

2002/03 ANNUAL ACCOUNTS (UNAUDITED)

1. SUMMARY

Departments have adhered to approved budgets and savings have been generated in loan charges and local tax income. As a result, the General Fund Reserve has increased to £5.114m including £1.122m transferred on closure of the Insurance Fund and Renewal and Repairs Fund at 31 March 2003, £0.133m transferred from Housing Revenue Account and contributions from reserves during the year amounting to £0.845m. Part of the Reserve in the sum of £1.084m is ring fenced for specific purposes.

The Housing Revenue Account Reserve now stands at £0.423m down from £1.151m. The budgeted reduction was £0.468m.

Direct Labour Organisations and Direct Service Organisations achieved a net surplus overall of £0.073m although the Building Maintenance DLO returned a deficit of £0.204m.

It is particularly pleasing to note that Education have come within budget, when a requirement to contain expenditure by approx. £1.3m was identified early in the 2002/03 financial year.

The balance now on the General Fund Reserve should be retained to meet any future unforeseen expenditure.

2. RECOMMENDATIONS

2.1 Members note the unaudited accounts

2.2 Members agree to the retention of the General Fund Reserve at a level of £4.030m to meet any unforeseen future expenditure.

3. DETAIL

3.1 Introduction

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 Executive for submission of the Accounts is 30 June of each year.

It should be noted that the Accounts have still to be audited. The Auditors certificate and letter to Members will be submitted to Members immediately after the completion of the audit anticipated for 30 September 2003. Figures are therefore subject to change.

3.2 Outturn for the Year on the General Fund and the Housing Revenue Account

3.2.1 A surplus of £3.372m was achieved in the General Fund and a deficit of £0.636m in the Housing Revenue Account, excluding any brought forward balances. This includes a net contribution of £0.845m from reserves to the General Fund. Details are shown on the page in the Accounts headed "Consolidated Revenue Account".

3.2.2 The following table shows the variances between actual and budget for the year (where actual exceeds budget, the difference is shown as a bracketed figure). For the purpose of comparison, the budget for 2002/03 has been taken as the original approved budget plus any supplementary estimates agreed to by Committee. Adjustments to budget have also been made in respect of additional revenue support grant and items transferred from revenue to capital. In the case of Education, Finance and Transportation & Property, the costs associated with Directors early retirement have also been added. The Council gave approval prior to 31 March 2003 to the incurring of the early retirement costs and did not require the departments to contain this extra expenditure within the existing budget.

	£m
Education	0.068
Housing & Social Work	0.048
Transportation & Property	0.164
Development & Environment	0.079
Finance (incl Local Tax Administration)	0.184
Corporate & Legal (incl District Courts)	0.042
Chief Executive (Personnel, IT and incl Corporate Policy)	0.082
Loan Charges	0.880
Local Tax Income	0.978
Other	<u>0.002</u>
Total Saving	2.527
Contributions from reserves as budgeted	<u>0.845</u>
Surplus for year	<u>3.372</u>

3.2.3 The Education Department outturn coming within the approved budget is a significant achievement, given that the cost of delivering the service was identified to be approximately £1.3m greater than budget. The identification of the £1.3m was reported by the out posted finance team in Education, in June 2002 and correcting action implemented immediately.

External Audit have been asked by the Controller of Audit in Scotland to critically examine the Revenue Budget Monitoring Process now in place for Education. Their initial view is satisfaction with the improved process while recognising that further improvements are built into an ongoing action plan.

3.3 General Fund Reserve & Housing Revenue Account Reserve

3.3.1 *General Fund Reserve*

- (a) The General Fund Reserve at 31 March 2002 amounted to £0.487m. In February 2003, the Council agreed to close the Insurance Reserve and the Renewal & Repairs Reserve and transfer the balances to the General Fund Reserve. Accordingly the sum of £1.122m has been transferred as at 31 March 2003. The Council also agreed to transfer £0.133m from the Housing Revenue Account on account of a reduction in central support allocations. In addition, surplus of £3.372m has been achieved for 2002/03. Part of this surplus has to be regarded as earmarked. The sum earmarked is made up of the following:-

	£m
• <i>Waste Management PPP Smoothing Fund</i>	0.467
• <i>Corporate Property Strategy</i>	0.030
• <i>Area Revenue Budgets</i>	0.057
• <i>Modernising Government Fund</i>	0.098
• <i>Council Tax Benefit Admin Grant</i>	0.016
• <i>Digital Communities</i>	0.305
• <i>Three Islands Partnership</i>	0.041
• <i>Young Scot</i>	<u>0.070</u>
	<u>1.084</u>

As a result of the foregoing, the total sum in the General Fund Reserve, at 31 March 2003, is as follows:-

	£m
Balance b/f at 31 March 2002	0.487
Transferred from Insurance and Renewal & Repairs Reserves	1.122
Transferred from HRA	0.133
Surplus for Year	<u>3.372</u>
TOTAL	£5.114
of which earmarked amounts to	<u>1.084</u>
“Free” surplus	£4.030

- (b) At the Council Meeting in February 2003, consideration was given to the report on the Council’s Reserves and Balances. The report followed the publication of guidance by the Chartered Institute of Public Finance & Accountancy on maintaining a sufficient level of General Fund Balance to meet unforeseen events. The report recommended a build up of the General Fund Balance to £3m.

It can be seen that the amount of “free reserve” now standing at £4.030m achieves the recommended level.

My advice is that this balance should be retained to meet any unforeseen expenditure. In the event of a draw being made on the General Fund Reserve, the sum withdrawn should be replaced no later than the following financial year and this would normally be done by adding the sum to the amount to be raised through council tax, or identifying compensating savings not available in the previous year.

3.3.2 HRA Reserve

The Housing Revenue Account Reserve at 31 March 2002 amounted to £1.151m. A deficit of £0.636m has arisen for the year to 31 March 2003. A transfer to the General Fund of £0.133m was made to offset the reduction in central support allocations as agreed by the Council in February. Interest of £0.041 on the reserve balance has been added. The total sum carried forward at 31 March 2003 therefore amounts to £0.423.

3.3.3 Direct Labour Organisations & Direct Service Organisations

Overall, these organisations have achieved a surplus of £0.073m for 2002/03. This sum has been transferred to the General Fund and now forms part of the overall General Fund Reserve.

The Building Maintenance DLO was the only unit to return a deficit. This amounted to £0.204m and Members will recall that a projected deficit was reported through the Commercial Operations Board to the Council during 2002. Steps were taken to minimise the deficit and whereas a deficit of £0.157m was projected, the actual deficit can be broken down as follows:-

	Projected Deficit £	Actual Deficit £
Deficit on trading	0.157	0.105
Exceptional Items:-		
Redundancy Costs	-	0.069
Stock Write off	-	0.030
		0.204

It can be seen that successful efforts were made to minimise the deficit arising from normal trading. The action taken to minimise the deficit included the preparation of a new business plan. This was submitted to the Commercial Operations Board on 20 March 2003. Monitoring is now taking place against the revised plan. It is recognised that the position by mid 2003/04 is crucial and management are required to advise members on the future viability of the Building Maintenance DLO immediately following the mid point of the financial year.

3.4 Statement on the System of Internal Financial Control 2002/03

The Code of Practice on the Annual Accounts now includes a requirement to prepare a statement on the system of internal financial control. My statement appears on page number 37 of the Annual Accounts and is drawn from the Internal Audit Manager's statement on the adequacy and effectiveness of the internal financial control system of the Council. The Internal Audit Manager presented his statement to the Audit Committee on 30 May 2003.

My statement sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for Internal Audit.

Although some weaknesses in the system of financial control have been identified, most of these have been rectified between the time of Internal Audit identifying the weakness and the time of preparation of this report. The main item remaining outstanding is the completion of a Risk Register for the Council. It is estimated that the Risk Register will be completed by September 2003.

Stewart McGregor
Director of Finance
18 June 2003

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