

Report of	Meeting	Date
Director of Transformation	Audit Committee	30 June 2011

DRAFT CORE FINANCIAL STATEMENTS FOR YEAR ENDING 31 MARCH 2011

PURPOSE OF REPORT

1. To report a draft summary of the Core Financial Statements plus key messages that will form part of the Council's year end Statutory Statement of Accounts (SOA) for 2010/11 for information purposes.

RECOMMENDATION(S)

2. That Governance Committee Members are asked to note the contents of the report.

EXECUTIVE SUMMARY OF REPORT

3. This is the first year in which these statements have been produced in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, (The Code), which is based on International Financial Reporting Standards. This has resulted in some significant changes in both the approval process and format:-
 - In previous years the Governance Committee were required to approve the SOA before 30th June before it was inspected by external auditors to be returned back to the committed for final approval prior to 30th September.
 - This year the Chief Financial Officer approves the SOA prior to 30th June and the Governance Committee Members approve the document after the external inspection by 30th September. The SOA will be made available to members for comment during the period of inspection.
 - There will also be changes to the appearance and format of the statements and notes. It has meant that the statements for the previous year have had to be restated in order to enable a consistent comparison to be made between the years.
4. The main changes in the figures are:
 - inclusion of an accrual for holiday entitlement outstanding at 31/3/2011 (£125k)
 - the reclassification of two leases as finance leases. This has resulted in the deletion of two fixed assets and the introduction of long term debtors, but there is only a negligible impact on the revenue account.
 - government grants and other contributions towards capital expenditure (totalling £0.931m in 2010/11 and £1.461m in 2009/10) now appear directly in the Comprehensive Income and Expenditure Statement in the year of receipt.

Previously these amounts were released as income, over time, as assets were depreciated.

- It is important to note that these changes do not impact on the charges to council tax payers. Regulations require compensating adjustments to be made.

CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			✓

BACKGROUND

- The Code of Practice on Local Authority Accounting in the United Kingdom (the code) specifies the principles and practices of accounting required to give a "true and fair" view of the financial position and transactions of the Council and required by the Local Government Act 2003.
- The Core Financial Statements are set out in Appendix One and consist of the following:-
 - Movement in Reserves Statement
 - Comprehensive Income and Expenditure Statement
 - The Balance Sheet
 - Cash Flow Statement
 - Collection Fund Account
 - Annual Governance Statement
 - Notes to the Main Financial Statements
 - Statement of Responsibilities for the Statement of Accounts
- Each Statement appears in Appendix One below with an explanation of what the Statements shows plus the salient points to note at this stage

2010/11 Financial Out-turn Position

- This report relates directly to the Provisional Revenue Out-turn 2010/11 and Capital Programme Provision Out-turn 2010/11 reports. The Executive Summary of each of the reports are replicated below. If Members require more detailed information, please follow the links below.

Executive Summary Capital Outturn

11. Council of 1st March 2011 approved revisions to the 2010/11 Capital Programme, to change the current estimate to £4,587,240, as indicated in column (1) of Appendix 1. After taking account of reductions in capital expenditure of £307,112 and rephasing of expenditure of £1,994,937, the provisional outturn for 2010/11 is £2,285,190, as presented in column (5) of Appendix 1.
12. In addition to the £1.995 million expenditure rephased from 2010/11 to 2011/12, the 2011/12 Capital Programme should also be increased by £3,770 brought forward from 2012/13 to reflect the revised phasing of purchases of gazebos for the Flat Iron Market.
13. The Capital Programme for 2011/12 should also be increased by a net total of £362,720, as presented in column (3) of Appendix 2. Of this total, £449,720 is in respect of budgets which could be increased or added to the programme as a result of receiving additional Government grants or developers' contributions. For accounting reasons, the £50,000 budget for dilapidation repairs at Coppull Leisure Centre should be transferred to the revenue account budget in 2011/12, and revenue financing of the capital programme should be reduced to match, so that the effect on revenue and capital budgets is neutral.
14. The Capital Programme for 2012/13 should be reduced by £3,770, as shown in Column (6) of Appendix 2. This is because the budget provision is required in 2011/12 in order to implement Phase 2 of the Flat Iron Market gazebos project.
15. There are no changes at this stage to the 2013/14 Capital programme.
In accordance with the Council's strategy of reducing the debt incurred for financing of capital expenditure in previous years, £0.719 million has been set aside voluntarily in addition to the Minimum Revenue Provision for debt reduction charged to the revenue budget each year. This has been achieved by applying VAT Shelter Income and revenue account savings in 2010/11, in order to reduce the charge to the revenue budget for repaying debt in subsequent years.

Executive Summary Revenue Outturn

16. In December I reported on the financial position of the Council as compared against the budgets and efficiency savings targets for 2010/11. At that time I reported that the full savings target of £360,000 had already been achieved. Further savings have been achieved during the remainder of the year and these have helped to offset one-off costs associated with the recent directorate restructures.
17. The provisional outturn shows the Council's initial net expenditure at the end of the year to be £505,000 below budget. However, this figure includes budgeted underspends to the value of £169,000 on committed items where slippage requests have been received to carry forward resources to 2011/12. After taking slippage into account, the outturn shows an underspend of £336,000 against the budget reflecting a further reduction of £244,000 from the position reported in December.
18. The Council's Medium Term Financial Strategy proposed that working balances were to be no lower than £2.0m due to the financial risks facing the Council. I am pleased to report that the level of balances proposed at 31 March 2011 will exceed the minimum of £2.0m by £0.077m. This puts the Council in a strong position for the start of the next financial period.
19. Please click below for the Capital Programme Provisional Outturn 2010/11 and Monitoring 2011/12 - 2013/14 report and appendices
<http://democracy.chorley.gov.uk/mqConvert2PDF.aspx?ID=18795>,
<http://democracy.chorley.gov.uk/mqConvert2PDF.aspx?ID=18796>,
<http://democracy.chorley.gov.uk/mqConvert2PDF.aspx?ID=18797>

20. Please click below for the Provisional Revenue Outturn 2010/11 report and appendices
<http://democracy.chorley.gov.uk/mgConvert2PDF.aspx?ID=18817>
<http://democracy.chorley.gov.uk/mgConvert2PDF.aspx?ID=18777>
<http://democracy.chorley.gov.uk/mgConvert2PDF.aspx?ID=18778>

IMPLICATIONS OF REPORT

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

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

22. The financial implications are detailed in the body of the report.

GARY HALL
 DIRECTOR OF TRANSFORMATION

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Gordon Whitehead	5485	June 2011	

DRAFT SUMMARY CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

The statement shows the levels of reserves, and movements therein. They, in part, indicate the underlying financial strength of the Council.

This statement distinguishes usable from unusable reserves. "Usable" are available to fund expenditure or reduce local taxation. Unusable includes the Revaluation Reserve (holding unrealised gains in property values), and other reserves holding amounts arising from differences between the accounting basis used in compiling the Comprehensive Income and Expenditure Statement and the statutory basis prescribed for taxation purposes.

The statement starts by showing the surplus or deficit arising in the year on the Provision of Service. This is the true economic cost of providing the authority's services (as detailed in the Comprehensive Income and Expenditure Statement). For the purposes of council tax setting however, a series of statutory adjustments are then made, resulting in a line entitled "Net Increase/Decrease before transfers to Earmarked Reserves". The final line shows any such discretionary transfers to or from earmarked reserves.

	Useable Reserves					Unusable Reserves	TOTAL RESERVES
	General Fund	Earmarked Reserves	Capital Receipts Reserve	Capital Grants & Contributions	Total Useable Reserves		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance 31 March 2009	(1,601)	(1,319)	(680)	(5,690)	(9,290)	(5,480)	(14,770)
<u>Movement in 2009/10</u>							
Deficit on provision of service	2,993	0	0	0	2,993	0	2,993
Other comprehensive income & expenditure	0	0	0	0	0	10,633	10,633
Total Comprehensive Income & Expenditure	2,993	0	0	0	2,993	10,633	13,626
Adjustments between accounting basis & funding basis	(3,227)	0	680	612	(1,935)	1,935	0
Net change before transfers to/(from) earmarked reserves	(234)	0	680	612	1,058	12,568	13,626
Transfers to/(from) earmarked reserves	172	(172)	0	0	0	0	0
(Increase)/Decrease in year	(62)	(172)	680	612	1,058	12,568	13,626
Balance 31 March 2010	(1,663)	(1,491)	0	(5,078)	(8,232)	7,088	(1,144)

	Useable Reserves					Unusable Reserves	TOTAL RESERVES
	General Fund	Earmarked Reserves	Capital Receipts Reserve	Capital Grants & Contributions	Total Useable Reserves		
	£'000	£'000	£'000	£'000	£'000		
<u>Movement in 2010/11</u>							
(Surplus) on provision of service	(4,029)	0	0	0	(4,029)	0	(4,029)
Other comprehensive income & expenditure	0	0	0	0	0	(7,591)	(7,591)
Total Comprehensive Income & Expenditure	(4,029)	0	0	0	(4,029)	(7,591)	(11,620)
Adjustments between accounting basis & funding basis	3,292	0	(41)	(662)	2,589	(2,589)	0
Net change before transfers to/(from) earmarked reserves	(737)	0	(41)	(662)	(1,440)	(10,180)	(11,620)
Transfers to/(from) earmarked reserves	323	(323)	0	0	0	0	0
(Increase)/Decrease in year	(414)	(323)	(41)	(662)	(1,440)	(10,180)	(11,620)
Balance 31 March 2011	(2,077)	(1,814)	(41)	(5,740)	(9,672)	(3,092)	(12,764)

The salient points to note are:

- The surplus for the year is £4.029m. A number of items have however to be added or deleted in order to determine the amount to be included in assessing local taxation. These adjustments include many transactions relating to capital charges, pensions and the provision for debt repayment. They total £3.292m, leaving an effective surplus of £0.737m.
- Whilst the balances appear comfortably large at £9.7m, the major portion, £5.7m, can only be used for capital purposes. In many instances these resources are already committed to capital projects in progress.

The out-turn report gives a fuller report on activity and changes during the year

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This statement incorporates gains and losses which would have been shown in previous years in the Statement of Total Recognised Gains and Losses. The final line in the statement, "Total Comprehensive Income", reconciles to the movements in the year in Total Reserves of the Authority, as shown in the Balance Sheet.

2009/10				2010/11		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
8,803	(7,028)	1,775	Central services to the public	8,856	(7,231)	1,625
15,116	(3,984)	11,132	Cultural, environmental, regulatory & planning services	17,003	(4,409)	12,594
2,454	(1,638)	816	Highways & transport services	1,739	(1,609)	130
23,096	(21,075)	2,021	Other housing services	23,476	(22,769)	707
2,345	(15)	2,330	Corporate democratic core	2,089	(116)	1,973
1,410	(978)	432	Non distributed costs	1,339	(1,042)	297
0	0	0	Exceptional Item	0	(5,584)	(5,584)
53,224	(34,718)	18,506	Cost of Services	54,502	(42,760)	11,742
603	(753)	(150)	Other operating expenditure	874	(1,609)	(735)
5,077	(3,283)	1,794	Financing & investment income & expenditure	5,384	(3,838)	1,546
0	0	0	Surplus or deficit of discontinued operations	0	0	0
0	(17,157)	(17,157)	Taxation & non-specific grant income	0	(16,582)	(16,582)
58,904	(55,911)	2,993	(Surplus)/Deficit on provision of services	60,760	(64,789)	(4,029)
		(29)	(Surplus)/deficit on revaluation of property, plant & equipment assets			(1,435)
		10,659	Actuarial (gains)/losses on pension assets & liabilities			(6,156)
		3	Other gains			0
		10,633	Other Comprehensive Income & Expenditure			(7,591)
		13,625	TOTAL Comprehensive Income & Expenditure			(11,620)

The salient points to note are:

- The two major items to note in this table are firstly the exceptional item of income of £5.58m. This is an adjustment to the estimated pension liabilities of the Council in respect of past employment. It has arisen because of the decision to base pension increases on CPI rather than RPI.
- The second major item is also pension related. The actuary has reassessed the assets and liabilities of the fund, as he does every year and made a net £6.1m reduction in liabilities. The combined effect of these and other pension changes is a reduction of £10.4m in the pension deficit. It now stands at £27.3m.
- As above, and shown in the reserves statement, only £0.7m of the total surplus is available for general Council Purposes.

The Balance Sheet

The Balance Sheet demonstrates the value of the assets and liabilities recognised by the Council. The total of these, the Net Assets, is matched by the authority's reserves, as shown in the lower part of the Balance Sheet.

1 April 2009	31 March 2010		31 March 2011
£'000	£'000		£'000
36,136	37,571	Property, plant & equipment	36,041
1,055	1,055	Investment property	1,123
509	544	Intangible assets	690
0	0	Assets held for sale	0
8	8	Long term investments	8
364	357	Long term debtors	352
38,072	39,535	Total Long Term Assets	38,214
1,595	1,490	Short term investments	4,577
0	0	Assets held for sale	0
41	41	Inventories	22
6,596	7,695	Short term debtors	6,913
3,349	0	Cash and cash equivalents	5,225
11,581	9,226	Total Current Assets	16,737
0	(82)	Cash and cash equivalents	0
(2,389)	(2,780)	Short term borrowing	(1,101)
(4,429)	(5,275)	Short term creditors	(4,887)
0	0	Provisions	0
0	0	Liabilities in disposal groups	0
(6,818)	(8,137)	Total Current Liabilities	(5,988)
0	0	Long term creditors	0
0	0	Provisions	0
(2,280)	(900)	Long term borrowing	(7,822)
(25,522)	(37,669)	Other long term liabilities	(27,291)
0	0	Net pension liability	0
0	0	Donated assets account	0
(263)	(911)	Capital grants receipts in advance	(1,086)
(28,065)	(39,480)	Total Long Term Liabilities	(36,199)
14,770	1,114	NET ASSETS	12,764
(9,290)	(8,232)	Usable Reserves	9,672
(5,480)	7,088	Unusable Reserves	3,092
14,770	1,144	TOTAL RESERVES	12,764

The salient points to note are:

- Borrowings have increased during the year in anticipation of committed capital expenditure. This policy was agreed in the Treasury Strategy, and the timing took advantage of extremely low interest rates during the year. This is the major factor causing the increase of £5.2m in cash balances (held in call accounts).
- As reported previously other long term liabilities have fallen as a result of the pension fund changes.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.

2009/10		2010/11
£'000		£'000
(2,993)	Net surplus or (deficit) on provision of services	4,030
1,910	Adjustments to net surplus or deficit on the provision of services for non cash movements	2,974
710	Adjustments for items reported separately on the cash flow statements	(4,215)
(373)	Net cash flows from Operating Activities	2,789
(2,618)	Investing Activities	(1,980)
(440)	Financing Activities	4,497
(3,431)	Net increase or (decrease) in cash & cash equivalents	5,306
3,349	Cash & cash equivalents at the beginning of the reporting period	(81)
(82)	Cash & cash equivalents at the end of the reporting period	5,225

Salient points

- Investing activities consist of an outflow of cash on capital expenditure (£1.8m) and treasury investments (£3m) offset by an inflow from capital grants, contributions and receipts.
- Financing activity consists primarily of the net inflow of cash from additional borrowings, net of repayments.

Collection Fund Account

This statement is relevant to organisations that act as collecting agent for other authorities, for example, police fire and county council. Its purpose is to reflect the statutory obligation for billing authorities to record transactions relating to the collection of Council Tax and Non-Domestic Rates, and their distribution to precepting authorities, the Government, and the Council itself.

2009/10			2010/11	
£'000	£'000		£'000	£'000
		INCOME		
	46,883	Income from Council Tax		47,578
		<u>Transfers from General Fund</u>		
6,244		Council Tax Benefits	6,482	
(1)		Transitional Relief	0	
	6,243			6,482
	22,681	Income Collectable from Business Ratepayers		20,956
	75,807	TOTAL INCOME		75,016
		EXPENDITURE		
		<u>Precepts and Demands</u>		
38,900		Lancashire County Council	39,017	
6,900		Chorley Borough Council	6,917	
4,987		Lancashire Police Authority	5,149	
2,318		Combined Fire Authority	2,241	
	52,978			53,324
		<u>Distribution of Collection Fund Surplus/(Deficit)</u>		
(91)		Lancashire County Council	(113)	
(16)		Chorley Borough Council	(20)	
(12)		Lancashire Police Authority	(15)	
(5)		Combined Fire Authority	(6)	
	(124)			(154)
	0	Adjustment to previous years Community Charge		0
		<u>Business Rates</u>		
22,556		Payment to National Pool	20,826	
125		Cost of Collection Allowance	130	
	22,681			20,956
		<u>Bad and Doubtful Debts/Appeals</u>		
123		Write Offs	97	
34		Provisions	315	
	157			412
	75,692	TOTAL EXPENDITURE		74,538
	115	Surplus/(Deficit) for the Year		478
	0	Surplus/(Deficit) at 1 April		0
	(15)	Transfer to/(from) Collection Fund Adjustment Account		(62)
	(100)	Net Transfer to Major Precept Debtor		(416)
	0	Surplus/(Deficit) at 31 March		0

The salient points to note are:

- The collection fund surplus is not income due to the Council. Although it is held by the Council it will be paid to the County, Police and Fire Authorities as well as this Council in proportion to the amounts they levy in the Council Tax.
- **Collection rates** – The proportion of taxation paid is closely monitored and managed, the collection rates over the two years are as follows and should be considered in line with the current economic climate:-

	2009/10 %	20010/11 %	Increase/(Decrease) %
Council Tax	98.4	98.4	-
NNDR	97.4	97.8	0.4

Other Statements

Annual Governance Statement – reported to committee within another item on the agenda.

Notes to the Main Financial Statements and the Statement of Responsibilities – to be contained in the Statement of Accounts for approval by the Chief Finance Office and available for member comment during the period of external inspection.