Chorley
Borough Council

Report of	Meeting	Date
Director of Finance	Accounts Committee	29th June 2006

ACCOUNTS FOR 2005/06

PURPOSE OF REPORT

1. To seek approval of the Council's accounts for 2005/06.

CORPORATE PRIORITIES

2. The financial results for the year relate to ensuring the authority is a performing organisation.

RISK ISSUES

3. The issue raised and recommendations made in this report involve risk considerations in the following categories:

Strategy		Information	
Reputation		Regulatory/Legal	
Financial	4	Operational	
People		Other	

4. The report is concerned with the process for reporting the financial performance for the authority for 2005/06. Failure to perform has consequences for the future financial stability of the authority.

THE ACCOUNTS

5. Attached to this report are the Council's draft accounts for approval under the provisions of the Accounts and Audit Regulations 2006.

6. The Council's financial outturn for the last financial year will be reported to the Executive Cabinet on 29th June 2006. The attached accounts present the same information in the form required by the Local Authority Accounting Code of Practice, which is the statutory proper practice for this purpose.

7. In terms of the overall picture and issues that members may find of interest the Council met its target of retaining £1m in working balances for the General Fund by the end of the financial year and to set funds aside for known liabilities for which no funding had been identified. Housing Revenue Account working balances also achieved their reported target by the year-end.

8. In accordance with accounting legislation (FRS17) the pension fund is revalued at the end of the year. At the end of 2005/06 the overall liability has reduced by £187,000 as a result of better than anticipated performance of the LCC Pension Fund. However, as there is

still an overall deficit on the fund, employers' contributions will continue to rise to the previously reported levels.

9. The accounts include a statement on the system of internal control that reports on the Councils arrangements for ensuring that the risk of failure to achieve policies, aims and objectives is managed. It incorporates a list of significant control issues, a number of which the Council is already addressing that if dealt with will improve the Council's ability to deliver.

10. As Members will be aware the statutory timetable for accounts productions has been gradually brought forward. Approval at this time is in line with the statutory requirements representing a significant improvement in timeliness.

11. The formal audit of the accounts will begin on 7th July 2006. If any matters arise from this that need to be brought back to this Committee, appropriate arrangements will be made.

ANALYSIS OF STATEMENTS

12. In order to assist Members in the interpretation of the Authority's accounts I will now provide a brief review of the main accounting statements and the significant issues within them.

STATEMENT OF INTERNAL CONTROL (SIC)

13. The Council is now required to conduct an annual review of the effectiveness of its system of internal control and to publish a Statement on Internal Control (SIC) each year alongside the financial statements. The SIC included with these accounts has been produced in full compliance with CIPFA guidance, both in terms of format and the process for compiling it.

14. The guidance requires the Chief Executive and the Leader to sign the SIC. This emphasises that the document is about all corporate controls and is not confined to financial issues

15. The SIC is divided into 5 sections, the purposes of which are to:

- Explain the Council's responsibility to maintain a sound system of internal control;
- Explain the purpose of the internal control system;
- Summarise the main elements of the Council's internal control environment;
- State the processes in place to review the effectiveness of the control system; and,
- List any significant internal control issues that have emerged from the most recent review

16. Of particular importance are the significant internal control issues that emerged from the latest review. These include the need to:

- Introduce formalised procedures to identify and comply with legislative change;
- Introduce, update and disseminate key constitutional / governance policies and procedures where omissions or weaknesses currently persist;
- Further develop members and senior officers awareness of governance and risk management issues;
- Effectively manage the risks associated with partnerships and partnering arrangements;
- Fully embed a VFM culture within the Council;
- Embed the new Corporate Strategy and improve the monitoring of targets and outcomes;
- Improve the accuracy and reliability of performance information.

17. A detailed programme of action is now in place to address the control weaknesses identified.

CONSOLIDATED REVENUE ACCOUNT (CRA)

18. The net surplus for the year on the CRA was £84k after allowing for slippage. During the year there was a net contribution from reserves thereby reducing reserve balances to £1.928m.

19. The balances and movement in the year are split between:

	2004/05 Balance £'000	Movement £'000	2005/06 Balance £'000
Working balances	1,000	84	1,084
Earmarked reserves	1,305	(461)	844
	2,305	(377)	1,928

20. Working balances have increased during the year to £1,084k and are roughly at the mid point in the target range as set out in our Medium Term Financial Strategy (MFTS).

21. Earmarked reserves have reduced mainly as a result of the transfer back into general balances of the stock transfer and self-insurance reserves.

22. The reserves are categorised according to the approval mechanism as follows:

Analysis of Reserves	**£'000**	**£'000**
Those requiring approval by Cabinet		
General reserves	1,084	
Building Control reserve	50	
Astley Hall Works of Art	11	
		1,145
Those approved for spend by Officers		
Unit specific reserve	230	
Job Evaluation	101	
E-workforce reserve	113	
Local Development Framework	183	
Elections	34	
		661
Those for approval by Member under Delegation		
Innovation Fund		122
TOTAL		1,928

23. During the setting of the 2006/07 budget I identified that the specific reserve set aside for the cost of stock transfer was no longer required as the Council had managed to get the cost underwritten by the preferred partner, Adactus. Consequently I recommended, and the Council agreed, that this money may be used to replenish the level of working balances, as there remained some key risks in the budget, particularly around the cost of concessionary travel and benefits.

24. I have also reported to the Executive Cabinet the results of the recent tender exercise for the Council's Insurances. The report contained details regarding a specific reserve set up to finance the Council self-insuring itself. In the event I recommended that the self-

insurance option is not appropriate and as such the reserve money has been written back to revenue totalling £147k.

25. Although working balances have increased at the end of the financial year, we need to continue to exercise caution in our spending plans. 2006/07 will present us with a number of challenges in terms of meeting our savings targets, and there are a number of volatile budgets where the cost drivers are outside our direct control. Probably the most significant examples of these are concessionary travel, recycling contract, net financing costs and benefits. These areas are demand driven by our customers or other external factors such as weather in the case of recycling rates, and in the case of concessionary travel it is still uncertain as to whether the funding provided by central government will be sufficient to cover the increase in cost.

26. As a result of these budgets having the potential to deplete our balances to the lower end of our targets set in the MFTS, great care needs to be taken before any expenditure is authorised from working balances.

27. With regard to general performance against our cash budget, this has been reported throughout the year as part of the monthly monitoring process. In this process members have been provided with specific detail on the main savings and cost increases, as they became known.

28. Additionally the provisional outturn report submitted to Executive Cabinet contains further detail on the variances to budget arising in the final periods, and the background to those variances.

29. Overall the Council managed to deliver the General Fund budget it set itself at the beginning of the financial year. Initial forecasts of overspend were dealt with by the Council and as a result general working balances are at the level anticipated and within the range set in the Council's financial strategy.

BALANCE SHEET

30. The balance sheet sets out the Authority's assets and liabilities at the end of the financial year. It is very important to keep in mind the fact that the balance sheet only gives us a 'snap-shot' of our financial position at a given point in time, and can quite literally change the next day. Common reasons for this to happen can include receiving cash from our debtors, paying our creditors money owed to them or the purchase or sale of our assets.

31. I have presented below some standard ratio analyses to help interpret the financial position at the end of the year.

FIXED ASSET VALUES AND MOVEMENT (EXCL COUNCIL DWELLINGS)

	2004/05	**2005/06**
Value of assets at 31st March	£25.8m	£27.8m
Movement in year	£1.0m	£2.0m

32. A summary of how the asset value is analysed across the various categories is shown below:

	2004/05	2005/06
	£m	£m
Land & Buildings (excluding council dwellings)	18.5	19.9
Vehicles, Equipment, Plant	1.6	1.7
Community Assets	1.9	1.9
Non Operational Assets	3.8	4.3
Total Asset Value	**£25.8m**	**£27.8m**

33. Land & buildings and vehicles, equipment and plant have increased mainly as a result of work or additions carried out in these categories during the year. Non-operational assets have increased as a result of asset revaluations.

LIQUIDITY RATIOS

	2004/05	2005/06
Current ratio	0.67:1	0.72:1
Quick ratio	0.63:1	0.70:1

34. The current ratio is the ratio of total current assets to total current liabilities, and the quick ratio is the total current assets less stocks and work in progress (WIP) to total current liabilities.

35. In the second ratio the value for stocks is removed, as it is not necessarily a simple task of turning stocks into an equivalent cash value.

36. The purpose of these two working capital ratios is to demonstrate how liquid, or how much access to cash, an organisation has. For our Authority the values for 2004/05 show that for every £1 of current liability we only had 67p worth of current assets including stocks, or 63p of assets if we exclude stocks.

37. For 2005/06 this position has improved to 72p and 70p respectively. The main cause of this improvement has been the movement in debtor and creditor balances through the year. Although this ratio has improved, it is important to recognise that we do not have improved cash balances, as our cashflow for the year has seen a reduction in cash and cash equivalents. For more information please refer to the notes on cashflow.

38. The debtor balances that are included within current assets have risen by £3.1m during the year. The majority of this increase relates to adjustments made in the last period of the year. They relate to lease costs for new fixed assets (£194k), recognition of S106 monies due from developers (£600k), monies due from LCC relating to the waste recycling contract (£653k) and stock transfer costs which will become payable after the transfer vote (£763k).

39. Creditor balances by comparison have only risen by £560k at the end of the year. The most significant movements are a reduction in the values owed to Government departments for PAYE and NNDR contributions (£909k) offset by increase in receipts in advance (£642k) relating to pre ballot costs of housing transfer and an increase in sundry

creditors (£754k). Creditors from the collection fund (NNDR and Council Tax) have also risen by £73k in the year.

PENSION LIABILITY

40. Our most significant long term liability on our balance sheet is the liability related to the defined benefit pension scheme for officers and employees. The values and movements over the last two years are:

	2004/05 £'000	**2005/06 £'000**
Liability	22,223	22,036
Increase/(decrease) in liability from previous year	14,062	(187)

41. As we can see the overall liability has reduced, mainly as a result of the pension fund outperforming our expectations on the investment markets. However as there is still a significant liability the plans to increase employers' contributions to 16.8% over the next triennial period of the fund remain in place. This will have a significant impact on the future year's revenue budget.

DEFERRED LIABILITIES

42. Our balance sheet also reports deferred liabilities at the end of the year of £5.8m. In the main, these balances relate to payments made to us by developers under S106 for the authority to provide additional or improved services. The amounts are held as liabilities because they become repayable to the developer if we do not use the funds within the timescales set in the development agreement. The following table provides an analysis of the deferred liabilities:

	£'000
S106 contributions – Housing	225
S106 contributions – Transport	4,763
S106 contributions – Play Areas	260
S106 contributions – Environmental Improvements	5
Grounds Maintenance Commuted Sums	144
Community Centre Commuted Sums	362
	5,759

HOUSING REVENUE ACCOUNT

43. The Housing Revenue Account (HRA) shows the income and expenditure involved in the management and maintenance of the Authority's housing stock.

44. The surplus for the year was £150k, which is greater than originally anticipated. The main factors affecting this variance have been reported to the Executive Cabinet in the outturn report, but can be summarised as follows:

- Increase in rental income due to fewer than anticipated council house sales.
- Repairs and Maintenance was overspent for the year by £141k, which is mainly due to a Trading Account deficit of £101k. A significant part of the deficit can be attributed to an above average amount in loss of productive time. There are a number of reasons for this, including strike action, attendance at Stock Transfer

events and other miscellaneous corporate activities. An approximation of the loss of income from this is £33k. Other activities that have added to the deficit, and have been reported during the year include an increase in cost of disposal of waste materials, and also a loss of contribution from a reduction in the replacement window programme.

- Increased General Supervision and Management costs incurred due to capacity issues and disruption resulting from some staff being involved in stock transfer matters
- A saving from a less than budgeted increase in bad debt provision
- A small increase in HRA Negative Subsidy
- Increase in Rent Rebate Subsidy Limitation/Transitional Arrangements
- A reduction in capital financing costs

45. A significant change relating to the HRA that impacts on other statements is the valuation of council housing stock. As a result of being part of the LSVT programme we have not needed to conduct a full valuation of the stock, but are only required to complete a desk based exercise which involves increasing property values by additional works completed and a factor representing the general increase in house values (5.22% for 2005/06).

46. However, in our financial statements we are required to show the value of the properties not at market value, but at an adjusted level to represent that they are in use for social housing. In the accounts for 2004/05 this adjustment factor was 59% and this has been reduced by the DCLG to 48% in 2005/06. By applying this reduced percentage to the values of our housing stock this gives a reduction in value for our balance sheet of approximately £13m from the previous year.

CASHFLOW

47. The cashflow summarises inflows and outflows of cash to the Authority in the accounting period. As with the balance sheet it is a statement at a given point in time, and reflects the movement in cash and cash equivalents from one date (the year end) to the next.

48. The cashflow for the year shows a net outflow of cash of £4m before financing. This is an increase in outflows of £2m on the same point last year. The main factors affecting this result are:

	£'000
Increase in capital expenditure	1,015
Reduction in capital grants	958
	1,973

49. The increase in capital expenditure is in line with the programme approved by the Capital Programme Board and reported to Executive Cabinet throughout the year. The reduction in capital grants is as a result of some of this expenditure not qualifying for grants from central government.

50. Moving forwards, in terms of improving our cashflow management there are a number of improvements we will be putting into place.

51. Firstly with regards to the management of debtors (people or organisations who owe us money) more effort is going to be directed towards recovery of amounts due to us. In support of this, the Executive Cabinet at it's meeting on 25th May 2006 approved the introduction of bankruptcy, charging orders and winding-up proceedings which will be

used in exceptional circumstances for the recovery of large debts relating to non-payment of taxes.

52. Another method being used to increase the rate of collection from taxpayers is for the continued encouragement of the use of Direct Debits (DD) as a means of collecting income. This method of payment allows for timely receipt of monies owed and greatly improves our cash inflow position. Presently 68% of Council Tax payers and 56% of NNDR payers make payments by DD. On a countywide basis this is the 4th and 3rd highest number of DD payments and the result is a collection rate that is the second highest for both taxes.

53. The management of creditors (people or organisations to whom we owe money) is another area where new working practices will be introduced in order to improve cashflow.

54. Currently it is our practice to pay invoices as soon as they are received and correctly authorised without reference being made to payment due dates. We will now pay invoices in accordance with payment terms after appropriate authorisation, which will mean that our cash will remain in our bank account until payment is due rather than simply paying as soon as possible. Again this will improve our cashflow in a number of areas and should generate an increase in interest receivable.

SUMMARY

55. Overall the Council managed to deliver the General Fund budget it set itself at the beginning of the financial year. Initial forecasts of overspend were dealt with by the Council and as a result general working balances are at the level anticipated and within the range set in the Council's financial strategy

56. For the HRA the additional income from rents as a result of reduced Council House sales offset the overspend on repairs. The repairs budget has continued to be difficult to manage, as it is demand led, but given the impending vote on stock transfer it is vital that for 2006/07 costs are contained and I shall be working with the Director of Housing to ensure this happens.

57. Cashflow for the authority has reduced in comparison to previous years, however steps are being taken to improve on the current situation.

RECOMMENDATION

58. The Committee are recommended to:

a) Note the contents of this report.
b) Approve the accounts

GARY HALL
DIRECTOR OF FINANCE

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Provisional Revenue Outturn Report	29th June 2006	Finance Unit	Gillibrand Street Annexe

Report Author	Ext	Date	Doc ID
Gary Hall	5480	26 June 2006	Accounts 2005/06