

Report of	Meeting	Date
Director of Finance	Accounts Committee	28/06/07

## FINANCIAL STATEMENT 2006/2007

### PURPOSE OF REPORT

- To seek approval from Members of the accounts for 2006/2007.

### CORPORATE PRIORITIES

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

### RISK ISSUES

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

Strategy		Information	
Reputation		Regulatory/Legal	4
Financial	4	Operational	
People		Other	

- The report is concerned with the process for reporting the financial performance and health of the authority at March 2007. Failure to perform represents a risk in terms of the future financial stability of the Council and presenting the accounts fairly and accurately is a key piece of evidence for the Council's use of resources judgement. Failure to achieve a sign off from the accounts may result in failure to achieve excellent status under the Comprehensive Performance Assessment.

### THE ACCOUNTS

- Attached to this report are the Council's draft accounts for approved is required by the Accounts and Audit Regulations 2006.
- The Council's financial outturn for the last financial year was reported to the Executive Cabinet on the 26 June 2007. The attached accounts present the revenue and capital information in the form required by the Local Authority Statement of Recommended Practice, which is the proper practice for this purpose.
- In terms of the overall picture and issues, the financial year 2006/07 was a particularly interesting and important year. In the year the Council's stock was transferred to Chorley Community Housing, the Council undertook a series of significant Directorate Restructures and the organisation was led by a new Chief Executive and Administration.

8. With regard to the key messages contained in the Statement, I believe they are as follows:
- On the General Fund normal activity the Council slightly underspent (158k or 2.3%) against its cash target, however, a provision to pay interest on the Gillibrand Link Road Scheme absorbed that underspend.
  - The Council was required to use part of its working balances £232k as a result of the provision for interest required on the Gillibrand Scheme.
  - A greater surplus from that originally budgeted was generated on the Housing Revenue Accounts, due in part to the final arrangements in relation to the stock transfer.
  - However end of year balances were still within the range identified in the Council's Financial Strategy.
  - The Collection Fund ran at a small deficit for the year.
  - An additional £1.288m has been provided for in relation to expected payments to the developer for the Gillibrand Compensation. Ultimately this may be more or less dependent upon the arbiters findings. A contingent liability (ie something that may happen in future) has been identified in the accounts of £2m, which represents the maximum amount the developer could be awarded by the arbiter.
    - The Council Pension deficit reduced from £22m to £17.7m in 2006/07. Whilst the reduction is welcome, the Council still has a scheme that requires further funding.
    - The Council this year produced a statement which reviews the Council's governance arrangements and this is included in the accounts.
9. As Members are aware the statutory timetable for the production of the accounts has gradually been brought forward. Approval at this time is in line with the statutory requirements.
10. The formal audit of accounts will begin in early July. If any matters arise from this that need to be brought back to this Committee, appropriate arrangements will be made.

## **ANALYSIS OF STATEMENTS**

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

## **THE GOVERNANCE ASSURANCE STATEMENT**

12. The most recent accounts and Audit regulations gave the Council the option to publish a wider Annual Governance Statement (AGS) in place of the Statement of Internal Control (SIC). This is seen as good practice and urges Councils to:
- develop and maintain an up to date local Code of Governance consistent with the Core Principles set out in the CIPFA/SOLACE good guidance document.
  - review their existing governance arrangements against the framework.
  - prepare a governance statement in order to report publicly the report to which the Council complies which in this instance is the CIPFA/SOLACE guidance.

The results of the review are reported in the Statement contained in this Statement of Accounts. The positive news is that many of the good practices and conducts highlighted as good practice in the CIPFA/SOLACE framework have been adopted by the Council. However there remain some areas where the Council's performance can be improved. The areas together with how the Council will improve on these areas are summarised in the Statement.

## INCOME AND EXPENDITURE ACCOUNT

18. The Council's Income and Expenditure account shows a net deficit of £4.363m. This figure is a result of a change in accounting practice as we move towards UK GAPP 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 surplus (underspend) on normal activities for the year on the Council's Revenue Income and Expenditure Account was £158k after allowing for planned slippage. This equates to £2.3% of the net cash budgets, which is within acceptance tolerances.
19. During the year the targets set for savings in relation to both staff turnover and efficiencies were met. However with the underspend there was a number of key expenditure areas where there was significant cost pressures namely:
  - Waste and Recycling
  - Concessionary Travel
20. Both of the elements which have significant budgets in relation to the Council's overall budget costs more than was budgeted. Within the waste and recycling budget being £60 3.7% overspent and the concessionary travel scheme costing the Council £133k more than expected. Both of these items were reported in budget monitoring as performance issues, and are as a result of a greater than expected demand for both recycling and free travel. Going forward both of these items will create cost pressures which will need to be dealt with in terms of the Council continuing to achieve a balanced budget.
21. Whilst the Council managed to contain spending on normal activities during the year it became evidence that the level of compensation due to the developer for the Gillibrand Link Road would probably be greater than the Council had budgeted for. Whilst the initial impact of an increase in the Compensation would be within the Capital programme and budget, the Council will be required to pay interest on the sum awarded, which would be a revenue cost, charged initially to the Council's Income and Expenditure Account.
22. The final sum payable will be determined by arbitration, but I have had to make an estimate of the likely outcome for the purposes of closing the accounts and presenting fairly the financial position of the Council.
23. Members should also note that in relation to the accounts I have provided a note under the Contingency Liability heading that subject to the outcome of the arbitration a further sum up to £2m may be payable. This is to give the reader of the accounts an indication that in the future a further liability might arise?
24. The estimates of the figure to be paid range from between £800k and £4m. Having looked at the case presented I have allowed for a capital sum of £2m. Consequently I have provided for £390k of interest to be paid, which represents simple interest payable from the date of the original agreement back in the early 1990s.
25. The impact of making that provision is that the Council's Income and Expenditure Account shows an in year deficit of £232k (£390k-£158k). This deficit is initially to be financed from the Council's working balances. However, I shall be seeking to capitalise the interest charge, but require a direction from the government to enable this to be done.

There are no guarantees that this course of action will be allowed as the Government considers such applications on a case by case basis.

26. The impact of the final Income and Expenditure position on the Council's balances is explored further in the next section of the report.

## RESERVES AND BALANCES

27. As a consequence of having an in year deficit the level of the Council's working balances (ie that set aside for unexpected areas and to cover the financial risks contained in the Council's budget has changed) are as follows:

	2005/2006 £000	Movement in 2001/04 £'000	Balance 31 March 2007 £'000
Working Balances	1,000	232	769

28. Working balances are £769k at the end of the financial year. This figure is just within the range set in the Council's Medium Term Financial Strategy.

29. For other specific reserves, the sums available at the year end are as follows:

EARMARKED RESERVES	Balance 31 March 2007 £'000
Building control reserve	0.050
Astley Hall working reserve	0.009
Directorate economic reserves	0.179
Job Evaluation	0.017
e-workforce	0.062
Local Development Framework	0.202
Elections equalisation reserve	0.022
Business growth incentive	0.201
Performance reward growth	<u>0.143</u>
	0.885

30. The table shows that earmarked reserves total £0.885. The largest of the reserves relate to the Local Development Framework (LDF) and business growth incentive reserves. The LDF reserve is money set aside to pay for a judicial review, should this occur following the creation of the LDF. The Business Growth Incentive reserve has accumulated from the Local Authority Business Growth Incentive grant paid to the Council by the Government. As these reserves are earmarked, for the bulk of the reserves plans are in place to utilise the reserve during 2007/2008.

31. Members will know that during 2006/2007 the Council transferred its housing stock to Chorley Community Housing. As a consequence any working balances available from the former Housing Revenue Account become available to the Council for their own use. At the 31 March 2007 balances stood at £966k. During 2007/2008 the Council's Housing Revenue Account will be formally closed following a direction from the Secretary of State and the £966k transfers to the Council's working balances.

## RECOGNISED GAINS AND LOSSES

32. Not all gains and losses experienced by a local authority are reflected in the Income and Expenditure Account. The main areas where this occurs are in relation to increases in the revaluing of fixed assets and the gains and losses on the Pension Fund.

During 2006/2007 there were some significant movements, explained as follows:

£57,290 revaluation of fixed assets  
(3,800) gain on Pension Fund revaluation

The revaluation deficit is the writing out of the Council's books of the housing stock and the gain on pensions is caused by in the main a reduction in liabilities, as the profile has changed.

## BALANCE SHEET

33. 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 a 'snap shot' of the 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 a debtor, paying out creditors money owed to them or the purchase or sale of our assets.
34. I have presented below some standard ratio and summary analysis to help interpret the financial position at the end of the year.

### Liquid Ratios

	2005/2006	2006/2007
Current Ratio	0.72:1	1.17:1
Quick Ratio	0.70:1	1.16:1

35. The current ratio is the ratio of total current assets to total current liabilities, and the quick ratio is the same ratio but excluding stocks and work-in-progress.
36. In the quick ratio the value for stock is removed, as it is not necessarily a simple task of turning stock into an equivalent cash value.
37. The purpose of the two working capital ratios is to demonstrate how liquid, or how much access to cash an organisation has. For our authority the values for 2005/2006 shown that for every £1 of current liability we had 72p worth of current assets including stocks, or 70p of assets if we exclude stock.
38. For 2007/2008 this position has improved further with the ratio increasing.

## ASSETS

39. The Council's asset value and therefore its overall net worth has reduced significantly if compared with the last financial year. This is a consequence of the transfer of the Council's housing stock to Chorley Community Housing.

## **LONG TERM DEBTORS**

40. The reduction in long term debtors is a consequence of the assumption made in relation to the Gillibrand Link Road Scheme. We were anticipating that English Partnerships would receive a further sum from the development. However, the increased costs mean that this is no longer likely.

## **SHORT TERM INVESTMENTS AND BORROWING**

41. Overall the Council's cash position at the 31 March 2007 has improved compared to last year as the Council had funds invested rather than being in a net borrowing position.

## **DEVELOPER CONTRIBUTIONS (S106 FUNDS)**

42. The level of developer contribution available reduced significantly during the year from £5.2m to £2.8m. This is mainly as a result of passporting the money held for the Eaves Green Link Road over to Lancashire County Council as part of the agreement to complete the scheme.

## **CONTINGENT ASSETS AND LIABILITIES**

43. Contained in the Accounts are references to two potential issues that will impact significantly if they happen. The main one is in relation to the Gillibrand Link Road Compensation whereby if the Arbiters decision is greater than the £2m assumed in the accounts has this sum will have to be paid for, this will affect both the capital and revenue position.

## **CASH FLOW**

44. Overall the Council's cash flow was positive in year. This means the Council managed its cash in such a way that we received more than we put out.
45. The general trend in relation to cash flow is downwards as if we exclude the cash received from the sale of the Council's housing stock, we would have seen an overall decrease, albeit at the margin.
46. The Council will need to continue to look at ways of managing its cash flow efficiently and to ensure the costs of cash flow are minimised.

## **HOUSING REVENUE ACCOUNT**

47. The Housing Revenue Account generated an in year surplus of £373k, due in part of the housing transfer. However contained within that year end surplus was a net deficit on the repairs of just over £200k.
45. As a consequence HRA working balances increased to £966k which is broadly as anticipated and reported in monitoring. We are now required to apply to the Government to formally close the Housing Revenue Account following the conclusion of the 2006/07 Audit and a direction from the Secretary of State. Once closed the £966k of balances will transfer into the Council's general balances.

## **THE COLLECTION FUND**

48. The Collection Fund represents effectively a holding fund where surplus and deficit on collection are redistributed to the Precepting Councils. In year a small deficit of £205k occurred which in the main is a result of not as many new properties as expected

becoming eligible to pay Council Tax. Chorley Borough Council's element of this deficit amounts to only £26k.

49. The Collection Fund account overall is still in surplus at just over £170k. The intention is to run the Collection Fund on a cost neutral basis so having a small balance represents good practice, as surpluses are not accumulating that are when used to smooth future years Council Tax levels.

## **SUMMARY**

50. The Statements show that in overall terms the financial standing of the Council remain good. Working balances (including the transferral from the HRA) are at a level that covers the inherent risk, particularly in relation to the risk of an adverse outcome from the arbiter regarding the Gillibrand Link Road Compensation.

GARY HALL  
DIRECTOR OF FINANCE

There are no background papers to this report.

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