

Appendix 1

Overview of the Statutory Statement of Accounts 2016/17

1. Introduction

- 1.1. This overview summarises the contents of the accounts and draws Members' attention to the reasons for any significant variances in the 2016/17 position when compared to 2015/16.
- 1.2. The content and format of the Statement of Accounts have been prepared in accordance with "The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" ("the Code") published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.3. The style of presentation and content of the Statutory Statement of Accounts are prescribed by the Accounts and Audit Regulations 2015, together with the Code, as are the explanatory notes accompanying each of the major financial statements. There has not been any significant change to reporting requirements under the code as in previous years, nor has there been any need to restate the previous year's financial statements.

Format of the Accounts

2. Strategic Report (Page 7)

- 2.1. The Strategic Report (also known as the narrative report) has been expanded from the Explanatory Foreword of previous years to incorporate information about the Council's performance against its corporate priorities, and to set out the principal risks and uncertainties that the Council faces.
- 2.2. The Strategic Report therefore sets out to provide a brief understandable guide to the most significant matters reported in the accounts. Any significant change impacting on the finances of the Authority or change in accounting requirements would be highlighted here. The purpose of the Strategic Report is not to comment on the policies of the authority, rather to explain the financial facts.
- 2.3. The Strategic Report shows a summarised revenue outturn position for the Council, comparing the position against the original budget set for 2016/17. This summarised information has already been reported and debated by the Cabinet when they considered the outturn in June 2017. The format shown here reflects the Portfolio Holder view of the accounts that will be more readily recognisable to Members than the statutory format used in the Statements proper.
- 2.4. A summarised schedule of capital expenditure and its financing is also shown.
- 2.5. Looking forward, the Strategic Report also draws attention to changes to the Council's financial environment during 2017/18 and beyond.

3. Statement of Responsibilities (Page 20)

- 3.1. This sets out the respective responsibilities of the Authority and the Director of Finance and Resources in relation to the production of the final accounts. The Council is responsible for making arrangements for the proper administration of its financial affairs, which it does through its Chief Finance Officer. It is also required to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets and to approve the Statement of Accounts.
- 3.2. The Director of Finance and Resources is required to produce the Statement of Accounts in accordance with proper practice, and to certify that they present a true and fair view of the financial position of the Council.
- 3.3. The approval of the Statement of Accounts, as witnessed by the Chair of Audit Committee is also incorporated here.

4. Annual Governance Statement (Page 21)

- 4.1. The Annual Governance Statement is a corporate document, signed by the Chief Executive and the Leader of the Council. It was separately considered by this Committee at its last meeting, and has been incorporated into the Statement of Accounts prior to publication.

5. Auditor's Report (Page 35)

- 5.1. The external auditors will provide an independent opinion as to whether the statement of accounts presents a true and fair view of the financial position of Southend-on-Sea Borough Council at 31 March 2017 and its income and expenditure for the year then ended. The proposed report is included elsewhere on this agenda and will be incorporated into the published accounts.

6. The Accounting Statements

- 6.1. The main statements are:
 - Comprehensive Income and Expenditure Statement – a summary of the resources generated and consumed by the authority in the year in accordance with generally accepted accounting practices, rather than the ultimate amount falling to be met by taxation;
 - Movement in Reserves Statement – showing how the authority's usable and unusable reserves have moved during the year, including adjustments made as a result of statutory regulation and mitigations;
 - The Balance Sheet; and
 - The Cash Flow Statement.
- 6.2. Each of these core financial statements is discussed in turn below in sections 7 to 11.

7. Comprehensive Income and Expenditure Statement (Page 40)

7.1. This statement is fundamental to the understanding of a local authority's activities, in that it reports the net cost for the year of the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the Council's activities, including the HRA. It also includes grant income due in support of capital.

7.2. The statement is split into three distinct sections:

- Net Cost of Services which summarises the cost of each of the different services, net of any associated specific grants and income. The service costs have been adjusted so that they reflect the true economic pension cost of current and past service. The cost of services also includes charges for the use of assets through depreciation and impairment. Where capital expenditure takes place that does not deliver a fixed asset, so called revenue expenditure funded from capital under statute, then this too, alongside any associated grant income, also gets charged here. Unlike previous years, services are now presented in Portfolio groupings, making the statement more recognisable for Members and the public.
- The second section contains items of income and expenditure that relate to the authority as a whole rather than to an individual service. Amongst other things, this section contains further accounting adjustments for pensions, this time to reflect the performance of the fund, precepts paid to Leigh Town Council, and the payment of a proportion of the Councils' sale of council house receipts over to the Government. It also includes the interest payable and receivable by the Council and the principal sources of financing, that is government grants (including capital grants) and precepts. When added to the net cost of services, this section results in the surplus or deficit on provision of services.
- The final section shows other income and expenditure arising from essentially balance sheet activities, thereby resulting in the Total Comprehensive Income and Expenditure for the year.

7.3. For this authority the 2016/17 Comprehensive Income and Expenditure Statement results in a deficit of £43.752M. A surplus or deficit is disclosed before any appropriations to and from reserves, including statutory mitigations. This compares with a surplus of £49.636M in 2015/16.

7.4. Principal reasons for this £93M year on year movement relate to changes in asset values and actuarial assumptions on the value of the pension fund. These movements are set out in note 9 to the accounts, and include

- In relation to 2015/16, £57M net increases in asset valuation, £23M charge to the Housing Revenue Account relating to downward valuation of Council Housing and £18M relating to the write out of the book value of Cecil Jones School as it converted to academy status, and £25M actuarial gains on the pension fund

- In relation to 2016/17, £48M net increases in asset valuation. £46M loss in asset values following the academisation of 10 primary schools, and £58M actuarial losses on the pension fund

8. The Movement in Reserves Statement (Page 41)

- 8.1. This statement shows in summarised form how the Council's usable and unusable reserves have moved during the year, through any surplus or deficit on the provision of services and other income and expenditure, and by other adjustments driven by regulations, such as the reversal of depreciation.
- 8.2. The statement therefore shows the "bottom line" increases or decreases in the Council's usable reserves, as summarised below.

	Increase / (Decrease) £000	Closing Balance £000
General Fund	-	11,000
Housing Revenue Account	-	3,502
Earmarked Reserves, <i>of which</i>	7,872	93,001
<i>General Fund</i>	5,487	64,014
<i>HRA</i>	5,689	22,830
<i>Schools</i>	(3,304)	6,157
Capital Receipts	3,521	11,019
Major Repairs (HRA)	959	5,493
Capital Grants Unapplied	2,952	11,800
Total Usable Reserves	15,304	135,815

- 8.3. The Movement in Reserves statement is supported by a number of notes to the accounts, the most notable of which are 19 and 20.

9. Balance Sheet (Page 42)

- 9.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2017. The statement shows the balances and reserves at the Authority's disposal, its long-term indebtedness, and the long-term and net current assets employed. The significant movements on the balance sheet are described below.
- 9.2. **Property, Plant & Equipment.** The value at which Property, Plant & Equipment assets are carried in the balance sheet has increased by a net £6M. The movement has been made up as follows:

	£000
Balance as at 1 April 2016	711,764
Capital Investment in year	40,059
Increases in Valuation*	64,264
Decreases in Valuation*	(21,648)
Depreciation in year	(18,471)
Disposals*	(49,498)
Transfers	(142)
Balance as at 31 March 2017	726,328

* See the Unusable Reserves paragraph

The increases in valuation were mainly as a result of the rolling revaluation programme with a variety of assets re-valued as shown in note 21 to the accounts. This figure also includes an indexation increase applied to the council dwellings and other land and buildings to reflect the increase in value between the valuation date and the balance sheet date. The decreases in valuation were as a result of impairments identified as part of the rolling revaluation programme, a review carried out at the balance sheet date, and as a result of the regular review of the fixed asset register. The decreases related to various assets including car parks, libraries and leisure centres.

- 9.3. **Heritage Assets.** The value at which Heritage assets are carried in the balance sheet has increased by a net £0.7M. The movement has been made up as follows:

	£000
Balance as at 1 April 2016	37,383
Capital Investment in year	620
Increases in Valuation*	1,293
Decreases in Valuation*	(564)
Depreciation in year	(642)
Balance as at 31 March 2017	38,090

* See the Unusable Reserves paragraph

- 9.4. **Investment Property.** The value of investment properties has increased by a net £2M. The movement has been made up as follows;

	£000
Balance as at 1 April 2016	23,087
Capital Investment in year	0
Revaluations and Impairments	2,411
Transfers	(154)
Balance as at 31 March 2017	25,344

- 9.5. **Long Term Investments.** There has been an overall increase of £3M due to the further investment into and the increase in value of long term monies invested in property funds.
- 9.6. **Long Term Debtors.** This primarily represents the value of deferred payments in respect of Adult Social Care provision.
- 9.7. **Short Term Investments.** (This needs to be considered together with Cash and Cash Equivalents and Short Term Borrowing.) There has been an overall decrease of £8M in short term investments resulting from the maturity of a fixed term deposit of £5M and the redemption of the investment managed by the council's previous external fund manager, offset by the investment into an enhanced cash fund and two short dated bond funds. These investments were reported to Cabinet in November as part of the Mid Year Treasury Management Report for 2016/17.
- 9.8. **Short Term Debtors.** Debtors to the Council have barely changed year on year.
- 9.9. **Cash and cash equivalents.** There has been an overall decrease of £3.7M in cash and cash equivalents. This results mainly from a £3.9M decrease in the cash and cash equivalents held by schools.
- 9.10. The level of the investments deemed to be cash equivalents at 31 March 2017 is lower than the average of these funds managed internally during 2016/17 which is not unusual for a year end position.
- 9.11. The movement between the balance of cash in the council's main bank account, in investments deemed to be cash equivalents and in short term investments is a consequence of the normal day to day treasury management activities of minimising risk, maintaining liquidity and maximising return commensurate with that risk.
- 9.12. **Short term Borrowing.** (This needs to be considered together with Cash and Cash Equivalents and Short Term Investments.) Short term borrowing has decreased year on year by £10M reflecting the net of short term monies repaid and taken out for cash flow purposes.
- 9.13. **Creditors.** Creditors of the Council have barely changed year on year.
- 9.14. **Long term Borrowing.** Long term borrowing has increased year on year by a net £4.6M due to monies being drawn down from the Green Investment Bank loan relating to the LED Street Lighting project. The Cabinet report in June on Treasury Management gave the background to these treasury activities
- 9.15. **Other Long Term Liabilities - Pensions.** There has been a £62 million increase in the Council's pension liability, which is the amount by which future liabilities to pay pensions exceed the assets available. The total liability stands at £222.6 million. Statutory arrangements for the funding of the deficit, whereby the deficit will be made good by increased employer contributions over the remaining working life of employees, as assessed by the scheme's actuary, means that the financial position of the Council in this regard remains healthy.

9.16. The net increase is attributable to both an increase in scheme asset values and an increase in scheme liabilities, as set out below:

	£000
Liability as at 1 April 2016	160,653
Increase in Assets	(61,059)
Increase in Liabilities	123,023
Liability as at 31 March 2017	222,617

9.17. The increase in assets arises from the returns on investment and employer and employee contributions outweighing pension payments made to retired staff; the increase in liabilities arises from a change in the discount rate used by the actuary, plus the inherent difference between the growth in new liabilities from current scheme membership and the discharge of liabilities to existing pensioners.

9.18. **Usable Reserves.** The movement in usable reserves is set out under paragraph 7.2 above.

9.19. **Unusable Reserves.** These comprise the following reserves:

	Increase / (Decrease) £000	Closing Balance £000
Revaluation Reserve	34,371	225,896
Available for Sale Financial Instruments Reserve	(2)	4
Pensions Reserve	(61,964)	(222,617)
Capital Adjustment Account	(31,252)	251,982
Deferred Capital Receipts	(225)	0
Collection Fund Adjustment Account	350	3,780
Short-term Accumulating Compensated Absences Reserve	(334)	(1,445)
Total Unusable Reserves	(59,056)	257,600

9.20. The Revaluation Reserve increased by a net amount of £34 million as a result of the amounts identified for revaluation by the rolling programme or other sources and by an exercise to apply an indexation uplift to the council dwellings and other land and buildings, which were permitted by the accounting code to be applied to the reserve. This was offset by amounts written out of the reserve relating to disposals of non-current assets.

- 9.21. The Pension Reserve movement is the contra entries for the movement in the Pensions Liability set out in 9.15 above.
- 9.22. The Capital Adjustment Account has decreased by £31 million mostly due to the following: asset impairments and revaluations downwards identified as part of the revaluation rolling programme, a review carried out at the balance sheet date and as a result of the regular review of the fixed asset register; depreciation; disposals of non-current assets and the capital financing applied in the year.

10. Cash Flow Statement (Page 43)

- 10.1. This Statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash outflow of £3.7 million.

11. Notes to the Accounts (Page 45)

- 11.1. The notes provide additional information and explanation behind the main statements, to aid understanding of presented figures.
- 11.2. The notes proper start by setting out the Accounting Policies. The Council's accounting policies set out the technical methodologies for accounting for a wide variety of issues within its accounts. The notes are then grouped together as they support their respective primary statement.
- 11.3. There is a new series of notes (notes 6 - 8) in support of the Comprehensive Income and Expenditure Statement that explains the transition from the "normal" view of the Council's accounts as set out in our budgeting format, to the statutory format required in our year end accounts. Essentially it shows how statutory adjustments relating mainly to pensions, assets and capital are overlaid to produce the statutory accounts. This set of notes also provides a complete subjective breakdown of the income and expenditure account, and a detailed breakdown of the level of fees, charges and other income generated by each Portfolio, that is not reported elsewhere in the accounts.

12. Housing Revenue Account and Notes (Pages 113)

- 12.1. The Housing Revenue Account is a record of revenue expenditure and income relating to the Council's own housing stock (the Landlord Function). Although strictly part of the overall General Fund, the HRA has a tight ring-fence around it that allows no general discretion to transfer sums into or out of the HRA. Expenditure and income relating to other housing functions, such as support to registered social landlords, rent rebates and homelessness, are chargeable to the General Fund proper.
- 12.2. Like the General Fund, the format of the HRA creates an Income and Expenditure Account, and a reconciling Statement of Movement on the HRA

Balance. The movement on the Housing Revenue Account Balance for 2016/17 was as follows:

	£000
Balance as at 1 April 2016	3,502
Surplus / (Deficit) for year	nil
Balance as at 31 March 2017	3,502

12.3. Despite the nil change in the HRA revenue balance, the HRA actually generated a surplus after statutory adjustments of £5.7 million. Rather than increase the main revenue reserve, this has been set aside into HRA earmarked reserves, principally to fund future capital investment.

13. Collection Fund (Page 122)

13.1. This account reflects the statutory requirement for billing authorities such as Southend-on-Sea Borough Council to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

13.2. A deficit of £185,000 was generated on the Fund during the year, after the distribution of prior year surpluses to the tune of £1,184,000. When added to previous years accumulated fund surpluses, this means that there is now an accumulated surplus at the year-end of £2,305,000. This sum will be distributed between the three principal precepting authorities, including Southend-on-Sea Borough Council, and in the case of Business Rates to Central Government also, in future years. Southend's proportion of the accumulated surplus is £3,791,000.

14. Group Accounts (Page 128)

14.1. The group accounts, that merge the accounts of Southend Borough Council, its wholly owned company South Essex Homes Ltd, and its principal Trust Funds follow the same format as the council's own statements.

14.2. South Essex Homes made a deficit of £0.215M, on a turnover of £10.1M.

14.3. The other companies and trusts that the Council has control over are immaterial to the overall group and have therefore not been consolidated. It is anticipated that Southend Care Ltd, that started trading on 1 April 2017 will be consolidated into the 2017/18 group accounts.

14.4. A full list of owned companies, joint ventures and trusts are shown in Annex 1 to this Appendix.

15. Members Allowances (Page 142)

A schedule of allowances paid to Members and Co-opted Members is included in compliance with the requirement to publish these annually.

Annex 1 Southend-on-Sea Borough Council – Group Structure