



GENERAL FUND REVENUE OUTTURN 2006/07

Report by Director of Finance

PURPOSE OF REPORT To inform Members of the Comhairle's revenue outturn for 2006/07 and seek approval for departmental carry forwards.

COMPETENCE

- 1.1 Section 12 of the Local Government in Scotland Act 2003 requires the Comhairle to prepare and approve its draft accounts by 30 June, for submission to the Scottish Executive and Audit Scotland. This report is required under Financial Regulations and forms part of the closure of accounts for 2006/07.

SUMMARY

- 2.1 The draft Abstract of Accounts for 2006/07 will be presented to the Policy and Resources Committee meeting on 21 June for approval, prior to submission for audit. A summary of the Comhairle's outturn is shown in Appendix A. At this stage, work is ongoing on the closure of the Accounts and these figures could be subject to change as a result of final adjustments and audit. However, any changes are unlikely to have a significant impact on the final outturn.
- 2.2 Overall, the Comhairle shows an unaudited surplus of £142k. Appendix B demonstrates the effect of existing commitments and anticipated budget deficits over the next two years on funds. The implementation of Single Status will have a detrimental effect on the projected deficit of £813k in 2007/08, and with a further deficit of £785k in 2008/09, uncommitted balances will reduce to £955k.
- 2.3 After accounting for specific carry forwards of funding the Social Work and Technical Services budgets have overspends of £391k and £206k respectively and the causes of these are discussed in the main section of the report. With the exception of Finance and Corporate Resources whose underspend was slightly over 2%, all other departments came within carry forward tolerances.
- 2.4 Trading Operations returned a net surplus of £17k, significantly lower than expected, due to the increase in FRS17 charges. Concurrent reports, detailing the performance of individual operations will be presented to service committees in June. The Bus Operation failed to achieve the statutory requirement to break-even over a three-year rolling period, although performance has improved significantly over the previous year.
- 2.5 The Housing Revenue Account, which is currently being wound-up, shows a deficit of £463k. This will be funded from HRA balances and the Repairs and Renewals Fund.

RECOMMENDATIONS

- 3.1 **It is recommended that the Comhairle :**
- (a) **note the report;**
 - (b) **agree to fund the Social Work Department overspend from balances;**
 - (c) **agree to fund the Technical Services Department overspend in excess of 1% from balances;**
 - (d) **agree the carry forward of budgets detailed in Appendix D; and**
 - (e) **agree that the £955k of uncommitted balances are retained, until the funding requirements arising from the grant settlement for 2008-11 and the final costs of implementing Single Status are known.**

INTRODUCTION

- 4.1 This report informs Members of the financial position of the Comhairle at the end of 2006/07 and highlights some of the main issues that have impacted on budgets during the year. It also recommends the carry forward of departmental over and underspends in accordance with Comhairle policy.

OUTTURN

- 5.1 Overall the Comhairle shows a surplus of £142k for the year, against a budgeted deficit of £1,750k. A summary of performance against budget is shown in Appendix A and the key variations during the year are listed in Appendix B.
- 5.2 The Social Work Department overspend at the end of 2006/07 is £391k, which is £56k higher than anticipated at the third quarter. The three main areas of overspend are Domiciliary Care (£390k), Transportation (£155k) and in Comhairle Care Homes (£98k), but this has been offset by savings in Community Care Placements and Children's Services. In common with other services, the increase in premises related costs has contributed to the adverse impact on budgets, with an overspend of £128k. The Comhairle continues to have the on-going pressure of an increasing number of Mainland Placements, both in Adult and Children's Services and these budgets will be held and monitored centrally from 2007/08.
- 5.3 The Technical Services Department budgets are showing an overspend of £206k, after taking into account the specific carry forward of the Winter Maintenance underspend. The three main contributory factors are ad-hoc repairs, street lighting and council building energy costs.
- 5.4 Although the mild winter resulted in less gritting work, the increased rainfall, some 175% of what would have been expected for the period, resulted in more drainage and repair works being carried out, which led to the ad-hoc budget being overspent by £82k. The large number of lighting units being provided through the carriageway and amenity lighting capital budget, as well as the Members Ward Fund, has not been matched by revenue budget increases, resulting in an overspend of £92k on maintenance and electricity costs.
- 5.5 After accounting for specific carry forward of £170k and £26k in respect of the Scheme of Devolved Schools Management and grant funding respectively, the Education Department has an underspend of £377k, which is within the carry forward tolerance. A late transfer of funding to the department to cover expenditure on the PPP project was the main contributing factor. Problem areas highlighted during the year, mainly staffing, energy and transport costs have been largely offset by savings elsewhere and transfer of funding from Surestart and Childcare Strategy monies. A report will be submitted to the Education and Children's Services Committee in August to make recommendations for the allocation of the carry forward.
- 5.6 The expenditure on Joint Boards is met by requisitions from the constituent authorities by application of the Montgomery formula, which aims to match the cost of provision of the service to the area in which it is incurred. The formula is updated annually to reflect actual costs in the previous year. The Comhairle's initial budget was based on the percentages as at December 2005, which when adjusted during 2006/07 resulted in a saving of £428k on the Fire Board and £6k on the Valuation Board.
- 5.7 The underspend on Finance and Corporate Resources is mainly due to the receipt of additional Housing Benefits Subsidy and a one-off rebate of £21k on the annual external audit fee. All other departments came within carry forward tolerances.

CAPITAL GRANTS

- 6.1 Members will be aware of the issue of capital grants, which has been reported to Committee previously. In brief, a change to accounting guidance on the definition of capital meant that expenditure that did not result in an asset for the Comhairle could not be classed as capital and would therefore be charged to revenue. Grants of this nature form a large element of the Comhairle's capital programme and a report to Policy and Resources on 14 December 2006 identified how the potential revenue costs could be met and £930k was subsequently earmarked for this purpose. Total expenditure for the year amounted to £1,271k and the additional £341k has been funded from balances.
- 6.2 Following representations to the Minister for Finance, the Minister agreed to allow a limited relaxation in the rules surrounding the treatment of grants to third parties. Authorities may apply for permission to borrow providing that it can identify a statutory function under which it

has power to incur expenditure and the third party is a properly constituted community group. The Comhairle has applied for approval for 15 grant schemes, which it is hoped will permit expenditure to be charged to capital in 2007/08.

FRS 17 ADJUSTMENTS

- 7.1 FRS17 requires that the Comhairle's accounts reflect the full cost of pension liabilities, based on an actuarial valuation of the pension fund at the end of the financial year. In 2006/07 this adjustment amounted to £1,322k (36% of superannuation contributions), compared to £425k (18% of superannuation contributions) in the previous year.
- 7.2 The only services directly affected by the adjustment are Trading Operations, as they are required to treat this as an additional element of operating costs. The large increase in the adjustment is reflected in lower than expected surpluses being achieved.

WINTER MAINTENANCE "RESERVE"

- 8.1 During the year the winter maintenance budget underspent by £338k. In accordance with an earlier Comhairle decision, this has been treated as a specific carry forward to the "reserve", which now stands at £454k.

TRADING OPERATIONS

- 9.1 Overall, Trading Operations (TOs) have contributed a net surplus of £17k, significantly lower than forecast at the end of the third quarter. The main reason for this change is the increase in the FRS17 adjustment, which totalled £218k over all the trading operations.
- 9.2 The Building Maintenance, Highways, Refuse Collection and Bus operations are classified as Significant Trading Organisations (STOs), as defined in the Local Government in Scotland Act 2003. STOs are required to break even over a three-year rolling period and this standard has been achieved, with the exception of the Bus Operation.

CONTINGENCY AND OTHER CENTRAL BUDGETS

- 10.1 There were few calls on the contingency during the year, with the only significant items being £26k and £19k towards the costs of the windfarm applications and the administration of equal pay claims respectively. The remaining £420k will be returned to balances. A further £4.5m, which has been earmarked for specific purposes, is currently held in central budgets and the details are shown in Appendix C.

HOUSING REVENUE ACCOUNT

- 11.1 Following the transfer of the housing stock to the Hebridean Housing Partnership, 2006/07 will be the last year that the HRA will be maintained. Work is still ongoing on winding up the account and it currently shows a deficit of £463k. This will be funded from earmarked HRA reserves within the General Fund and the Repairs and Renewals Fund, which have a combined balance of £724k.

CONCLUSIONS

- 12.1 At the end of 2006/07 the Comhairle had uncommitted balances of £2,553k, as detailed in Appendix B. Projected deficits in 2007/08 and 2008/09 are expected to reduce these to £955k by 31 March 2009.
- 12.2 In light of uncertainty over the funding settlement for 2008/09 and the final cost of implementing the Single Status agreement, it is recommended that this amount be retained in balances.

Contact Officer: Norman Macdonald 01851 709230

Appendices: A Fourth Quarter Revenue Outturn 2006/07
B Comhairle Forecast Balances 2006/07
C Centrally Held Budgets 2006/07
D 2006/07 Carry Forward Summary