Council repaid debt during the year and reduced its cash balances placed with financial institutions as a direct result of the “credit crunch”. A reduction of £41.752m.
  - The FRS17 valuation of the pension scheme liability increased from £0.598m to £32.517m. An increase of £31.919m.
  - There was also an increase in government grants of £12.935m in relation to fixed assets offset by a reduction in the provision of £4.897 to cover single status back pay resulting in a net increase in other long term liabilities of £6.063m.
- 3.5.7 It should be noted that at 31 March 2009 fixed assets valued at £349.414m exceed the level of long term borrowing and deferred government grants of £206.285m by a £143.129m. Long term borrowing and deferred government grants represent 59% of the value of fixed assets. The equivalent figures at 31 March 2008 were fixed assets of £333.828m with long term borrowing and deferred government grants of £236.961m representing 71% of the value of the fixed assets.

3.5.8 In summary capital expenditure and revaluations have increased the value of fixed assets but that is partially offset by an increase in deferred government grants, cash has been used to reduce long term borrowing and there has been an increase in the liability associated with the Strathclyde Pension Fund.

### 3.6 Cash Flow Statement

3.6.1 The Cash Flow Statement reports the flow of cash in and out of the Council. It covers revenue, capital and financing cash flows. The main points to note from this statement are as follows:

- The net decrease in cash of £37.094m is consistent with change in cash, bank and short term borrowing movement in the balance sheet.
- The net cash outflow from financing of £31.611m is consistent with the decrease in long term borrowing as per the movement in the balance sheet.
- The reduction in the net cash out flow from capital from £11.018m for 2007-08 to £7.431m for 2008-09 is due mainly to a reduction in the purchase of fixed assets.
- The net cost of servicing finance has reduced from £9.333m in 2007-08 to £8.424m in 2008-09 largely due to a significant year on year reduction of new loans raised and the repayment of debt during the year.
- The net cash flow from revenue activities fell from £30.591m in 2007-08 to £15.372 in 2008-09 and this is due to general increases in cash payments.

### 3.7 Notes to Accounts

3.7.1 The notes give further information and explanation to some of the key figures included in the accounts.

3.7.2 Notes 2.1 and 2.2 relate to trading accounts. The Council had previously decided to remove Waste and Leisure services from a trading account environment and the Building Maintenance trading account ended upon housing stock transfer. This leaves only Roads and Lighting and Catering and Cleaning.

3.7.3 Roads and Lighting achieved a surplus of £0.537m for 2008-09 and has met its 3 year breakeven targets with a rolling surplus 3 year of £0.813m.

3.7.4 Catering and Cleaning achieved a surplus of £0.973m for 2008-09. It has a rolling 3 year deficit of £1.099m. The large surplus reported during 2008-09 can be attributed to the reversal of the Single Status provision. All adjustments relating to Single Status have been processed, therefore it is anticipated that the service breakeven in future years.

3.7.5 The significant future financial commitments arising from the Waste Management PPP and Schools NPDO PPP are summarised in notes 9 and 10. The Council is committed to future payments of £105.846m over the period to 2027 for the Waste PPP and £383.192m over the period to 2035 for the Schools NPDO PPP.

3.7.6 Note 15 shows the Council's capital financing requirement (the amount of funding required to fully support its accumulated capital investment). This amounted to £192.089m at 31 March 2009 and this was financed as follows:

	£m
Long term borrowing	145.724
Short term borrowing	11.066
General Fund Balance	33.774
Other internal funds	1.525
Total CFR	192.089

### 3.8 Council Tax Income Account

3.8.1 Income taken to the General Fund for council tax in 2008-09 amounted to £45.811m compared to £46.493m in 2007-08. This is a decrease of £0.682m (1.5%). It is an increase of £0.474m compared to the budget of £46.285m adjusted for council tax on second homes.

3.8.2 In 2008-09 council tax rates were frozen at 2007/08 levels of £1,178 for a band D dwelling. The total council tax levied excluding second homes increased by £0.367m (0.7%) from £52.335m in 2007-08 to £52.702m in 2008-09.

3.8.3 Discounts, valuation and provision for bad and doubtful debts increased by £0.644m from £7.962m in 2007-08 to £8.606m in 2008-09.

### 3.9 Non Domestic Rate Income Account

3.9.1 Non Domestic Rate Income amounted to a share of £35.058m for 2008-09 allocated from the national pool. This compares to £33.171m in 2007-08. Our own net income amounted to £20.241m and we received a contribution from the national pool of £14.816m for 2008-09. These figures compared to income of £26.261m and a contribution from the national pool of £6.909m for 2007-08.

### 3.10 Group Accounts

3.10.1 For 2008-09 the Council is required to prepare Group Accounts. The Group Accounts comprises income and expenditure account, balance sheet, reconciliation statements and notes. The group accounts incorporate Common Good Funds as subsidiaries and Police, Fire and Valuation Joint Board as associates. At the time of preparing this report not all of the information is available to draft the Group Accounts. It is anticipated that the Group Accounts will be available for circulation at the Council meeting on 25 June 2009.

3.11 Statement on the System of Internal Control 2008/09

3.11.1 The Code of Practice on the Annual Accounts includes a requirement to prepare a statement on the system of internal control. My statement will appear on page 8 of the Accounts. The statement will cover the whole of the group accounts rather than just the Council on its own. The statement is drawn from the Internal Audit Manager's statement on the adequacy and effectiveness of the internal control system of the Council and also similar statements from other group bodies.

3.12 Budget Monitoring

3.12.1 A separate report on the year end monitoring position is to follow.

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