Appendix 1

Overview of the Statutory Statement of Accounts 2010/11

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 2010/11 position when compared to 2009/10.

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 2010" ("the 2010 Code") published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.3. As trailed in previous reports to this Committee, the 2010 SORP, that guides the production of the 2010/11 Statement of Accounts, has seen the introduction of International Financial Reporting Standards (IFRS). The effective transition date for Local Government to switch to IFRS was 1 April 2009, and therefore the first set of IFRS compliant accounts has required the restatement of the 2009/10 accounts for comparative purposes.

1.4. The style of presentation and content of the Statutory Statement of Accounts are prescribed by the Accounts and Audit Regulations 2011, together with the 2010 Code, as are the explanatory notes accompanying each of the major financial statements. There are important changes within the 2010 Code. The most important changes are as follows;

1.5. **Fixed Asset Accounting** – The 2010 Code has changed the title of this section of the Balance Sheet to Non-Current Assets and within that to Property, Plant and Equipment. In order to provide the data in the revised format a review of the Council's asset register was undertaken in conjunction with the Council's valuation staff that has resulted in some minor amendments to the analysis of the Council's assets. IFRS requires the Council to clearly identify any investment properties separately from other assets and also to show any assets that are held for sale. The review of assets has also led to some minor accounting changes to depreciation and impairment charges.

1.6. **Leasing** – The Council has a number of leases for vehicles, plant and equipment and for Land and Property, and with the Council as either lessee or lessor. The transition to IFRS required that each of the leases be reviewed to ensure that it is correctly classified as either a Finance lease or an Operating lease. The main difference between the two being that a finance lease implies a transfer of ownership and may result in the asset being accounted for on the Council's Balance Sheet. The review resulted in a change of status for one operating lease to a finance lease, and therefore the underlying asset being recognised on the Council's Balance Sheet.

1.7. **Service Concessions/Embedded leases** – This requirement within IFRS is intended to identify and present details of major contracts such as Private Finance Initiatives (PFI) that an authority may be involved with. Southend-on-Sea currently does not have any PFI schemes. A secondary impact of this requirement is for the Council to identify any assets that are used exclusively by the Council but are included within an on-going contractual commitment. The Council has reviewed its contractual activities to identify contracts using assets. No significant exclusive use assets have been identified, and therefore no changes have been required.

1.8. **Group accounts** – The Council's group accounting relationships have been reviewed under the widened IFRS definition, but it has been concluded that our group relationships do not extend beyond South Essex Homes.

1.9. **Employee Benefits** – IFRS requires the Council to identify the financial value of any employee benefits due at the Balance Sheet date but not taken. For Southend this consists of leave due and flexi-time accrued but not yet taken, both arising from direct council employees and those employed through our schools. This information is not readily available, and therefore has been estimated by use of sampling techniques. There is no ultimate impact on the year-end position for this change, given that the Government has made an allowance for a mitigating entry.

1.10. **Collection Fund Accounting** – The 2010 Code made changes to the way Council's accounted for income due from Council Tax and NNDR, that were to be required by the IFRS Code. The Council made the required adjustments to its 2009/10 accounts and so complies with IFRS.

1.11. **Accounting Policies** – The Council's accounting policies set out the technical methodologies for accounting for a wide variety of issues within its accounts. The Accounting policies have been amended where necessary to reflect the changes arising from IFRS.

1.12. **Restated Core Financial Statements** – As previously mentioned the change to IFRS requires some amendments to the old Core Financial Statements, (Income and Expenditure account, Statement of Movement on the General Fund Balance, Statement of Recognised Gains and Losses, the Balance Sheet and the Cash Flow statement). The new statements now include a Comprehensive Income and Expenditure statement, Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement. The restated accounts also require amendments to the supporting notes to the accounts and these have therefore been adjusted accordingly

Format of the Accounts

2. Explanatory Foreword (Page 6)

2.1. 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.

2.2. The explanatory foreword shows a summarised revenue outturn position for the Council, comparing the position against the original budget set for 2010/11. This summarised information has already been reported and debated by the Cabinet when they considered the provisional outturn in June 2011. 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. The outturn shows an underspend of £384,000 on General Fund services as compared to the original budget; a little lower than that reported in June.

2.3. A summarised schedule of capital expenditure and its financing is also shown.

2.4. Looking forward, the foreword also draws attention to changes to the Council's financial environment during 2011/12 and beyond.

3. Statement of Responsibilities (Page 15)

3.1. 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.

3.2. 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.

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 16)

4.1. The Annual Governance Statement is a corporate document, signed by the Chief Executive and the Leader of the Council. It was separately adopted by this Committee on 22 June 2011 and is now incorporated into the published Statement of Accounts.

5. Auditor's Report (Page 22)

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 2011 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:

- 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;
- 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;

- 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. The Movement in Reserves Statement (Pages 28 & 29)

7.1. This new statement shows in summarised form how the Authority'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.

7.2. 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	384	11,555
Housing Revenue Account	214	3,742
Earmarked Reserves (inc Schools)*	2,002	27,187
Capital Receipts	274	3,741
Major Repairs (HRA)	2,485	2,485
Capital Grants Unapplied	(10,026)	8,684
Total Usable Reserves	**(4,667)**	**57,394**

* within these figures, schools balances fell by £3,887,000 to £9,480,000.

7.3. The Movement in Reserves statement is supported by a number of notes to the accounts, the most notable of which are 7 and 8.

8. Comprehensive Income and Expenditure Statement (Page 30)

8.1. 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. For the first time, under the IFRS changes, it includes grant income due in support of capital.

8.2. 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.

- 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 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 Total Comprehensive Income and Expenditure for the year.

8.3. 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.

8.4. The statement for 2010/11 unusually includes two exceptional items. The first relates to a reduction in the book value of our housing stock arising from a Government change to the "valuation discount" applied to reflect its social housing status. The percentage discount was changed from 46% to 39%, meaning that our stock is now valued at only 39% of its open market value. This change led to an exceptional impairment charge of £44m.

8.5. The second exceptional item relates to pensions. As a result of the Government changing the indexation rules on pensions, meaning that they are now linked to the CPI rather than the usually higher RPI index, the actuary has assessed the Council's future liability to fund pensions has fallen by some £23m.

9. **Balance Sheet** (Page 31)

9.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2011. 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. Unusually for 2010/11 only, two prior years comparative figures are shown on the Balance Sheet, in recognition of the 1 April 2009 IFRS transition date.

9.3. **Property, Plant & Equipment**. The value at which Property, Plant & Equipment assets are carried in the balance sheet has decreased by a net £18.6 million. The movement has been made up as follows:

	£M
Balance as at 1 April 2010	791,687
Capital Investment in year	67,114
Increases in Valuation	2,607
Decreases in Valuation	(73,200)
Depreciation in year	(14,281)
Disposals	(268)
Transfers	(579)
Balance as at 31 March 2011	**773,080**

9.4. **Short Term Investments**. Short term investments have fallen by £17m. This decrease in investments is reflective of, amongst other things, the dis-investment of monies previously borrowed in advance of need to support the capital programme.

9.5. **Debtors**. Debtors to the Council have decreased year on year by £11.5m, principally in the areas of Government Debtors, offset by an increase in general sundry debtors.

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

9.7. **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.

9.8. **Short term Borrowing**. Short term borrowing has decreased year on year by £17.4m, reflecting the repayment of short term monies borrowed previously, plus the redemption of £10 million previously long term borrowings..

9.9. **Long term Borrowing**. Long term borrowing has increased year on year by a net £27m. A recent Cabinet report on Treasury Management gives the full background to these recent treasury activities.

9.10. **Other Long Term Liabilities - Pensions**. There has been a £20 million decrease 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 £126.3 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.

9.11. The decrease is attributable to both an increase in scheme asset values and a net reduction in scheme liabilities, as set out below

	£M
Liability as at 1 April 2010	144.3
Increase in Assets	(9.9)
Decrease in Liabilities	(8.1)
Liability as at 31 March 2011	**126.3**

10. Cash Flow Statement (Page 32)

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 £1m.

11. Notes to the Accounts (Page 41)

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

11.2. The notes start with a section on the impact of adopting IFRS on previously reported financial statements, setting out the impact on both the Balance Sheet and the Comprehensive Income and Expenditure Statement.

11.3. 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 Accounting policies have been amended where necessary to reflect the changes arising from IFRS.

11.4. Many of the notes will appear familiar to previous versions of the accounts. However a significant addition under IFRS is note 28 that attempts to relate the statutory reporting requirements under the Code to that which is more familiar to Members being the Portfolio groupings used for in-year reporting. In addition it also represents information on a subjective basis rather than the usual objective.

12. Housing Revenue Account and Notes (Pages 80)

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 2010/11 was as follows:

	£000
Balance as at 1 April 2010	3,528
Surplus / (Deficit) for year	214
Balance as at 31 March 2011	**3,742**

12.3. The format of the HRA and its notes has been largely untouched by the introduction of IFRS.

13. Collection Fund (Page 88)

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 surplus of £1,198,000 was generated on the Fund during the year, prior to the distribution of prior year surpluses to the tune of £685,000. When added to previous years accumulated fund surpluses, this means that there is now an accumulated surplus at the year-end of £2,263,000. 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 £1,923,000.

14. Group Accounts (Page 94)

14.1. 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. South Essex Homes made an after tax surplus of £1,194,000, on a turnover of £10.4m. The surplus was largely attributable to the one-off financial impact of changes in pension indexation (as occurred for the Council – see para 8.5 above).

15. 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.