

Appendix 1

Overview of the Statutory Statement of Accounts 2011/12

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 2011/12 position when compared to 2010/11.
- 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 2011/12" ("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 2011, together with the Code, as are the explanatory notes accompanying each of the major financial statements. The extent of changes to reporting requirements under the code are not as extensive as previous years, but there are changes nonetheless as follows;
- 1.4. **Heritage Assets** – The Code has introduced a new heading within the Non-Current Assets section of the Balance Sheet, namely Heritage Assets. Heritage assets for Southend-on-Sea consist of historic seaside assets, heritage land and buildings such as Porters, together with associated contents, and various memorials and statues.
- 1.5. The introduction of this change has led to the need to reclassify some assets on the Balance Sheet and for certain assets revalue. It has also necessitated restating prior year Balance Sheets, so for this years accounts we show the current year Balance Sheet plus two prior years.
- 1.6. **Service Analysis** – The Comprehensive Income and Expenditure Statement has seen a minor change, with the old Cultural, Environmental, Regulatory and Planning Services now split into its three constituent parts.

Format of the Accounts

2. Explanatory Foreword (Page 4)

- 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 2011/12. This summarised information has already been reported and debated by the Cabinet when they considered the provisional outturn in June 2012. 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 a slight overspend of £65,000 on General Fund services.

- 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 2012/13 and beyond.

3. Statement of Responsibilities (Page 13)

- 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 14)

- 4.1. The Annual Governance Statement is a corporate document, signed by the Chief Executive and the Leader of the Council. It is separately adopted by this Committee elsewhere on this agenda, and will be incorporated into the Statement of Accounts prior to publication.

5. Auditor's Report (Page 23)

- 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 2012 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 26 & 27)

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	(65)	11,490
Housing Revenue Account	(240)	3,502
Earmarked Reserves (inc Schools)*	7,226	34,413
Capital Receipts	44	3,785
Major Repairs (HRA)	(760)	1,725
Capital Grants Unapplied	(2,072)	6,612
Total Usable Reserves	4,133	61,527

* within these figures, schools balances increased by £873,000 to £10,353,000.

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 28)

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 Statement 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 2011/12 includes an exceptional item of £34,692,000 relating to the cost of the HRA self-financing settlement. Ultimately this cost was funded by new HRA borrowing, but given that it did not give rise to an asset, the cost was required to be charged to the Income and Expenditure Statement. Statutory mitigations then allowed the cost to be reversed and moved to unusable reserves, thereby not impacting on the revenue balance.
- 8.5. Other operating expenditure has seen a large rise year on year. This is as a result of increased losses on the disposal of non-current assets (see note 9). Specifically with the move of Shoeburyness High School to Academy status during the year, the assets held on the balance sheet have now been transferred to the Academy under a long lease, akin to a disposal. As this asset transfer had to take place at nil consideration, effectively there has been a loss made on the disposal. As above, statutory mitigations ultimately stop this cost being met from revenue balances.
- 8.6. Below the Deficit on Provision of Services line, the Comprehensive Income and Expenditure Statement also recognises a net surplus on the revaluation of Property, Plant and Equipment, movement that is unrelated to the use of the asset, and therefore is a gain directly to the revaluation reserve (see 9.13 below).
- 8.7. Similarly a loss on the actuarial valuation of the pension scheme is also recognised; arising from scheme performance differences from previous assumptions by the actuary, and indeed changes in past assumptions.

9. Balance Sheet (Page 31)

- 9.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2012. 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. There are two prior years comparative figures shown on the Balance Sheet, in recognition of the restatements required for the introduction of Heritage Assets .
- 9.3. **Property, Plant & Equipment.** The value at which Property, Plant & Equipment assets are carried in the balance sheet has decreased by a net £24 million. The movement has been made up as follows:

	£M
Restated Balance as at 1 April 2011	759,992
Capital Investment in year	36,322
Increases in Valuation*	24,264
Decreases in Valuation*	(34,974)
Depreciation in year	(16,832)
Disposals*	(32,703)
Transfers	(250)
Balance as at 31 March 2012	735,819

* See the Unusable Reserves paragraph

The increases in valuation related mainly to car parks, as their valuation is based on future income streams. The decreases in valuation related mainly to libraries, museums and community centres.

- 9.4. **Heritage Assets.** Heritage Assets are a new category of assets for the 2011/12 Statement of Accounts. The 2010/11 accounts have been restated by re-classifying £13m of Property, Plant & Equipment assets as Heritage and to recognise £0.7m of antiques and collectables not previously recognised in the accounts.

The value at which Heritage assets are carried in the balance sheet has decreased by a net £5 million. The movement has been made up as follows:

	£M
Restated Balance as at 1 April 2011	13,753
Capital Investment in year	341
Decreases in Valuation*	(5,480)
Depreciation in year	(284)

Balance as at 31 March 2012	8,330
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* See the Unusable Reserves paragraph

The decreases in valuation related to Porters and Southchurch Hall.

- 9.5. **Short Term Investments.** (This needs to be considered together with Cash and Cash Equivalents and Short and Long Term Borrowing.) Short term investments have fallen by £30m. 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. The overall cash flows of the council have also decreased due to the continued need to make budget reductions in line with the Government's austerity measures.
- 9.6. **Debtors.** Debtors to the Council have increased year on year by £5.6m, principally in the areas of Government Debtors and general sundry debtors.
- 9.7. Working in the opposite direction. there has been also been an increase in the level of the provision made for bad and doubtful debts.
- 9.8. **Cash and cash equivalents.** There has been an overall decrease in cash and cash equivalents, this comprises a £6m increase in cash in our bank account, a £1m increase in the cash and cash equivalents held by schools and a £15m decrease in investments deemed to be cash equivalents.
- 9.9. 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.
- 9.10. The £15m decrease in cash equivalents is due to the short term borrowing that was repaid in the first 2 weeks of April 2011 and was therefore temporarily in cash equivalents at the 2010/11 year end, so that the money was available for repayment.
- 9.11. **Short term Borrowing.** Short term borrowing has decreased year on year by £19m, reflecting the repayment of short term monies borrowed previously, plus the change in PWLB borrowing identified at each year end as repayable within 12 months.
- 9.12. **Long term Borrowing.** Long term borrowing has increased year on year by a net £47m. This consisted of £35m of new borrowing for the HRA self-financing settlement, £20m of other new borrowing, £15m to re-financing loans that have matured and £23m of borrowing repaid. The Cabinet report in June on Treasury Management gave the full background to these recent treasury activities.
- 9.13. **Other Long Term Liabilities - Pensions.** There has been a £57 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 £183.3 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.

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

	£M
Liability as at 1 April 2011	126.3
Increase in Assets	(2.7)
Increase in Liabilities	59.7
Liability as at 31 March 2011	183.3

9.15. This change in pension liability does not reflect the recent changes to the Local Government Pension Scheme recently announced by Government, which will have the long-term effect of reducing the cost of pensions.

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

9.17. **Unusable Reserves.** These comprise the following reserves.

	Increase / (Decrease) £000	Closing Balance £000
Revaluation Reserve	15,356	129,224
Available for Sale Financial Instruments Reserve	(15)	4
Pensions Reserve	(57,034)	(183,349)
Capital Adjustment Account	(103,750)	387,088
Collection Fund Adjustment Account	326	2,248
Short-term Accumulating Compensated Absences Reserve	(94)	2,704
Total Unusable Reserves	(145,211)	394,038

9.18. The Revaluation Reserve increased by a net amount of £15m as a result of the amounts identified by the revaluation rolling programme that were permitted by the accounting code to be applied to the reserve.

9.19. The Pension Reserve movement is the contra entries for the movement in the Pensions Liability set out in 9.14 above.

9.20. The Capital Adjustment Account has decreased by £104m mostly due to the following: the HRA self financing settlement (£35m), the disposal of the assets relating to Shoeburyness High School as it is now an academy (£32m),

impairments and revaluations downwards as a result of the prevailing economic conditions and identified as part of the revaluation rolling programme (£32m).

10. Cash Flow Statement (Page 30)

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 £8m.

11. Notes to the Accounts (Page 31)

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 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. They then set out notes in support of the primary statements broadly in the same order that they occur.

12. Housing Revenue Account and Notes (Pages 101)

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 2011/12 was as follows:

	£000
Balance as at 1 April 2010	3,742
Surplus / (Deficit) for year	(240)
Balance as at 31 March 2011	3,502

12.3. The notable additional entry in the 2011/12 statement is the inclusion of the Self-financing settlement payment of £34.692M, which as set out above is subsequently funded by additional HRA borrowing and therefore does not impact on the revenue balances.

13. Collection Fund (Page 108)

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 £1,451,000 was generated on the Fund during the year, prior to the distribution of prior year surpluses to the tune of £1,065,000. When added to previous years accumulated fund surpluses, this means that there is now an accumulated surplus at the year-end of £2,648,000. 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 £2,248,000.

14. Group Accounts (Page 113)

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 £163,000, on a turnover of £10.4m.

15. Members Allowances (Page 123)

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