

Appendix 1

Overview of the Statutory Statement of Accounts 2009/10

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 2009/10 position when compared to 2008/09.
- 1.2. The content and format of the accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy which has approval from the Accounting Standards Board as a Statement of Recommended Practice (SORP).
- 1.3. The 2009 SORP, that guides the production of the 2009/10 Statement of Accounts, introduced a number of changes, albeit relatively minor in their impact on these accounts.
- 1.4. The treatment of Council Tax and Business Rates (NNDR) has changed, inasmuch as it is now recognised that the Council acts as collection agent for the Police and Fire Authorities for the former and the Government for the latter. Therefore the debtors and creditors associated with Council Tax and NNDR that relate to these parties have been removed from our balance sheet. In addition, the income recognised as being receivable from Council Tax in our Income and Expenditure Account reflects the total collected in the year, including the surplus over and above that which we set out to collect. This latter change is reversed in the Statement of Movement on the General Fund Balance.
- 1.5. The SORP also requires a different treatment for PFI and Service Concession activities. After close examination, it has been determined that we had no changes to make.
- 1.6. A number of notes are no longer required to be produced. These are
 - Expenditure on Publicity;
 - Building Control Fees;
 - Local Authority (Goods and Services) Act 1970; and
 - Discretionary Expenditure

They have accordingly been removed.

- 1.7. The Accounts and Audit Regulations 2003, that also impact on the production of the accounts, have been updated as well. The two notable changes are the requirement for an extended disclosure of senior officer remuneration and a declaration that the accounts represent a "true and fair" view of the financial position of the Council rather than the previous "reflects fairly". This change recognises that Local Authority SORP is now virtually compliant with UK GAAP accounting requirements.

2. Restatements and Changes to Accounting Treatments

- 2.1. The only restatement undertaken to 2008/09 comparative figures relates to the changes required by the SORP relating to Council Tax and NNDR, as set out above.

3. Explanatory Foreword (Page 6)

- 3.1. The foreword provides 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 foreword is not to comment on the policies of the authority, rather to explain the financial facts.
- 3.2. The explanatory foreword shows a summarised revenue outturn position for the Council, comparing the position against the original budget set for 2009/10. This summarised information has already reported and debated by the Cabinet. 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.
- 3.3. A summarised schedule of capital expenditure and its financing is also shown.
- 3.4. Looking forward, the foreword also draws attention to changes to the Council's financial environment during 2010/11 and beyond.

4. Statement of Responsibilities (Page 15)

- 4.1. This sets out the respective responsibilities of the Authority and the Head 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.
- 4.2. The Head 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.
- 4.3. The approval of the Statement of Accounts, as witnessed by the Chair of Audit Committee is also incorporated here.

5. Annual Governance Statement (Page 16)

- 5.1. The Annual Governance Statement is a corporate document, signed by the Chief Executive and the Leader of the Council. It is separately adopted and then incorporated into the published Statement of Accounts.

6. Auditor's Report (Page 22)

- 6.1. 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 2010 and its income and

expenditure for the year then ended. Following approval of the accounts by Members, the external auditor will, following a period of investigation, issue their report for inclusion in the final published accounts.

7. Statement of Accounting Policies (Page 24)

7.1. This statement explains the basis on which figures are included in the accounts. It discloses those accounting policies that are significant to the understanding of the Authority's accounts. Although the application of the underlying policies has not significantly changed year on year, this section has been updated to maintain compliance with the SORP. The following policies have therefore been updated:

- Financial assets
- Financial liabilities

8. The Accounting Statements

8.1. The main statements are:

- Income and Expenditure Account – a summary of the resources generated and consumed by the authority in the year;
- Statement of the Movement on the General Fund Balance – a reconciliation showing how the balance of resources generated and consumed in the year links in with statutory requirements for raising council tax; and
- Statement of Total Recognised Gains and Losses – a demonstration of how the movement in net worth in the Balance Sheet is identified to the Income and Expenditure Account surplus or deficit, and to other unrealised gains and losses.

8.2. The Balance Sheet and Cash Flow Statement follow these statements.

8.3. Each of these core financial statements is discussed in turn below in sections 9 to 13.

9. The Income and Expenditure Account (Page 32)

9.1. 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.

9.2. 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, in accordance with accounting requirements under FRS17. 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, snappily called revenue expenditure funded from capital under statute, then this too, alongside any associated grant income, also gets charged here.

- 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 significant proportion of the Councils' sale of council house receipts over to the Government's pool. It also includes the interest payable and receivable by the Council. When added to the net cost of services, this section results in total net operating expenditure.
- The final section shows the principal sources of financing, that is government grants and precepts, thereby resulting in the net surplus or deficit for the year.

9.3. For this authority the Income and Expenditure Account results in a large deficit. A surplus or deficit is disclosed before any appropriations to and from reserves, one of the most important of which is the reversal of depreciation charges. Local authorities, unlike private sector organisations, are not obliged to charge depreciation and impairment to their Council Tax. These appropriations occur in the Statement of the Movement on the General Fund Balance. The deficit does however demonstrate the true economic costs of providing council services, which would be chargeable were it not for the special statutory concessions from normal accounting practices.

9.4. The deficit has changed substantially year on year, falling from £39 million to £16 million. The change is almost all down to the large scale impairment of asset values seen in 2008/09 not being replicated in 2009/10.

10. Statement of the Movement on the General Fund Balance (Page 33)

10.1. The Income and Expenditure Account brings together all of the functions of the authority and summarises all the resources that the authority has generated, consumed or set aside in providing services during the year. However, this accounting basis is currently out of line with the statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes. In order to give a full presentation of the financial performance of the authority during the year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account needs to be reconciled to the General Fund balance established by the relevant statutory provisions.

10.2. The Statement of Movement on the General Fund Balance provides the necessary reconciliation. The Statement itself is very simple in presentation, but must be read in conjunction with the accompanying calculation shown on page 34.

10.3. These reconciling items result in a small increase in balances, as set out below.

	£000
Balance as at 1 April 2009	10,387
Surplus / (Deficit) for year	784
Balance as at 31 March 2010	11,171

10.4. In addition a net £1,144,000 has been appropriated to specific earmarked reserves during the year. A breakdown of this amount is shown in the note on page 68.

11. Statement of Total Recognised Gains and Losses (Page 35)

11.1. This statement pulls together the overall movement in the Council's net worth as measured by its Balance Sheet. The Council's net worth has decreased by £36.8 million during 2000/10. This is principally down to actuarial losses on the pension fund.

12. Balance Sheet (Page 36)

12.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2010. The statement shows the balances and reserves at the Authority's disposal, its long-term indebtedness, and the fixed and net current assets employed. The significant movements on the balance sheet are described below.

12.2. **Fixed Assets.** The value at which total fixed assets are carried in the balance sheet has increased by a net £66.6 million (excluding intangible assets). The movement has been made up as follows:

	£M
Balance as at 1 April 2009	753,670
Capital Investment in year	68,484
Increases in Valuation	15,711
Decreases in Valuation	(3,791)
Depreciation	(12,400)
Disposals	(1,453)
Balance as at 31 March 2010	820,221

12.3. **Debtors.** Gross debtors to the Council have increased year on year by £4.9 million, principally in the areas of Government Debtors, offset by reductions in general sundry debtors.

12.4. There has been no change in the level of the provision made for bad and doubtful debts required.

12.5. **Short Term Investments.** Short term investments have risen by £13 million (although offset by a £2.5 million decrease in long term investments). This net

increase in investments is reflective of, amongst other things, the investment of monies borrowed in advance of need to support the future capital programme.

- 12.6. **Cash.** In previous years, it has made sense to temporarily invest all surplus cash, even overnight, that may sit in our bank account, as a slightly better rate of interest could be gained. With interest rates now so low, it is of no benefit to invest overnight, as the interest that can be earned from money just sitting in our bank account is equivalent. The £6 million increase in cash is a consequence of this interest rate environment.
- 12.7. **Short term Borrowing.** Short term borrowing has increased year on year by £51.7 million. Part of this is a shift of £10 million previously long term borrowings that are now due for repayment within one year, and therefore now classed as short term. However the Council had also borrowed a substantial amount of short term cash purely to address short term cash flow needs at the year end without recourse to pulling back monies already invested. The majority of this money has now been repaid.
- 12.8. **Creditors.** The level of creditors has fallen slightly year on year by £2.6 million.
- 12.9. **Long term Borrowing.** Long term borrowing has increased year on year by a net £20 million. As mentioned above, there was a £10 million reduction due to previously long term borrowing now being reclassified as short term. However the Council also undertook £30 million of new borrowing, primarily as a result of taking advantage of low interest rates to borrow in advance of need to support the future capital programme. A recent Cabinet report on Treasury Management given the full background to these recent treasury activities.
- 12.10. **Government Grants and Capital Contributions Unapplied.** This has decreased by £7 million, as a result of the use of grants received in previous years to finance the delivery of the capital programme.
- 12.11. **Government Grants and Capital Contributions Deferred.** As the Council uses grants and contributions received to fund capital additions to its fixed assets, the benefit of the grant is released to the income and expenditure account over the life of the asset. This account holds the amounts yet to be released. The increase of £26.9 million reflects the substantial amount of grant funded fixed asset expenditure in the year
- 12.12. **Pension Liability.** There has been a £40 million increase in the Council's pension liability, that is the amount by which future liabilities to pay pensions exceed the assets available. The total liability stands at £144.3 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.
- 12.13. The increase however hides substantial swings as set out below

	£M
Liability as at 1 April 2009	104.3
Increase in Assets	(65.3)
Decrease in Liabilities	105.3

Liability as at 31 March 2010	144.3
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12.14. The pension actuary reports that over the year to 31 March 2010, “asset returns have been exceptionally good (following a very poor 2008/09), with local authority funds typically achieving investment returns of at least 25% on their assets (some funds returns have been substantially more than this)”. The increase seen in asset values in the Southend proportion of the fund correlates with this.

12.15. Liabilities are more complex. The actuary reports “the two major factors affecting the ... liabilities are the interest cost over the year and the change in actuarial assumptions. Interest will have added about 7% to the value of liabilities at the start of the year.

12.16. The financial assumptions used for the calculations as at 31 March 2010 are much more conservative than those used as at 31 March 2009, driven by the yields on corporate bonds falling substantially and the inflation assumption (even after allowing for the introduction of the Inflation Risk Premium) increasing slightly in the year. The result has been a large increase in the ... liability for employers ...

12.17. The combined effect of these two items has been an increase in liabilities of at least 40%”.

13. Cash Flow Statement (Page 38)

13.1. 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 inflow of £4.7 million.

14. Notes to the Accounts (Page 41)

14.1. The notes provide additional information and explanation behind the main statements, to aid understanding of presented figures. In line with the requirements of the new SORP, all of the notes have been drawn together rather than following their respective statements.

15. Housing Revenue Account and Notes (Pages 80)

15.1. 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.

15.2. 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 2009/10 was as follows:

	£000
Balance as at 1 April 2009	4,404
Surplus / (Deficit) for year	(876)
Balance as at 31 March 2010	3,528

16. Collection Fund (Page 88)

16.1. 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.

16.2. A surplus of £1,066,000 was generated on the Fund during the year, prior to the distribution of prior year surpluses to the tune of £1,244,000. When added to previous years accumulated fund surpluses, this means that there is now an accumulated surplus at the year end of £1,750,000. This sum will be distributed between the three principal precepting authorities, including Southend-on-Sea Borough Council, in future years. Southend's proportion of the accumulated surplus is £1,487,000.

17. Group Accounts (Page 94)

17.1. The group accounts, that merge the accounts of Southend Borough Council and its wholly owned company South Essex Homes Ltd, follow the same format as the council's own statements. The statements show that South Essex Homes made a deficit of £179,000, on a turnover of £11 million. The deficit was due to the FRS 17 pension adjustment that, as a company, South Essex Homes cannot reverse. The council as sole shareholder of the company underwrites the FRS 17 cost.

18. Members Allowances (Page 104)

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