

# **CHESHIRE EAST COUNCIL**

## **REPORT TO: Audit and Governance Committee**

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<b>Date of Meeting:</b>	29 June 2010
<b>Report of:</b>	Borough Treasurer and Head of Assets
<b>Subject/Title:</b>	Final Accounts 2009/10

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### **1.0 Report Summary**

- 1.1 This report asks the Audit and Governance Committee to approve the Draft Statement of Accounts 2009/10 by 30 June 2010 in accordance with the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) Regulations 2006. It summarises the key issues reflected in the accounts, the format of the financial statements and the process for audit, certification and publication.
- 1.2 The Statement of Accounts will be available to Members on 28 June 2010, a briefing session will be provided prior to the meeting with any further updates to this report.

### **2.0 Recommendation**

- 2.1 That Members approve the Draft Statement of Accounts for 2009/10 for Cheshire East Borough Council.

### **3.0 Reasons for Recommendations**

- 3.1 To comply with the requirements of Section 21(2) of the Local Government Act 2003 and Sections 41 and 42 of the Local Government and Housing Act 1989.

### **4.0 Wards Affected**

- 4.1 None

### **5.0 Local Ward Members**

- 5.1 None

### **6.0 Policy Implications including**

- 6.1 Not applicable

## **7.0 Financial Implications (Authorised by the Borough Treasurer)**

7.1 As covered in the report.

## **8.0 Legal Implications (Authorised by the Borough Solicitor)**

8.1 None

## **9.0 Risk Management**

9.1 The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) Regulations 2006, require the Draft Financial Statement of Accounts to be approved by 30 June 2010.

9.2 The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices.

## **10.0 Summary**

10.1 This is the first set of accounts for Cheshire East Borough Council and therefore there are no prior year comparatives available in the Income and Expenditure account. This report sets out the key areas that have affected the accounts in the first year of operation.

10.2 The key areas to note are:

- A £64.3m deficit on the Income and Expenditure Account, reflecting all expenditure incurred, income generated and all notional charges and credits required in order to comply with the Statement of Recommended Practice (SORP). These include: charges for depreciation and Financial Reporting Standard (FRS) 17 pension-related costs; losses on the sale of fixed assets, and credits for governments grant and contributions applied to capital expenditure. It is important to note that this deficit on the Income and Expenditure Account does not represent the real impact on the General Fund.
- A £11.6m decrease in the General Fund balance, (£12.2m decrease in General Fund and £0.6m increase in schools' balances). This is shown in the Statement of Movement on the General Fund Balance, after the notional charges and credits have been removed. It should be noted that the General Fund balance includes balances held of behalf of schools as well as the Council's General Fund.
- A reduction of £306.2m in the Council's balance sheet i.e. net assets. This is predominantly due to:
  - £350.8m increase in long term liabilities, mainly due to a £297m increase in the pensions liability, this is referred to in further detail in paragraph 10.9;
  - £44.7m increase in working capital (current assets less current liabilities)

- £1.2m increase in long term investments

*Offset by*

- £75.1m increase in fixed assets.

Overall the Council continues to demonstrate a healthy financial position, with a strong balance sheet and a General Fund balance of £19.3m, representing 8.2% of the net expenditure budget for 2009-10.

### **Caretaker Authority**

- 10.3 On 1 April 2009 Cheshire West & Chester were designated the nominated body to discharge a large number of short term liabilities that related to the County Council i.e., to pay creditors and debtors. A 'caretaker account' was set up for this purpose. This nominated body processed all County Council transactions up to 31 January 2010 when the balance sheet as at that date was disaggregated between Cheshire East and Cheshire West & Chester. Any assets/liabilities not discharged through the caretaker account have been disaggregated between Cheshire East Council and Cheshire West and Chester Council. Inevitably a number of misallocations and minor errors were subsequently identified and adjustments were made to the opening balance sheet positions of both authorities in consultation with the External Auditors.
- 10.4 The two successor Councils failed to reach agreement on the future ownership of Tatton Park, the Conway Centre, and four other Outdoor Education Centres. Tatton Park and the Conway Centre are leased properties, and are not shown on the balance sheet of either Council. The Burwardsley, Beeston, Delamere and Tattenhall Outdoor Education Centres are freehold properties lying within the geographical boundary of Cheshire West & Cheshire. They are currently included in the opening balance sheet of Cheshire West & Chester.

### **Shared Services**

- 10.5 As part of the LGR transition, the Council entered into an agreement with Cheshire West & Chester Council to initially deliver 32 services via Shared Services Agreements, some of which are long term Shared Services and others transitional Shared Services to safeguard business continuity. The sharing of selected services is a major component in the planning of Cheshire East and Cheshire West and Chester Councils. It is a shared ambition of both councils to retain the benefits of scale of a range of frontline specialist operations, such as Emergency Planning and Archives and also to support all of our front line services with an efficient shared back office for transactional HR and Finance and our ICT operations, in line with best industry practice and the Government's strategy for enhanced efficiency within the public sector.
- 10.6 Services which could be operated as part of a shared services arrangement have been determined and assessed using the criteria of

maintaining operational efficiency and identifying those services that utilised a single infrastructure that could not be disaggregated economically or in the short term. The structure of the Shared Service arrangements for accounts purposes, is that of a joint venture that is not an entity (JANE), which means that each party accounts for its share of the assets, liabilities, income, expenditure and cashflows as if they had been directly incurred. Further details on the Shared Services Agreements are included in the accounting policies and notes to the financial statements.

### **Jointly Owned Assets**

- 10.7 Where the former County Council owned assets which served the whole of the County, for example administrative buildings, both new Councils are entitled to benefit from them. All these assets have been disaggregated to a host authority based on geographical location but the interest of the non host authority is recognised as a long term liability on the balance sheet of the host authority and a long term asset on the balance sheet of the non host. Further detail on the arrangements for the management of joint assets is set out in the Statement of Accounting Policies.

### **Heritable Bank**

- 10.8 In October 2008 a number of 'Icelandic' banks went into administration. This included Heritable Bank plc, a UK-regulated subsidiary of the 'Icelandic' Landsbanki; all deposits held by Heritable were frozen and are now subject to the process of administration. On the date that Heritable were placed into administration, Cheshire County Council held £8.5 million of deposits. These monies represented just under 5% of the County Council's cash balances at that date. In accordance with recommended accounting practice, the County's 2008-09 Accounts included an impairment charge of £2.7m (representing the estimated loss of principal and interest). As part of the balance sheet disaggregation exercise Cheshire East received a share of the Heritable Bank deposits. Over the last twelve months the position with regard to the estimated amount that will be recovered has changed and there has been an improvement in the projected income. Consequently £159,000 of additional interest receivable has been credited to the revenue account and a partial reversal of the initial impairment charge has also been made in the accounts. This has resulted in a further £290,000 credit to the revenue account.

### **Economic Climate**

- 10.9 The economic climate has also had a significant impact on the Council directly and indirectly through its involvement in the Cheshire Pension Fund. The Council's net pensions liability has increased from £304m to £601m due to two factors. The first relates to changes made to the actuarial assumptions on mortality to reflect improvements in life expectancy. The second factor relates to a fall in the real discount rate used to value the scheme liabilities which has had a significant impact on the overall liability position. This significant increase in the pension liability

has been experienced by all local authorities. However, it is important to note that this does not represent an immediate call on the Council's reserves. Rather, it is a notional amount which shows how much the Council's pension liabilities exceed its share of the Fund's assets. The Council's actual liability is reviewed every three years as part of the triennial valuation of the Pension Fund and an investment strategy is determined which aims to recover the deficit over a stated period (currently 20 years). A valuation of the fund as at 31 March 2010 is currently underway, this will determine the rate of employer contributions from 1 April 2011.

10.10 The economic recession has also impacted on the Council's income levels, particularly planning fees and car parking charges. Returns on Council balances have also been at historically low levels due to low market interest rates.

10.11 The budget for 2009-10 was under significant pressure due to a number of reasons, the significant areas of variance relate to:

- Pressure on care services, especially the volatility of high value, demand led services, e.g. looked after children and provision of care for older people;
- An increase in staffing costs to deal with additional demand, especially agency staff for Looked after Children;
- Inherited budget pressures relating to the Learning Disability Pooled budget.
- The cost of waste disposal.
- Exceptional winter maintenance costs due to the severe weather conditions.

These issues will be further explored in the 2009-10 Outturn Report to Cabinet on the 19<sup>th</sup> July 2010.

### **Severance Costs**

10.12 As part of the service re-design process, the aggregation of services after Local Government Reorganisation and the de-layering of management structures, Cheshire East Council has operated a voluntary redundancy programme. Some 274 staff were released during 2009-10.

This voluntary redundancy programme has, and will, incur the following costs:-

- In 2009-10 severance costs of £7.0m were paid by Cheshire East Council.
- The total FRS17 early retirement actuarial costs for the above staff are £7.0m. These actuarial costs are being provided for in the accounts over a three year period, but will be paid over to Cheshire Pension Fund over a five year period. The charge to the 2009/10 Accounts is £2.3m.

- In addition, £1.2m of actuarial costs have been charged to the 2009/10 accounts for staff who took early retirement in 2008/09 as a result of Local Government Reorganisation

The 2009-10 severance costs have been treated as an exceptional item on the face of the Income and Expenditure Account.

### **Transitional Costs**

- 10.13 Expenditure has been incurred with regard to costs associated with the setting up of the new Council. This expenditure has been classed as 'exceptional' costs in the accounts and includes costs of harmonising IT systems, changes to branding, recruitment costs, relocation costs, uniforms etc.
- 10.14 During 2009-10 the Council has incurred £3.4m of transitional costs. £2.1m of this was revenue expenditure which has been charged to the Income and Expenditure Account. £1.3m was capital expenditure and related to the consolidation of network domains and the implementation of Microsoft Office technologies to enable staff to work collaboratively. It also included the development of CEntranet (the new intranet) and the removal of legacy ICT services including several redundant internet links and firewalls.
- 10.15 Further expenditure relating to transitional costs planned to be funded from existing sources within service budgets and has therefore been reflected in the relevant section of the net cost of services.

### **Future Changes**

- 10.16 2009/10 is the final year for the accounts to be prepared under UK Generally Accepted Accounting Practice (UKGAAP), from 2010/11 the accounts will be prepared under International Financial Reporting Standards (IFRS) and this is referred to in more detail later in the report.

## **11.0 Format of the Accounts**

- 11.1 The Statement of Accounts has been compiled in accordance with the professional standards as set out in the Accounts and Audit Regulations 2003, the Code of Practice on Local Authority Accounting, the Best Value Accounting Code of Practice (BVACoP) and other best practice guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 11.2 There have been no major changes in 2009-10 to the format of the core financial statements:
- The Annual Governance Statement provides a review of the governance arrangements of the Council to ensure that its affairs are conducted in a proper manner and that public funds are duly safeguarded.

- The Income and Expenditure Account provides a summary of the costs incurred and income generated by the Authority in the year. This net operating expenditure is then offset against income from local taxation, non specific government grants and national non domestic rates, to give a total surplus or deficit for the year. Included within this figure are a number of notional charges and credits made to comply with recommended accounting practice.
- The Statement of Movement on the General Fund Balance reverses out these notional charges and credits and shows the true amount of net expenditure that is required by statute to be financed from Council Tax. The Statement highlights the net movement on both the General Fund and schools' balances.
- A Statement of Total Recognised Gains and Losses. This brings together all the gains and losses for the year, explains the movement in the balance sheet (i.e. the net worth of the Authority) and reconciles to the bottom half of the balance sheet.
- The Balance Sheet. This summarises the financial position of the Council as at 31 March 2010.
- The Cash Flow Statement. This looks at where the money came from and how it was spent for both revenue and capital activities.
- The Collection Fund. This reflects the statutory requirements for billing authorities to maintain a separate Collection Fund. The statement shows the transactions undertaken by the Council for collection of National Non-Domestic Rates and Council Tax and the distribution to Cheshire Police Authority, Cheshire Fire & Rescue Service and Cheshire East Council, including Parish Councils.
- A consolidated set of notes to the core financial statements is provided to aid understanding of the Accounts.

## **12.0 Annual Governance Statement**

- 12.1 Cheshire East Council's 2009-10 Annual Governance Statement is due to be approved by the Audit and Governance Committee on 29 June 2010 and then will be subsequently signed by the Leader and head of paid service.
- 12.2 This is the first Annual Governance Statement of Cheshire East Council. The Council reviewed the effectiveness of its own governance framework, including the system of internal control, using a range of internal and external sources. These included disclosure statements from service managers, compliance with the Council's Code of Corporate Governance and internal and external audit work.
- 12.3 Overall, the Annual Governance Statement provides assurance that the governance arrangements across the Council were adequate and effective during 2009-10. Nevertheless, within the Council's Statement a number of significant governance issues were highlighted, The main issues identified are:

- Corporate and Financial Planning
- Financial Management
- Risk Management
- Partnerships & Governance
- Performance & Cost Management
- Procurement/Asset Management

12.4 The full details of the significant governance issues identified, and the suggested actions for improvement, can be found in the Annual Governance Statement.

12.5 The work undertaken in closing down the Accounts of the Council has not revealed any further significant governance issues to draw to the Committee's attention. Should the external audit process identify any additional significant governance issues, these will be brought to the September meeting of the Audit & Governance Committee for further consideration.

### **13.0 Accounting Policies**

13.1 The Authority's accounting policies and estimation techniques are disclosed in the published Statement of Accounts to enable users to understand the basis upon which the Accounts have been compiled. Collectively, they provide a framework within which elements of the financial statements, such as assets and liabilities, are recognised, measured and presented.

13.2 All policies and estimation techniques have been reviewed and harmonised to ensure that they remain the most appropriate to the Authority's particular circumstances in so far as ensuring that the Accounts present fairly the financial position of the Council.

### **14.0 Key Changes**

The main changes to the 2009 SORP include:

#### **Accounting for Council Tax**

14.1 From 1 April 2009, the Council Tax income included in the Income and Expenditure Account for the year shall be the accrued income for the year. This contrasts with previous accounting requirements where Council Tax income included in the Income and Expenditure Account represented the amounts required under regulation to be transferred from the Collection Fund to the General Fund of the billing authority or, in the case of major preceptors, the amount paid from the Collection Fund to the major preceptor.



## **Accounting for Business Rates**

- 14.2 The 2009 SORP determines that the Council collects NNDR under what is in substance an agency arrangement with the Government. From 1<sup>st</sup> April 2009 the amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

## **Private Finance Initiatives (PFI) Contracts**

- 14.3 The SORP 2009 requires these contracts to be accounted for in 2009-10 in a manner that is consistent with the adaptation of International Financing Reporting Interpretation 12 (IFRIC 12) - Service Concession Arrangements. This is a change in accounting policy compared with previous years when PFI contracts were accounted for in accordance with Financial Reporting Standard 5 and the fixed assets were carried on the Balance Sheet of the contractor and not the Council. The effect of IFRIC 12 is that the Council is deemed to control the services that are provided under its PFI schemes and, as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet, offset by a liability for the amounts due to the operator.
- 14.4 The Council currently has one PFI scheme. Extra Care Housing combines housing and care support for older people who have access to high quality accommodation with their own front door, with the security of a 24 hour Care Provider on site to provide reliable and responsive support as needed. The Cheshire East sites are based at Crewe, Handforth and Middlewich. The additional sites at Winsford and Ellesmere Port are operated by Cheshire West and Chester.
- 14.5 A detailed assessment of the scheme has been carried out and both control tests specified in IFRIC 12 are satisfied in the agreement between the Council and the operator Advantage (Cheshire) Ltd. The Extra Care Housing scheme has therefore been brought on balance sheet in 2009/10. This is consistent with the approach taken by Advantage (Cheshire) Ltd who have not accounted for the infrastructure assets on their balance sheet but have recognised a finance debtor on their balance sheet in accordance with IFRIC 12.

## **Officers Remunerations**

- 14.6 New regulations came into force on 31 March 2010 which require authorities to publish detailed senior pay information covering salary, bonuses, expenses, compensation payments, pensions and other benefits. The new requirements are intended to ensure comparable remuneration disclosure for all senior staff within local authorities and promote a similar level of openness and transparency as central government as a minimum

and the private sector. For senior employees whose salary is £50,000 or more per year but less than £150,000 they are required to be listed by job title, for those persons whose salary is £150,000 or more they must be disclosed by name.

## **15.0 Statement of Accounts**

### **Income and Expenditure Account**

15.1 The Income and Expenditure Account shows a net deficit of £64.3m. However this is largely explained by notional charges which have been made: a £37.5m charge for depreciation and impairment of fixed assets and a £15.1m loss on the sale of fixed assets.

- The charge for depreciation is reversed out in the Statement of Movement on the General Fund Balance and replaced with the minimum revenue provision for debt repayment (£6.7m).
- The loss on the sale of fixed assets is due to the fact that, in 2009-10, eight secondary schools were granted Foundation School status. This means that, although the assets are still used for the same purposes, the value of the schools cannot be included within the Council's balance sheet. The net book value of the assets has therefore been written out of the accounts and, as no proceeds were received from this, the full "loss" has to be charged to the accounts. This is, however, reversed out in the Statement of Movement on the General Fund Balance.
- In addition, the accounts have reflected the writing out of Cheshire East's share of County Hall. This was a joint asset, held on the balance as a long term debtor as at 1 April 2009. The net effect of the writing out of the asset (£3.4m) and the application of the capital receipt (£5.1m) resulted in a gain of £1.7m.

15.2 The net deficit in the Income and Expenditure Account does not take into account net appropriations to and from reserves. These amount to £1.9m and are charged against the Income and Expenditure deficit in the Statement of Movement on the General Fund Balance. In total, the adjustments made in the Statement of Movement on the General Fund Balance amount to £52.7m and, when offset against the Income and Expenditure deficit, result in a deficit on the General Fund of £11.6m.

15.3 The format of the Income and Expenditure Account is based on the Best Value Accounting Code of Practice (BVACOP) Service Expenditure Analysis which defines how expenditure and income should be categorised. The aim of the BVACOP analysis is to ensure all authorities are reporting data consistently to assist comparison. Members should note that the management structure, like that of most authorities, is not consistent with the BVACOP analysis and the information reported as part of the outturn has been re-analysed to meet accounting guidance.

15.4 The table below shows how the gross revenue expenditure of £817m was distributed across services in 2009-10 in accordance with the Best Value service expenditure analysis:

Children's and Education Services	332,290	41
Adult Social Care	161,791	20
Cultural, Environmental & Planning Services	86,383	11
Highways, Roads & Transport Services	41,415	5
Housing Services	74,732	9
Central Services	35,755	4
Exceptional Items	12,657	2
Other Operating Income and Expenditure	57,206	7
Loss on Sale of Fixed Assets	15,190	2
<b>Total</b>	<b>817,419</b>	<b>100</b>

15.5 In 2009-10 the Council received revenue funding and income of £753.1m. The table below shows where this funding came from:

<b>SOURCES OF FUNDING</b>	<b>2009/2010</b>	
	<b>£000s</b>	<b>%</b>
Fees and Charges	146,909	19.5
Specific Government Grants	354,158	47.0
Surplus / (Deficit) on Collection Fund	(1,003)	(0.1)
Revenue Support Grant	11,580	1.5
National Non-Domestic Rate (NNDR)	50,170	6.7
Other General Grants	162	0.0
Council Tax	175,853	23.4
Local Authority Business Growth Incentive	347	0.0
Area Based Grant	14,926	2.0
<b>TOTAL</b>	<b>753,102</b>	<b>100.0</b>

15.6 Funding for school-related expenditure has been paid directly to local authorities via the Dedicated Schools Grant. This source of income has been shown under specific government grants, which in total, represent 47% of income. 23% of the Council's funding comes from Council Tax, with a further 9% from Revenue Support Grant and National Non Domestic Rates. Fees and charges generated by service activities represent 20% of the total income of the Council. Services are encouraged to continuously review charging policies to ensure that the optimum amount of income can be generated in specific areas to assist the Council in operating within

financial constraints. The Council also receives income in the form of interest through the management of its reserves.

- 15.7 The difference between the Council's funding and gross service expenditure of £64.3m represents the net deficit for the year before accounting for the appropriations to/from reserves and other adjustments required by statute.

### Statement of Movement on the General Fund Balance

- 15.8 All the adjustments made in the Statement of Movement on the General Fund Balance, to reverse out the notional charges and credits required to comply with recommended accounting practice, to show the true amount of net expenditure to be funded from Council Tax, are shown in the table below:

	<b>Adjustments made £000</b>
Depreciation and impairment of fixed assets	(37,555)
Government grants deferred contributions amortisation	8,409
Revenue expenditure funded from Capital Under Statute	(894)
Expenditure on items costing less than £10,000	(3,888)
Net gain or loss on sale of fixed assets	(15,190)
Net charges for retirement benefits in accordance with FRS 17	(44,298)
Minimum provision for repayment of debt	6,682
Employer's contributions payable to the pension fund	30,930
Contribution to Housing Receipts Pool	(11)
Transfers to/from reserves	1,930
Collection Fund Adjustment	(230)
Capital expenditure charred to the General Fund Balance	1,106
Other Capital Income	318
Soft Loans	(61)
Difference between SORP and statute finance costs	61
<b>Total Adjustments</b>	<b>(52,691)</b>

- 15.9 In total these amount to £52.7m and, when netted off the deficit on the Income and Expenditure Account, result in a decrease in General Fund balances of £11.6m (£12.2m decrease in General Fund and £0.6m increase in schools' balances). The true deficit (decrease in General Fund balance) for the year is £12.3m. This decrease is explained in the following table:

	£000	£000
<b>Council Fund Balance as at 1 April 2009</b>		<b>22,908</b>
Less Budgeted Use of balances		(5,146)
Service Outturn Overspend	(5,782)	
Supplementary Revenue Estimates	(2,747)	
Unused Contingencies	<u>7,885</u>	(644)
Capital Financing Underspend		2,697
Net Appropriations to Earmarked Reserves		
Voluntary Redundancy	(11,500)	
Other	<u>457</u>	(11,043)
Corporate Items:		
Fleming VAT claim receipts	2,029	
Miscellaneous	<u>(155)</u>	1,874
<b>Council Fund Balance as at 31 March 2010</b>		<b>10,646</b>
<b>Deficit for the year</b>		<b>(12,262)</b>

### Balance Sheet

- 15.10 In order to arrive at the opening balance sheet for the new authority the principles of merger accounting have been applied and the assets of the former district authorities have been transferred at their carrying amounts as at 31 March 2009. The assets of the former Cheshire County Council have been disaggregated between the Councils of Cheshire West and Chester and Cheshire East.
- 15.11 The principles underpinning this disaggregation were agreed by both Officers and Members of the two Councils. The table below shows the closing balance sheet for the Council, the transactions which have been discharged by Cheshire West and Chester acting as the caretaker authority and an analysis of the balances disaggregated to Cheshire East Council and Cheshire West and Chester Council.

<b>Balance Sheet headings</b>	<b>2008-09 CCC Balance Sheet £000</b>	<b>Transactions discharged by caretaker authority £000</b>	<b>Balances disaggregated to CE £000</b>	<b>Balances disaggregated to CWAC £000</b>
Long Term Assets	1,080,965	0	552,589	528,377
Current Assets	260,254	156,039	52,129	52,086
Current Liabilities	(208,113)	(155,705)	(22,852)	(29,556)
Long Term Liabilities	(861,607)	0	(448,466)	(413,141)
<b>Net Assets</b>	<b>271,499</b>	<b>334</b>	<b>133,400</b>	<b>137,766</b>

15.12 The Cheshire East Council share of the former County Council balance sheet was then aggregated with the balance sheets of Macclesfield Borough Council, Congleton Borough Council and Crewe and Nantwich Borough Council with the resulting balances realigned for consistency of reporting. It was then necessary to adjust the resulting balance sheet to remove any debtor or creditor balances which were internal to the new Council and, where necessary, to realign accounting treatments.

<b>Balance Sheet headings</b>	<b>CE share of CCC £000</b>	<b>Macclesfield Borough Council £000</b>	<b>Congleton Borough Council £000</b>	<b>Crewe &amp; Nantwich Borough Council £000</b>	<b>Realign/ Remove internal debtor/ creditors £000</b>	<b>Amalgamated Opening Balance Sheet £000</b>
Long Term Assets	552,589	69,076	38,933	28,417	22,785	711,801
Current Assets	52,129	33,274	31,088	13,458	(694)	129,252
Current Liabilities	(22,853)	(8,091)	(6,307)	(5,213)	(867)	(43,330)
Long Term Liabilities	(448,465)	(41,364)	(33,126)	(23,927)	(21,358)	(568,242)
<b>Net Assets</b>	<b>133,400</b>	<b>52,895</b>	<b>30,588</b>	<b>12,735</b>	<b>(134)</b>	<b>229,481</b>

15.13 The opening balance sheet for Cheshire East reflects the aggregated closing balance sheet positions of the former district councils. However, the disaggregated County Council balance sheet was based on the position as at 31 January 2010, after a number of transactions had been processed by the caretaker authority, set up to discharge short term assets and liabilities (debtors and creditors). As a result the opening balances do not represent a true year on year comparison for some categories of assets and liabilities.

15.14 The Council's Balance Sheet has been significantly impacted by a large increase in the FRS 17 pension liability. This is a "snapshot" of the liability position at a moment in time and as such is greatly influenced by market conditions at the time. The volatility of markets can therefore create large swings in the size of the deficit from year to year. The £297m increase in the pension liability has therefore resulted in an overall net liability position on the balance sheet. However, the underlying balance sheet position, taking out the pension liability increase remains healthy.

15.15 Fixed assets, which represent the value of land, buildings, roads, bridges and vehicles, total £755m. These have increased by £70m during the year, largely as a result of a revaluation exercise. The fixed assets of the former district councils were due for a five year revaluation at 31 March 2010 and this has been completed by the District Valuer for the former authorities of Congleton and Crewe & Nantwich Borough Councils and by Daniel and Hulme for the former authority of Macclesfield Borough Council in conjunction with the Asset Management Service.

## 16.0 Capital Expenditure

16.1 Expenditure on Capital Projects in 2009-10 was £78.6m. In accordance with the Authority's accounting policies, items under £10,000 are transferred to Revenue and included in the revenue account.

16.2 The £78.6 capital expenditure incurred by the Council is broken down below:

		2009-10 £000
<b>People</b>	Children's Services	27,948
	Adult Services	4,356
	Health + Wellbeing	2,565
<b>Places</b>	Environmental Services	28,282
	Safe + Strong Communities	714
	Planning + Policy	2,468
	Regeneration	12,081
<b>Performance and Capacity</b>	Property Services and Building Maintenance	2,491
	ICT	4,188
	Other Services	240
		<hr/> 85,332
	Less Items under £10,000	<hr/> 6,750
		<hr/> <hr/> 78,582

16.3 The sources of income which financed this expenditure are:

<b>Source</b>	2009-10 £000	%
Supported Borrowing	10,798	13
Ringfenced Borrowing	1,441	2
Prudential (Unsupported) Borrowing	10,085	12
Government Grants	42,441	50
Government Grants (used to fund items costing less than £10,000)	2,999	3
Internal / External Contributions	4,538	5
Revenue Contribution to Capital	1,106	1
Capital Reserve	11,924	14
	<u>85,332</u>	<u>100</u>
<b>Less:</b>		
Expenditure on items costing less than £10,000	<u>6,750</u>	
<b>Total</b>	<u>78,582</u>	

- 16.4 The approved capital budget for 2008-09 was £122.9 m. The variation of £44.3m comprises £6.8m of items transferred to revenue and £37.5m of planned spend which is no longer taking place or has been re-profiled to be spent in 2010-11 and later years.

Capital Schemes can take a number of years to complete; an illustrative list of schemes started in 2009-10 is given below:

Stapeley Broad Lane Primary School	Replacement of 3 temporary classrooms with permanent accommodation
Macclesfield Town Hall Data Centre	Provide CEC with strategic data centre capacity, fitted out to a modern standard, replacing the 3 current centres.
Targeted Capital Fund (TCF) – Kitchens & Dining Facilities	At schools which bid for this funding: a) Improve the quality of the food b) Increase the seating capacity of dining areas c) Improve the dining environment d) Decrease queuing time
National Dementia Strategy - Lincoln House	New wing to create a twelve bedded specialist dementia unit; further expansion and refurbishment.
Office Accommodation Strategy	Provision of office accommodation for CEC in various locations
Local Transport Plan (LTP) – Principal Roads, Non-principal Roads, Bridges	Major programmes for infrastructure maintenance.

Examples of capital schemes completed during 2009-10 and now ready for use:



Playbuilder Scheme – Year 1	Enhanced playground facilities at 11 sites throughout the CEC area.
A51 Millstone Lane, Nantwich	Re-construct a length of the highway with replacement kerbs / drainage; plane-out existing carriageway and replace with new surfacing. Re-lay road markings on completion of the work.
West Street Regeneration (Crewe)	Improvements to street lighting, street furniture and landscaping to reflect the importance of West Street as a principal gateway into Crewe, and as part of Crewe's railway heritage.
Nantwich Directional Signing	Reclassify the road network in Nantwich and alter directional signing to encourage through-traffic to use radial routes.
Dane Embankment repairs (Congleton)	Re-instatement of riverbank and footpath further to erosion resulting from exceptional rainfall. Pathways now re-opened to the public.

## 17 2009/10 Issues and Future Developments

17.1 This year's accounts will be the last produced under UK Generally Accepted Accounting Practice (UK GAAP). From 2010-11 onwards Local Authority accounts will have to be prepared in accordance with International Financial Reporting Standards (IFRS). This will mean that the accounts will be prepared using the same accounting standards as those adopted by the private sector. Whilst many of the changes in recent years to Local Authority Accounting practice have prepared the way for IFRS there are still a number of further changes that will be required, with the main ones being:

- Changes may be required to the classification of leases as either operating or finance
- All leases will have to be split between land and building elements
- Some fixed assets will be measured and recorded differently
- There will be a greater requirement to adopt component accounting for some fixed assets
- The cost of any untaken annual leave at the end of the financial year will have to be charged to the accounts
- The format of the financial statements and some of the supporting notes will change

Overall these represent quite significant changes and the Council has already started to prepare for this by reviewing leases and contracts and working with service departments to gather together all the required information.

## **18.0 Approval and Publication**

- 18.1 The Council's final accounts will be audited by the Council's external auditors, the Audit Commission, following approval of the Statement of Accounts by the Audit & Governance Committee. Adjustments to the accounts may be agreed with the external auditor during the course of the audit and will be included in the final statements. There will be a public inspection period for the accounts commencing on the 5<sup>th</sup> July 2010 until the 30<sup>th</sup> July. The final Statement of Accounts for 2009/10 is required to be published by 30<sup>th</sup> September 2010 and will include the external auditor's opinion.

### **Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

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