

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation)	Audit Committee	24th June 2009

## FINANCIAL STATEMENT 2008/09

### PURPOSE OF REPORT

1. To seek approval from Members of the accounts for 2008/09.
2. To provide Members with background information relating to the Financial Statement 2008/09 and to highlight the key issues relating to these.

### RECOMMENDATION(S)

3. To note the contents of the report and appendices.
4. To approve the Financial Statement for 2008/09 included at Appendix A to this report.

### EXECUTIVE SUMMARY OF REPORT

5. The Accounts and Audit Regulations 2003 require the Council to approve its Statement of Accounts, including the Annual Governance Statement, for the 2008/09 financial year by 30<sup>th</sup> June 2009. Therefore this report has been prepared to enable the Council to comply with the Regulations in respect of the financial year ended 31<sup>st</sup> March 2009.
6. The Council's drafted and unaudited Statement of Accounts for the year ended 31<sup>st</sup> March 2009 is appended (Appendix A), with the main points being summarised within this report.
7. The main points arising from the report are:
  - a. The Council's net revenue spending was £0.115m more than was budgeted. There are a number of factors that have contributed to this but a significant one is a £0.135m overspend on Concessionary Travel without which there would have been an underspend of £0.020m. The deficit is presented differently in the Statement of Movement on Fund Balances, for technical reasons, and is shown to be £0.177m. A reconciliation between the figures is presented in section 24 below.
  - b. Based on the outturn position the level of General Working Balances at 31<sup>st</sup> March 2009 is £1.601m. This represents an increase of £0.051m compared to the forecast included in the Medium Term Financial Strategy, which was approved by Council on 26<sup>th</sup> February 2009.
  - c. In addition to its General Reserves the Council also has £1.319m of specific, or earmarked reserves, which as the name implies are held to finance expenditure of a specific nature or on specific schemes.
  - d. In January 2009 the original capital budget for 2008/09 was reduced to £8.583m to reflect the re-phasing of some capital projects so that prudential borrowing would be

restricted to the previously approved maximum for the period 2008/09 to 2010/11. The provisional outturn for 2008/09 is £5.235m, which represents a reduction of £3,348m. Much of this reduction is due to the re-phasing of costs or schemes that are financed from external grants or contributions which have a neutral effect on the Council's financial position. £1.2m of the re-phasing relates to new recycling containers that were delivered to Chorley residents in April 2009.

- e. The Council has £2m invested in the Icelandic bank Landsbanki that went into administration in October 2008. This is dealt with in the accounts in accordance with guidance issued by the Chartered Institute of Public Finance and Accountancy's Local Authority Accounting Panel Bulletin 82, published in May 2009, and Statutory Instrument 2009 No 321. There is no impact of this in 2008/09 although, based upon the latest information available, the final cost to the Council is expected to be £0.080m.
- f. To reflect the impact of the broader economic downturn, the Council has impaired the value of its assets by £0.711m, though overall the value of assets has increased following improvement schemes and the reclassification of certain assets as being surplus to requirements. In addition, it has increased its overall provision for bad debts by £0.049m. These actions reflect the decline in the market value of fixed assets during the period and provide adequate safeguard against potential future losses from sums owed to the Council. The current economic climate has also impacted on the Collection Fund Account, which has a deficit in 2008/09 of £0.095m, resulting from a slow-down in the rate of growth in both domestic and business properties within the borough and a small reduction in collection rates. Provision has been made for the impact of this deficit in the 2009/10 budget.
- g. Over the financial year the Council has consolidated its cash position by repaying external debt and bringing back external investments to finance its ongoing operations.
- h. Under the Building (Local Authority Charges) Regulations 1998 the Building Regulations Control Services are set a target of making a surplus from operations over a three year rolling period. Chorley has failed to do this over the period 2006/07 to 2008/09 making a deficit of £0.087m. This has been offset in part by transferring funds from the building control reserve that was created from surpluses in previous years.
- i. The notes to the core financial statements contain details of a number of contingent assets and contingent liabilities that existed at the financial year end. These are assets and liabilities that are significant but cannot be confirmed at the financial year end and are dependent upon future events. The main contingent assets relate to:
  - A claim for over £0.636m of VAT collected on car parking, plus £0.479m held by the Council pending the outcome of a judicial review;
  - A claim for £0.526m VAT overpaid over many years, mainly on Leisure Centres;
  - An estimated £3.4m due to the Council from Chorley Community Housing for VAT reclaimed on qualifying works on the houses transferred over a period of roughly 10 years.
- j. There are two contingent liabilities that have been disclosed in the accounts. The first relates to a potential payment that may have to be made under the "Scheme of Arrangement" which has allowed Municipal Mutual Insurance Limited to work towards a solvent run-off of its affairs, following trading difficulties, until all its outstanding claims are settled. A payment will only be due should the company

become insolvent. The second relates to the warranties that the Council has given to Chorley Community Housing Limited against certain environmental risks. The Council's liability is restricted to a maximum loss of £18m arising over a period of 18 years which is to a large extent covered by insurance arrangements that the Council has taken out. At 31<sup>st</sup> March 2009 there are 16 years of the liability outstanding.

8. There is also a statutory requirement for the Council to conduct a review (at least once a year) of the effectiveness of the internal control environment and to publish a statement on the adequacy of the system with its annual accounts. This is referred to as the Annual Governance Statement (AGS), The regulations state that the document should be published with the financial statements however, it should be emphasised that the AGS is a broader reflection of the whole governance of the Council and does not just relate to financial controls, but covers all activities of the Council.
9. The significant governance issues identified in the annual statement relate to partnership working, measuring the environmental impact of policies, plans and decisions and the need for further development of the Council's Information Management and Anti-Fraud and corruption policies. Actions planned to improve on these issues are outlined in the statement.

### **REASONS FOR RECOMMENDATION(S)**

**(If the recommendations are accepted)**

10. To ensure that the Council meets its statutory responsibility to approve its Statement of Accounts, including the Annual Governance Statement, for the 2008/09 financial year by 30<sup>th</sup> June 2009.

### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

11. None.

### **CORPORATE PRIORITIES**

12. This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the Central Lancashire sub-region		Develop local solutions to climate change.	
Improving equality of opportunity and life chances		Develop the Character and feel of Chorley as a good place to live	
Involving people in their communities		Ensure Chorley Borough Council is a performing organization	✓

### **BACKGROUND**

13. Regulation 10 of the Accounts and Audit Regulations 2003 requires the Statement of Accounts to be approved by either full Council or by a committee specifically delegated with the power to carry out this function. The Audit Committee is established specifically for this purpose. The Statement of Accounts should be signed and dated by the elected member chairing the meeting at which approval is given.
14. Regulation 11 requires authorities to publish the 2008/09 Statement of Accounts no later than 30th September 2009.
15. This report has been prepared to enable the Council to comply with the regulations in respect of the financial year ended 31st March 2009.

16. The regulations do not require the external audit of the accounts to have been completed prior to approval by the Council. The Council's External Auditors will present the Annual Audit Letter to Members later in the financial year, following the conclusion of the audit. It should however be noted that the preparation of this Statement of Accounts has involved consultation with the Council's External Auditors, and any observations have been taken into account as part of the process of producing this report.
17. The Council's External Auditors plan to conduct their final audit work during July and August. The Accounts will be available for public inspection from the 27<sup>th</sup> July 2008 for a period of 20 working days. The appointed day, on which electors may meet and question the Council's External Auditors in connection with their audit of the 2008/09 Statement of Accounts, has been designated as 24<sup>th</sup> August 2009.
18. The general format of the Statement of Accounts (Appendix A) and the information reported is prescribed by legislation and by accounting standards and guidance relating to local authorities. However, to assist in the understanding of the Statement of Accounts this report summarises the main items of note concerning the Council's financial performance for 2008/09.
19. Members should note that, the Treasury's code for fiscal stability published in 1998 contained specific provisions relating to the production of Whole of Government Accounts (WGA). These will be based on Generally Accepted Accounting Practice in the United Kingdom (UKGAAP) and they will provide a fully audited true and fair view of the Government's financial performance.

## **THE ACCOUNTS AND SUMMARY OF MAIN POINTS**

### **The Accounting Statements**

20. The following are the main accounting statements relating to the Authority's Accounts:
  - **Income and Expenditure Account**, which brings together expenditure and income relating to all the Authority's functions.
  - **Statement of Movement on the General Fund Balance**, a reconciliation statement that summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.
  - **Statement of Total Recognised Gains and Losses**, which brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth.
  - **Balance Sheet**, which sets out the assets and liabilities for the Authority.
  - **Cash Flow Statement**, which summarises the inflows and outflows of cash at the Authority during the accounting period.
  - **Housing Revenue Account**: The Council disposed of its housing stock in March 2007 and the account was closed on 31 March 2008.
  - **Collection Fund Account**, which shows transactions in relation to the collection and distribution of Non Domestic Rates and Council Tax.
21. Each of the statements is inextricably linked and whilst individually important must be seen collectively to ensure they are looked at in context. Set out below is some interpretation of the accounts and information about the financial position of the Council.

### **Shared Services Arrangement**

22. The Financial Statement for 2008/09 has been prepared by the Financial and Assurance Shared Services Partnership that was established in January 2009 under an Administrative Collaboration Agreement entered into by South Ribble and Chorley Borough Councils. Under this agreement the two Councils are collaborating in the provision of a range of services,

including accountancy which is provided by staff employed by Chorley Council. The service is provided by a single shared service team based at Chorley covering financial accounting, treasury management & exchequer services, together with a management accounting teams based in each authority.

23. Separate accounts, that are subject to independent audit, are required for the Shared Services Partnership and these will be presented to the Partnership Joint Committee for approval on 22<sup>nd</sup> June 2009.

### **Income and Expenditure Account**

24. The Council's Income and Expenditure Account shows a net deficit for the year of £2.336m. This figure is a result of a change in accounting practice as we move towards UK GAAP accounts to match the private sector. As a result amounts previously charged to the Income and Expenditure Account are now excluded, but are shown in a reconciling note. The net deficit (overspend) on normal activities for the year shown in the Statement of Movement on Fund Balances was £0.177m and £0.108m (net) was transferred in-year to earmarked reserves, making a total reduction in the General Fund balance of £0.285m. The carry forward of £0.094m of committed expenditure to 2009/10 is detailed in table 1 below.

*Figure 1: Budget carried forward to 2009/10*

<b>DETAILS</b>	<b>£,000</b>
Reward & Recognition – budget underspend required to fund initiatives in 2009/10.	13
Income generated by Communications team from consultancy work on introduction of blue recycling bins to be used to fund	12
ICT web-site accessibility audit not completed prior to year-end due to consultant availability.	10
LCC Audit work commenced in 2008/09 to run into 2009/10.	9
Homelessness Support consultancy commissioned in 2008/09. Work ongoing into 2009/10.	7
LSP – Town Centre promotion work commenced in 2008/09.	6
ICT Citrix phase 2 rollout delayed subject to resolution of issues.	6
Printing of Chorley Visitor Guide – order placed but work not completed in 2008/09.	5
CIPFA Benchmarking for the Corporate Services VFM review	5
Aerial Photography - delayed due to bad weather.	4
Tuition Fees - requirement identified in 2008/09 but course commenced in March 2009.	4
IDEA inspection scheduled for March 2009 delayed.	3
LSP – Groundwork projects implementation delayed.	3
Leaflets needed for Green Flag as part of Corporate Strategy.	2
Income from sale of excess stone slabs to be used as additional funding for Astley Park Project.	2
Tuition Fees for Charity Resource Management.	2
Car Lease Allowance required to fund additional lease costs in 2009/10.	1
<b>TOTAL CARRIED FORWARD TO 2009/10</b>	<b>94</b>

*Figure 2: Movement in working balances 2008/09*

	£m	£m
General Fund Balance at 1 April 2008		1.886
Underspend excluding Concessionary Travel	0.114	
Committed expenditure per Figure 1	<u>(0.094)</u>	
Provisional Outturn excluding Concessionary Travel	0.020	
Concessionary Travel Overspend	<u>(0.135)</u>	
Provisional Outturn including Concessionary Travel	(0.115)	
Budgeted use of balance	<u>(0.062)</u>	
Deficit per Statement of Movement on Fund Balances		(0.177)
Net transfer to earmarked reserves		(0.108)
<b>General Fund Balance at 31 March 2009</b>		<b><u>1.601</u></b>

25. The Council's revenue outturn for 2008/09 is being presented to Executive Cabinet on 25<sup>th</sup> June 2009.
26. The key message from the accounts is that the level of general working balances at 31<sup>st</sup> March 2009 is £1.601m. This represents an increase of £0.051m compared to the forecast included in the Medium Term Financial Strategy, which was approved by Council on 26<sup>th</sup> February 2009. The increase is made up of the following variations to the position reported to Executive Cabinet in December 2008:
- a. A £31,000 saving resulting from a lower than anticipated cost for Concessionary Travel. In the December monitoring report to Cabinet I highlighted the position on Concessionary Travel and forecast a potential budget gap of £166,000 based upon cost information received for the period 1<sup>st</sup> April to 29<sup>th</sup> November 2009. Based on actual data to the end of the financial year, the net budget gap has reduced to £135,000. Because budget provision was made for the extra £166,000, the reduction to £135,000 results in a budget saving of £31,000.
  - b. An overall net saving of £20,000 on the revenue outturn after allowing for the carry forward of £94,000 of committed expenditure to 2009/10.
27. The Revenue Outturn position and a full variance analysis can be viewed in the separate report going to Executive Cabinet on 25<sup>th</sup> June.

### **Capital Expenditure & Financing**

28. The Council's Capital Programme Outturn is being presented to Executive Cabinet on 25<sup>th</sup> June 2009. The major areas of capital expenditure and sources of funding are shown in figure 3.

*Figure 3: Capital Expenditure & Sources of Funding 2008/09*

DETAILS	2008/09 OUTTURN £
<b>Capital Expenditure</b>	
Town Centre Investment	300,322
Affordable Housing	50,158
Assistant Chief Executive (Business Transformation)	607,770
Corporate Director (Business)	1,416,872
Corporate Director (Human Resources)	17,057
Corporate Director (Neighbourhoods)	175,882
Corporate Director (ICT)	393,464
Corporate Director (People)	2,273,567
<b>Capital Programme Total</b>	<b>5,235,092</b>
<b>Financing the Capital Programme</b>	
Prudential Borrowing - budgeted	1,142,898
Unrestricted Capital Receipts	1,064,094
Capital Receipt earmarked for Strategic Regional Site	95,201
Preserved RTB Capital Receipts from CCH	63,274
Revenue Budget - VAT Shelter income	142,686
<b>CBC Resources</b>	<b>2,508,153</b>
Ext. Contributions - Developers	801,650
Ext. Contributions - Lottery Bodies	994,203
Ext. Contributions - Other	229,420
Government Grants - Disabled Facilities Grants	180,000
Government Grants - Housing Capital Grant	490,240
Government Grants - Other	31,426
<b>External Funding</b>	<b>2,726,939</b>
<b>Capital Financing Total</b>	<b>5,235,092</b>

29. In January 2009 the original capital budget for 2008/09 was reduced to £8.583m to reflect the re-phasing of some capital projects so that prudential borrowing would be restricted to the previously approved maximum for the period 2008/09 to 2010/11. The provisional outturn for 2008/09 is £5.235m, which represents a reduction of £3.348m.
30. Of the total variance, £3,601,290 is slippage of expenditure to 2009/10 which includes the following major items:
- a. £1,200,000 - New recycling containers, which were delivered to Chorley residents in April 2009
  - b. £481,330 – Chorley Strategic Regional Site. Effect on capital resources is neutral because to be financed with earmarked capital receipt.
  - c. £370,210 – Astley Park pavilion/pets corner phase, and CCTV. Lottery scheme due to be completed during 2009/10. CCTV contract nearly completed.
  - d. £365,360 – Improvements to property assets. Schemes will be developed with Liberata.
  - e. £191,070 – Various ICT projects, including CRM. Due to be completed in 2009/10.
  - f. £164,800 – Recreation schemes funded by grants and contributions. Effect on capital resources is neutral.

- g. £160,500 – Energy Grants. New contractor commenced work towards end of 2008/09.
- h. £150,000 – Affordable Housing. Implementation of projects depends on housing association partners.

31. Expenditure on a number of schemes exceeded budget provision, though in several cases this was matched by increased funding from external sources. In particular, increased expenditure in respect of the Astley Park, Common Bank and Leisure Centres schemes was financed by grants and contributions from other funding partners. The expenditure on Buckshaw Village Railway Station was financed using the S106 contribution received for that purpose.
32. Prudential borrowing in 2008/09 has reduced by £1,529,482 to £1,142,898. Most of this relates to slippage to 2009/10, so the reduction is only temporary. However, this delay in borrowing leads to revenue budget savings during 2009/10.
33. The Capital Outturn position and a full variance analysis can be viewed in the separate report going to Executive Cabinet on 25<sup>th</sup> June

### **Reserves, Balances and Receipts**

34. As a consequence of using General Fund Balances to finance expenditure and an in year deficit in 2008/09 the level of the Council's working balances has fallen to £1.601m. This is above the minimum level of £1m in the Medium Term Financial Strategy 2009/10 to 2011/12 which was approved by Council in February 2009.
35. In addition to its General Reserves the Council also holds a number of specific, or earmarked reserves, which as the name implies are held to finance expenditure on specific schemes. The balances held at the end of the 2008/09 financial year are shown in figure 4.

*Figure 4: Earmarked Reserves as at 31<sup>st</sup> March 2009*

<b>EARMARKED RESERVE</b>	<b>BALANCE 31<sup>st</sup> MARCH 2009 £,000</b>
Building Control Reserve	25
Astley Hall Working Reserve	6
Directorate Reserves	166
Capital Reserve (VAT Shelter Income)	476
Local Development Framework	139
LA Business Growth Incentive / Performance Reward Grant	357
Neighbourhood Working	150
<b>TOTAL EARMARKED RESERVES</b>	<b>1,319</b>

36. Of the sums identified above, the bulk are committed in 2009/10 and beyond.
37. The Council also holds Section 106 receipts which are monies paid to the Council by developers as a result of the granting of planning permission where works are required to be carried out or new facilities provided as a result of that permission. The sums are restricted to being spent by the Council only in accordance with the agreements concluded with the developers. The Section 106 receipts held by the Council at 31<sup>st</sup> March 2009 are shown in figure 5.



*Figure 5: Section 106 Receipts as at 31<sup>st</sup> March 2009*

<b>SECTION 106 RECEIPTS</b>	<b>BALANCE 31<sup>st</sup> MARCH 2009 £,000</b>
Affordable Housing	738
Transport Infrastructure	3,713
Recreational Facilities	486
Environmental Improvements	5
Various Purposes	748
<b>TOTAL SECTION 106 RECEIPTS</b>	<b>5,690</b>

38. At the 31<sup>st</sup> March 2009 the balance of Section 106 receipts stood at £5.690m representing a reduction of £1.590m from the previous year's balance of £7.280m. This reduction was brought about by:
- a. Expenditure of receipts held (net of new receipts received) £0.741m.
  - b. Re-phasing of a receipt for the provision of a new school at Buckshaw Village, which was incorrectly included in the accounts for 2007/08 at £0.849m. The receipt and payment of the sum to Lancashire County Council is now included in the capital programme for 2009/10.

Use of most of the balance is reflected in the capital programme for 2009/10 onwards, though the phasing of the Buckshaw Village Railway Station scheme, the transport infrastructure contribution for which is £3.506m, is yet to be confirmed and will depend on additional external funding.

### **Investments**

39. The Council has £2m invested in the Icelandic bank Landsbanki that went into administration in October 2008. This is dealt with in the accounts in accordance with guidance issued by the Chartered Institute of Public Finance and Accountancy's Local Authority Accounting Panel Bulletin 82, published in May 2009, and Statutory Instrument 2009 No 321. This requires that the Council recognises up front that it is unlikely to recover the full amount invested and makes an impairment adjustment in the accounts to reflect this. Similarly, the Council is required to make assumptions about the amount of interest due to it and again reflect this in the accounts. Accordingly the accounts for 2008/09 include an for impairment loss of £0.375m and an amount of £0.065m for investment income due. Based upon the CIPFA guidance and statutory requirements both of these amounts have been reversed out of the revenue account for 2008/09 so that there is no impact in that year.
40. The same accounting treatment can then be applied in 2009/10 so that there is no revenue impact of the impairment of the investment until 2010/11. In that year it is estimated that £0.140m will be required, though it may be possible to capitalise this and spread the cost over a number of years, if the government is prepared to give Council's permission to do this. Based upon the latest information the final cost to the Council is likely to be offset by income expected in 2011/12 and 2012/13 reducing this to £0.080m.
41. It should be noted that position outlined above is subject to the following risks and uncertainties:

- a. Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
  - b. The impact of exchange rate fluctuations on asset recovery (by the administrator) and settlement of the authority's claim.
  - c. Settlement of the terms of a bond which will allow old Landsbanki creditors to enjoy rights in new Landsbanki.
  - d. The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.
42. Landsbanki's domestic assets and liabilities have been transferred to new "New Landsbanki". Old Landsbanki's affairs are being administered under Icelandic Law. The latest presentation of its affairs to creditors indicates that recovery of between 90 and 100% can be achieved. The Council has taken a mid point position and the figures outlined above assume a recovery of 95% by December 2012. Failure to secure preferential creditor status would have a significant effect on this, reducing the recoverable amount from 95% to possibly 33%.

### **Reflecting Market Conditions**

43. Members will be aware of the difficult economic conditions that existed during the 2008/09 financial year to which these accounts relate. The investment in Landsbanki referred to above is one symptom of this but there are other factors that have impacted upon the Council's accounts and overall financial position.
44. The value of the Council's tangible fixed assets shows a net increase in the year of £2.844m (£34.677m to £37.521m). This represents the increased value of the Council's assets from capital investment (acquisition and improvement schemes) and revaluation offset by a £0.711m reduction (impairment) in asset values reflecting the decline in the market value of fixed assets during the period.
45. The Council's fixed assets must, as a minimum, be re-valued every five years with the most recent values included within the financial statements. During 2008/09 the valuations were carried out by Liberata who provide Property Management Services to the Council.
46. Given the financial climate the Council has carried out a thorough appraisal of its provision for bad debts. This showed that whilst performance on debt collection remains good, it is prudent to increase the overall provision by £0.049m in order to provide adequate safeguard against potential future losses.
47. The current economic climate has also impacted on the Collection Fund Account, which shows transactions in relation to the collection and distribution of Non Domestic Rates and Council Tax. There was a deficit of £0.095m during 2008/09 resulting from a slow down in the rate of growth in both domestic and business properties within the borough and a small reduction in collection rates. This increased the cumulative deficit to £0.409m.

### **Cash Flow Statement**

48. The Cash Flow Statement summarises the inflows and outflows of cash at the Authority during the accounting period. The key message from this is that there has been a net reduction in the cash funds held by the authority. This has resulted from a number of factors with the main ones being:
- a. Repayment of debt reducing the authority's long term borrowing from £4.633m to £2.280m during the year (Balance Sheet figures).
  - b. Fewer capital cash receipts during the year which has fallen from £5.783m in 2007/08 to £2.059m in 2008/09 (Cash Flow figures).

49. Offsetting this, and to finance its ongoing operations, the Council has brought in cash by reducing its external investments from £10.363m at 31<sup>st</sup> March 2008 to £5.104m at 31<sup>st</sup> March 2009 (Balance Sheet figures).

### **Building Regulations Control Services**

50. Under the Building (Local Authority Charges) Regulations 1998 the Building Regulations Control Services are set a target of making a surplus from operations over a three year rolling period. Chorley has failed to do this over the period 2006/07 to 2008/09 making a deficit of £0.087m. This has been offset in part by transferring funds from a building control reserve that was built up from surpluses in previous years. However, the fund now stands at around £0.025m which means that should the function continue to trade at a deficit there will be little scope to continue to finance this in future years. Accordingly, there should be a thorough review of expenditure and income relating to this service during 2009/10 although, given the current economic climate, any increase in fees may be counter-productive.

### **Contingent assets and liabilities**

51. The notes to the core financial statements contain details of a number of contingent assets and contingent liabilities that existed at the financial year end. In summary these are assets and liabilities that are significant but cannot be confirmed at the financial year end, but are dependent upon future events.
52. The main contingent assets all relate to Value Added Tax:
- a. The Council has claimed an amount of £0.636m from HM Revenue and Customs (HMRC) in relation to VAT collected on car parking in previous years. Recent case law suggests that this money should have been retained by the Council although this is now subject to a Judicial Review. Additionally, since the discovery of this potential overpayment the Council has withheld £0.479m of car park income equivalent to the amount of VAT pending the outcome of the Judicial Review. However, the likelihood of achieving repayment of the amount claimed, and retaining the amount withheld, has diminished. As a consequence, accrued interest has been accrued in the accounts in case the withheld income has to be paid to HM Revenue and Customs with interest.
  - b. The Council has also submitted a claim to HMRC regarding VAT overpaid over many years, mainly at its Leisure Centres, totalling £0.526m. There is no indication at the moment as to whether it will be successful in this claim, in full or in part, although we are aware that other authorities have received settlement of similar claims.
  - c. One further VAT related contingent asset is that under the terms of the Voluntary Stock Transfer Agreement dated 26<sup>th</sup> March 2007, the Council is entitled to receive a further sum, estimated at £3.4m from Chorley Community Housing. This sum only becomes payable if the Association is successful in reclaiming VAT on qualifying works on the houses transferred over a period of roughly 10 years. The first tranche of £0.650m was paid to the Council in 2008/09 and is included in the accounts.
53. There are two contingent liabilities that have been disclosed in the accounts. The first relates to a potential payment that may have to be made under the "Scheme of Arrangement" which has allowed Municipal Mutual Insurance Limited to work towards a solvent run-off of its affairs following trading difficulties, until all its outstanding claims are settled. A payment will only be due should the company become insolvent. The second

relates to the warranties that the Council has given to Chorley Community Housing Limited against certain environmental risks. The Council's liability is restricted to a maximum loss of £18m arising over a period of 18 years which is to a large extent covered by insurance arrangements which the Council has taken out. At 31<sup>st</sup> March 2009 there are 16 years of the liability outstanding.

### **Collection Fund**

54. Each January the Council estimates what the Collection Fund balance will be on 31<sup>st</sup> March. If there is an estimated surplus or deficit at this date, it has to be shared between, or recovered from, the Council and the major precepting authorities during the following financial year. Chorley Council estimated that the Collection Fund would break even at 31<sup>st</sup> March 2008, therefore there is no surplus to be distributed, or deficit recovered, during the year.
55. The actual Collection Fund Accounts show an in year deficit of £0.095m, and a cumulative deficit of £0.409m. Provision has been made for the impact of this deficit in the 2009/10 budget. To put this into perspective, the current economic climate has slowed the rate of growth in both domestic and business properties within the borough. Additionally it has had a small detrimental impact on collection rates.

### **The Annual Governance Statement**

56. The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the delivery of its services, having regard to a combination of economy, efficiency and effectiveness. This requires the Council to put in place proper arrangements for the governance of its affairs to support the achievement of its objectives, including the management of risk.
57. There is also a statutory requirement for the Council to conduct a review (at least once in a year) of the effectiveness of the internal control environment and to publish a statement on the adequacy of the system with its annual accounts. This statement is referred to as the Annual Governance Statement (AGS) and replaces the Statement of Internal Control that was presented in previous years.
58. The Council has adopted a Local Code of Governance that is consistent with best practice principles for public services and in particular for local government. The AGS demonstrates our compliance with the Local Code and explains our governance arrangements, how these were evaluated and future plans to improve and strengthen the governance environment.
59. The statement consists of five sections as follows:
  - a. Section 1 of the AGS "scope of responsibility" and section 2 "the purpose of the AGS" are fairly prescriptive and CIPFA guidance sets out appropriate wording that we have adapted slightly to ease understanding.
  - b. Section 3 of the statement identifies the key elements of the Council's governance arrangements.
  - c. Section 4 demonstrates how those arrangements have been evaluated and how assurance is gathered.
  - d. Section 5 highlights areas of development that have been identified from the review process which will further enhance our governance arrangements.

60. The regulations state that the document should be published with the financial statements however, it should be emphasised that the AGS is a broader reflection of the whole governance of the Council and does not just relate to financial controls, but covers all activities of the Council
61. The significant governance issues identified in the annual statement are set out below. Actions planned to improve on these issues are outlined in the statement.
- a. Ensuring that partnerships are underpinned by a common vision of their work that is understood and agreed by all parties.
  - b. Measuring the environmental impact of policies, plans and decisions.
  - c. Further developing the Council's working relationship with the local PCT in order to develop the health outcomes contained in the corporate strategy.
  - d. Ensuring that members are clear about their roles and responsibilities when working in partnership arrangements.
  - e. Ensuring that for all partnerships there an agreed set of values against which decision making and actions can be judged.
  - f. Further development and use of the Council's Information Management and Anti-Fraud and corruption policies.

## IMPLICATIONS OF REPORT

62. This report has implications in the following areas and the relevant Corporate Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		No significant implications in this area	

Financial implications are indicated in the body of the report.

GARY HALL  
ASSISTANT CHIEF EXECUTIVE (BUSINESS TRANSFORMATION AND IMPROVEMENT)

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Susan Guinness	5101	18 June 2009	Financial Statement Report 2008-09.doc