

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation)	Audit Committee	26/06/08

FINANCIAL STATEMENT 2007/2008

PURPOSE OF REPORT

- To seek approval from Members of the accounts for 2007/2008.

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 and the Councils Governance Assurance Statement.
- The Council's financial outturn for the last financial year was reported to the Executive Cabinet on the 26 June 2008. 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, for the financial year 2007/08, the key challenges were, maintaining a balanced budget, in the light of increased pressure on a number of demand led budgets, the triennial review of the pensions position. Further changes to be format and content of the Accounts as required by statute.

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 (108k) against its cash target after allowing for the capitalisation of the Gillibrand Link Road interest.
 - The Housing Revenue Account was closed during the year and the balances on the accounts transferred into the Council's general balances.
 - As end of year balance were outside the range identified in the Council's Financial Strategy by an additional 278k . This is the result of the effect of the reversal of the £213k of interest previously charged to revenue but now capitalised.
 - The Collection Fund ran at a deficit for the year of £485k meaning overall the account is now in deficit. This is a result on expected surplus in 2007/08 not materialising as the level of grant anticipated has not yet materialised..
 - The Council Pension deficit increased from £19.9m to £27.3m in 2007/08 as a result of the triennial revaluation and the changes in assumptions previously made.
 - The Council has produced a statement which reviews the Council's governance arrangements and this is included in the accounts but a separate report is attached as Appendix B summarising the key issues for Members.
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 August. 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 seek 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.
13. 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

14. The Council's Income and Expenditure account shows a net deficit of £1.851m. 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 £108k after allowing for planned slippage and the adjustment for the Gillibrand interest payment.
15. 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
16. 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 £120k (7%) overspent and the concessionary travel scheme costing the Council £226k (40%) 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.
17. Details of the Council outturn and an explanation of the variations will be reported to the Council Executive on 26 June 2008. For completeness a copy of that report is attached at Appendix C.

RESERVES AND BALANCES

18. 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:

	2006/2007 £000	Movement in 2001/04 £'000	Balance 31 March 2007 £'000
Working Balances	768	1.01	1.778

21. Working balances are £1.778m at the end of the financial year. This figure is above the maximum set in the medium term financial strategy of £1.5m, but there are no plans at this stage to use those balances given the inherent risks contained in the 2008/09 budget.

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

EARMARKED RESERVES	BALANCE 31 MARCH 2008 £'000
Building control reserve	51
Astley Hall working reserve	9
Directorate reserve	459
Job Evaluation reserve	0
e-workforce/Capital reserve	63
Local Development Framework	202
Elections equalisation reserve	10
Business growth incentive	399
Performance reward growth	21
	1,214

Of the sums identified above, the bulk are committed in 2008/09 and beyond apart from the Business Grants Incentive Reserve where £357k remains uncommitted at this stage.

RECOGNISED GAINS AND LOSSES

23. 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.

24. During 2007/2008 there were some significant movements, explained as follows:

- (3,925) gain a revaluation
- 8,401 loss on Pension Fund revaluation

25. The revaluation gain on assets is in the main, the result of a increase in value of All Seasons Leisure Centre following a revaluation. The pension loss is more complex and a result of a number of different factors, the main ones being:

- The assumption regarding the costs of pension have been increased as salary inflation is expected to grow.
- The expected returns in investments in 2007/08 was less than anticipated.

BALANCE SHEET

26. 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. Again for completeness the Capital Outturn report is shown at Appendix C. Set out below is some further commentary in relation to specific balance sheet items.

ASSETS

27. The Council's overall net worth has reduced if compared with the last financial year. This is predominantly as a result of the increases reported in the Councils pensions liability.

SHORT TERM INVESTMENTS AND BORROWING

28. Overall the Council's cash position continued to be positive as the Council had funds invested rather than being in a net borrowing position. During the year the Council took advantage of softening rates so that for the first time in many years to the longer term borrowing was taken.

DEVELOPER CONTRIBUTIONS (S106 FUNDS)

29. The level of developer contribution available increased significantly during the year from £2.8m to £6.25m. This is mainly as a result of passporting the money held for the provision of the railway station and school at Buckshaw. The remaining side monies are committed to finance the Council's programme for the next three financial years.

CONTINGENT ASSETS AND LIABILITIES

30. Contained in the Accounts are references to two potential issues that will impact significantly on the Council's financial position if they happen. These are in relation to firstly a change in the VAT rules that may allow the Council to reclaim VAT it has recovered on car parking which is a contingent asset. A contingent liability exists in terms of the warranties given to CCH, which in the main relate to environmental issues. The Council has environmental insurance cover to match the bulk of the potential liability.

CASH FLOW

31. Overall the Council's cash flow was negative in year. This means it paid out more cash than it received.
32. The general trend in relation to cash flow is downwards as it had a negative cash outflow from general activities.
33. 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

34. The Housing Revenue Account generated an in year deficit of £70k, due wholly to the housing transfer. The in year costs are associated with the closedown of the account.
35. As a consequence HRA working balances stood at £896k which is broadly as anticipated and reported in monitoring. We have received the Government's permission to close the accounts and consequently this activity is shown as a discontinued activity in the accounts with the transfer of the balances on the account in to general balances.

THE COLLECTION FUND

36. The Collection Fund represents effectively a holding fund where surplus and deficit on collection are redistributed to the Precepting Councils. In year deficit of £485k occurred which in the main is a result of not as many new properties as expected becoming eligible to pay Council Tax.
37. The Collection Fund account overall is now in deficit by £314k. 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. Chorley's element of this overall deficit amounts to £40k and we will recover this in future years.

SUMMARY

38. 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 inherent risks. I have reported previously that the risks in the Council's budget are increasing due in the main to forecasting the cost of concessionary travel and the result of the increasing complexity of achieving recovery of benefit repayments. Moving forward these are challenges the Council will have to over come if it is to continue to balance the budget and remain financially strong.

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(BUSINESS TRANSFORMATION)

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Gary Hall	5480	23 June 2008	ACE (B&T)/Reports/2008/Audit Comm/Fin Stat 07-08