



**Report to:** Council

**Date of Meeting:** 29 June 2006

**Report from:** Director of Resources

**Title of Report:** Member Approval of the Statement of Accounts for 2005/2006

**Agenda Item Number:** **14**

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**1. PURPOSE OF REPORT**

- 1.1 The Accounts and Audit Regulations 2003 require Members to approve the 2005/06 Statement of Accounts before the end of June 2006. This report seeks approval for the 2005/06 Statement of Accounts attached as Appendix 1.
- 1.2 The Accounts have not yet been audited; this is scheduled for August. The outcome of the audit will be reported to Council.

**2. Consultation**

- 2.1 Corporate Management Team has been consulted on the report.

**3. Corporate Plan and Priorities**

- 3.1 The report is wholly concerned with finance, which provides the means by which the Council achieves its corporate priorities.

**4. Implications**

4.1 Financial

These are detailed throughout the report.

4.2 Other Services

The general fund revenue outturn does impact upon other services, particularly where there have been overspends which will affect both earmarked reserves and the 2006/07 budget allocations.

### 4.3 Risk

Financial management arrangements are a key part of the Council's strategic and operational risk management processes. At a strategic level the Council has recognised this through the Strategic Risk Profile and the increasing emphasis on medium term financial planning.

The levels of reserves are referred to in section 13 of the report and show the general fund revenue reserve at £394,000. This is slightly higher than that estimated in February 2006 when this year's budget was set. At that time, the general fund revenue reserve was estimated to be £374,000 which was regarded as adequate when the 2006/07 budget was agreed.

At an operational level, the demands placed by the shorter deadline for production of the annual statement has been supported by the recent structural changes in the Accountancy and Financial Services teams and the ongoing improvements in the use of the Council's Financial Management system. Members' attention is also drawn to the Annual Statement of Internal Control which is subject to a separate report.

## 5. **REPORT**

5.1 The following section summarises the Council's financial performance in 2005/06.

## 6. **GENERAL FUND REVENUE EXPENDITURE**

6.1 General Fund expenditure for 2005/06 is summarised in the Consolidated Revenue Account. This shows the costs of the Council's services, other than Council housing and how the net expenditure has been funded.

6.2 The table below shows where our money came from and how we spent it.

### **WE SPENT MONEY ON**

<b>Service</b>	<b>Net Actual Expenditure £'000s</b>	<b>Percentage of Total</b>
Community Services	566	7%
Leisure Services	2,031	24%
Regeneration	174	2%
Environmental Health	538	6%
Planning	178	2%
Environmental Services	2,435	29%
Resources	503	6%
Chief Executive's Department	1,217	15%
Corporate Functions	728	9%
	8,370	100%
<b>Less: Capital Accounting Adjustments (net)</b>	(955)	
	7,415	
Less: investment interest	(256)	
	7,159	

## WHERE THE MONEY CAME FROM

Service	£'000	Percentage of Total
Council Tax	2,702	38%
Revenue Support Grant	2,662	37%
Business Rates	1,540	22%
Collection Fund Surplus	6	-
Reserves	249	3%

6.3 The Council set a General Fund Revenue Budget of £6,910,020 for 2005/06. This included a budgeted contribution from the General Fund of £130,000. The table below shows the budgeted figures for 2005/06 as compared with the actual outturn for the year.

Service	Original Net Budget £'000s	Probable Net Budget £'000s	Net Actual Outturn £'000s	Variance from Probable Budget £'000s
Community Services	736	585	566	(19)
Leisure Services	1,826	1,925	2,031	+ 106
Regeneration	204	98	174	+ 76
Environmental Health	587	541	538	(3)
Planning	253	177	178	+ 1
Environmental Services	2,329	2,386	2,435	+ 49
Resources	548	457	503	+ 46
Chief Executive's Department	1,084	1,203	1,217	+ 14
Corporate Functions	295	700	728	+ 28
	7,862	8,072	8,370	+ 298
<b>Less:</b> Capital Accounting Adjustments	(622)	(825)	(955)	(130)
	7,240	7,247	7,415	168
<b>Less:</b> Interest on Investments	(200)	(259)	(256)	3
	7,040	6,988	7,159	+ 171
<b>Less:</b> Contributions from Reserves	(130)	(78)	(249)	+ 171
	6,910	6,910	6,910	-

6.4 The final position for 2005/06 shows an overspend as compared with the probable budget of £170,681.

6.5 Changes in capital charges - which, effectively, show the notional costs of assets used to provide the service - have resulted in the outturn for some services; leisure, environmental services and regeneration, the Civic Centre (included in corporate functions) are the main services affected by the changes. Capital charges do not, however, affect the real cost of the general fund services as they are reversed out in the capital accounting adjustments and are not taken into account in the net cost of services. The capital charges resulted in the following variances:-

**£'000**

Leisure Services	+ 69
Regeneration	+ 23
Environmental Services	+ 7
Corporate Functions	+ 26
Capital accounting adjustments	(125)

- 6.6 Excluding the effects of the changes in capital charges, the main reasons for the overspend were as follows:-

**£'000**

Benefits	83
Concessionary Travel	40
Leisure Services	37
Environmental Services	42
Regeneration	53

Offset, to an extent, by underspends in Community Services, Strategy, Legal Services and support services in the Resources' directorate.

- 6.7 The overspend on Benefits is entirely due to benefit subsidy income from the Department of Work and Pensions. This is likely to be an ongoing issue and will have to be addressed in 2006/07 and future years.
- 6.8 The overspend in respect of concessionary fares will not be a problem in 2006/07 as the Council's contribution to the free countywide bus scheme has been agreed at the budgeted level.
- 6.9 With regard to leisure services, approximately £10,000 of the overspend is due to energy costs which could be regarded as uncontrollable. £27,237 is, however, overspent on controllable budgets. This has to be found by leisure services and should not be treated as a 'corporate problem'. In the short term, CMT has agreed that this is funded from leisure's earmarked reserves.

CMT has further agreed that the reserves currently held as 'earmarked for leisure services' should be managed corporately so that leisure has to report to CMT on their proposals for using these reserves prior to their being allocated to specific projects.

- 6.10 The total overspend for Environmental Services amounts to £41,719, but approximately £13,000 is due to energy costs and, as with leisure, this could be regarded as uncontrollable. However, £28,719 of the overspend is on controllable expenditure. Environmental Services do not have any earmarked reserves and, therefore, it is proposed that this overspend of £28,719 should be funded by the service 'borrowing' the resources from the Venture Fund. The service will then be required to fund this from its 2006/07 budgets and repay this to the Venture Fund in 2006/07.

- 6.11 Finally, the total overspend on Regeneration's budgets amounts to £52,484. Approximately £25,000 is due to a shortfall in car park income as compared with budget - and there is a limit to what the service can do, in the short term, to address this. However, the remaining £27,484 is controllable expenditure and should, therefore, be managed in exactly the same way as that proposed for Environmental Services, as outlined above.
- 6.12 Given that a considerable amount of the £171,000 overspend is on controllable budgets, CMT has requested action plans from each of the Service Team Managers setting out how they intend to manage their 2006/07 budgets to ensure that their 2005/06 overspends are addressed, in addition to the savings they are already charged with delivering in 2006/07. The action plans will be considered by CMT in July to ensure that the 2006/07 budget does not overspend.
- 6.13 In summary, the 2005/06 overspend of £170,681 will be funded as follows:-

Leisure's earmarked reserves	£27,237
Environmental Services - Venture Fund	£28,719
Regeneration - Venture Fund	£27,484
Insurance Fund	£87,241

## 7. HOUSING REVENUE ACCOUNT

- 7.1 The position at the end of the year showed a surplus of £852,000 as compared with a probable surplus of £264,000.

Service	Budget	Actual	Variance
	£	£	£
<b>Income</b>			
Housing Rents (Net of Voids)	10,114	10,171	- 57
Other Rents and Charges	288	313	- 25
Major Repairs Allowance	2,217	2,217	0
Interest Receivable	41	43	- 2
<b>Total</b>	<b>12,660</b>	<b>12,744</b>	<b>- 84</b>
<b>Expenditure</b>			
Management	2,637	2,624	- 13
Maintenance	3,092	2,605	- 487
Capital Financing	2,987	2,991	+ 4
Negative Subsidy Payable to Secretary of State	3,680	3,672	- 8
<b>Total</b>	<b>12,396</b>	<b>11,892</b>	<b>504</b>
<b>Use of/Contribution to Balances</b>	<b>264</b>	<b>852</b>	<b>- 588</b>

- 7.2 The variance of £588,000 is due to increased income due to a reduction in house sales and an underspend of revenue budgets due to the capitalisation of planned works.

## 8. BUILDING & MAINTENANCE DIRECT LABOUR ORGANISATION (DLO)

8.1 Turnover in 2005/06 amounted to £2.587m and resulted in a surplus of £15,057 for the year. (2004/05 Turnover £2.57m and a deficit of £144,000).

## 9. CAPITAL PROGRAMME

9.1 Total Capital Programme expenditure amounted to £9.154 million, as compared with the agreed programme of £11.044 million.

9.2 This includes expenditure on Council housing, regeneration and other general fund schemes. The principal areas of expenditure included:-

	£'000
Housing Revenue Account schemes	4,467
Town Centre Renaissance	373
Capitalisation of leases	1,240
Private Sector Housing Schemes	517
Pelton Regeneration Programme	556
Implementing Electronic Government	724

9.3 The total Capital Programme expenditure of £9.154 million was financed as follows:-

	£'000	Percentage of Total
Major Repairs Allowance	2,217	24%
Capital Receipts	5,263	57%
Borrowing	364	4%
Government Grants	440	5%
Other Grants and Contributions	792	9%
Revenue	78	1%
	9,154	100%

## 10. REVENUE RECOVERY

10.1 The table below summarises the performance of the Council in recovering amounts due from local taxpayers and tenants.

	Arrears 31 March 2005 £	Arrears 31 March 2006 £
Council Tax	719,399	807,611
Non Domestic Rates	448,011	498,979
Rents	530,592	465,168
	1,698,002	1,771,758

10.2 The total amount of Council Tax to be collected during 2005/06 amounted to £21.6million, and the total amount of non-domestic rates amounted to £6.3million.

10.3 The authority achieved a collection rate of 97.7% for Council Tax and 96.6% for non-domestic rates in 2005/06.

## 11. BORROWING

11.1 For 2005/06 the Council set its Authorised limit which is the 'Affordable Borrowing limit' required by s3 of the Local Government Act 2003 at £20.5million.

11.2 The Council did not exceed its Authorised limit.

11.3 The Operational Boundary, set at £17.4million for 2005/06, is a potential borrowing position that could be required in the event of cash flow problems that could arise during the year, and periods when the actual position is either below or over the boundary would be acceptable, subject to the Authorised limit not being breached.

11.4 The operational boundary is how we manage external debt to ensure we remain within the Authorised limit.

11.5 The maximum gross borrowing position during the year was £19.65 million, and the minimum gross borrowing position was just under £14 million.

11.6 The long-term debt at the end of 2005/06 stood at £14.641 million.

11.7 The average rate of interest paid on long term loans in 2005/06 was 5.63% compared with a rate of 5.68% in 2004/05.

## 12. INVESTMENTS

12.1 The Council's investments amounted to £8.075 million on 31 March 2006. An average rate of interest of 4.61% was earned on investments.

## 13. RESERVES AND BALANCES

13.1 At the end of 2005/06, the Council's total General Fund reserves amounted to £1.515 million. This total comprises:-

	£'000
General Fund Revenue Reserve	394
Earmarked for LSVT	160
Earmarked Revenue Reserves	961
	1,515

- 13.2 The General Fund reserve is a reserve set aside for unforeseen events and is needed to help cash flow management. The Council is responsible for collecting the Council Tax for Durham County Council, Durham Police Authority and Darlington Fire Authority and the Parish Councils, as well as itself. Instead of paying their share of the Council Tax as it is collected, the Council has to pay a proportion of the total due to the different organisations at specific times during the year, irrespective of whether the amount due have been collected. It is important, therefore, to have the general reserve available to help meet these payments should this be required.
- 13.3 Finally, the earmarked revenue reserves are a variety of funds earmarked for specific revenue purposes. The total includes the insurance reserve, planning delivery grant, funding earmarked for leisure activities and the Venture Fund.
- 13.4 The Housing Revenue Account (HRA) has reserves of approximately £1,929,125; £456,690 of this has been earmarked to be used during 2006/07.

#### **14. RECOMMENDATIONS**

14.1 It is recommended that:-

- (a) The Council approves the Statement of Accounts for 2005/06 subject to audit;
- (b) the capital financing for 2005/06 be determined as detailed in the report; and
- (c) delegated authority be given to the Director of Resources, in consultation with the Lead Member for Finance, to make any amendments to the Statement which are not material.

<p><b>Linda Chambers</b>  <b>Director of Resources</b>  <b>29 June 2006</b>  <b>Version 1.0</b></p>	<p><b>Contact Details:</b>  <b>Linda Chambers Tel: 0191 3872300</b>  <b>E-mail: lindachambers@chester-le-street.gov.uk</b></p>
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