

## Appendix 1

### Overview of the Statutory Statement of Accounts 2012/13

#### 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 2012/13 position when compared to 2011/12.
- 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 2012/13" ("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. There has not been any changes to reporting requirements under the code as in previous years, but there have been restatements of previous years financial statements as follows;
- 1.4. **Property, Plant and Equipment** – The Council carries out a rolling programme of revaluations that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The schools held on the Council's balance sheet were revalued during 2012/13. This valuation brought to light deficiencies in the previous valuation carried out in 2007/08 with respect to the valuation of school land. This has necessitated revisiting that earlier valuation and consequentially the restating of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2011/12.
- 1.5. **Group Accounts** – Having reviewed the nature of the control the Council has over the Trust Funds for which it is sole trustee, it has been concluded that control does exist, and as such the related balances and transactions should be included within the Council's group accounts. It has therefore also been necessary to restate the group financial statements..

#### 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 2012/13. This summarised information has already been reported and debated by the

Cabinet when they considered the provisional outturn in June 2013. 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 £355,000 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 2013/14 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 24)**

- 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 2013 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 27 & 28)

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	355	11,845
Housing Revenue Account	0	3,502
Earmarked Reserves (inc Schools)*	6,831	41,244
Capital Receipts	1,039	4,824
Major Repairs (HRA)	6,203	7,928
Capital Grants Unapplied	2,435	9,047
<b>Total Usable Reserves</b>	<b>16,863</b>	<b>78,390</b>

\* within these figures, schools balances decreased by £1,077,000 to £9,276,000.

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 29)

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. It also 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. 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 2012/13 includes an exceptional item of £31,487,000 relating to the impairment of school assets as a result of the 2012/13 revaluation exercise. Statutory mitigations then allowed the cost to be reversed and moved to unusable reserves, thereby not impacting on the revenue balance. Elsewhere the significant falls in net expenditure for Cultural Services and Highways and Transport Services reflects impairments charged in 2011/12 in these areas not repeated in 2012/13.
- 8.5. Other operating expenditure has seen a large fall year on year. This is as a result of decreased losses on the disposal of non-current assets (see note 9). Specifically 2011/12 saw the move of Shoeburyness High School to Academy status, with the assets held on the balance sheet 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 was a loss made on the disposal. As above, statutory mitigations ultimately stopped 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 deficit on the revaluation of Property, Plant and Equipment, movement that is unrelated to the use of the asset, and therefore is a loss 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 30)

9.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2013. 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 regarding the 2007 revaluation of schools.

9.3. **Property, Plant & Equipment.** The value at which Property, Plant & Equipment assets are carried in the balance sheet has decreased by a net £30 million. The movement has been made up as follows:

	£M
Restated Balance as at 1 April 2012	647,473
Capital Investment in year	53,229
Increases in Valuation*	5,922
Decreases in Valuation*	(69,999)
Depreciation in year	(16,771)
Disposals*	(1,323)
Transfers	(1,297)
Balance as at 31 March 2013	617,234

\* See the Unusable Reserves paragraph

The increases in valuation related mainly to Schools buildings and sheltered accommodation. The decreases in valuation related mainly to Schools land, Queensway House and Community Centres.

9.4. **Heritage Assets.** The value at which Heritage assets are carried in the balance sheet has decreased by a net £0.1 million. The movement has been made up as follows:

	£M
Balance as at 1 April 2012	8,330
Capital Investment in year	29
Decreases in Valuation*	0
Depreciation in year	(172)
Balance as at 31 March 2013	8,187

\* See the Unusable Reserves paragraph

- 9.5. **Intangible Assets** The value at which Intangible assets are carried in the balance sheet has decreased by a net £2.5 million. The movement has been made up as follows:

	£M
Balance as at 1 April 2012	6,014
Capital Investment in year	788
Decreases in Valuation	(2,286)
Depreciation in year	(1,002)
<b>Balance as at 31 March 2013</b>	<b>3,514</b>

The decreases in valuation related to an impairment review carried out in year on all intangible assets to assess which assets were no longer in use.

- 9.6. **Short Term Investments.** (This needs to be considered together with Cash and Cash Equivalents and Short and Long Term Borrowing.) Short term investments have increased by £10m as this amount was deposited into a 100-day notice account to achieve a slightly better rate of return.
- 9.7. **Debtors.** Debtors to the Council have decreased year on year by £3.2m. Behind this figure government debtors have fallen year on year by over £10m principally in relation to Housing Benefit Subsidy payable from the Department for Work and Pensions. Working the other way, other entity debtors have increased by £6.7m. This is more than accounted for by outstanding payments due from Essex University and South Essex College in relation to the Forum.
- 9.8. **Cash and cash equivalents.** There has been an overall decrease in cash and cash equivalents; this comprises a £12m decrease in cash in our bank account, a £0.3m increase in the cash and cash equivalents held by schools and a £6m increase in investments deemed to be cash equivalents.
- 9.9. Overall our cash and cash equivalents have decreased which is consistent with the under-borrowed position compared to the Capital Financing Requirement (our theoretical need to borrow), offset by some short term monies borrowed for cash flow purposes shortly before the year end. 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.
- 9.10. The movement between the balance of cash in our bank account and in investments deemed to be cash equivalents is a consequence of the normal day to day treasury management activities of minimising risk, maintaining liquidity and maximising return commensurate with that risk.
- 9.11. **Short term Borrowing.** Short term borrowing has increased year on year by £0.2m, reflecting the short term monies borrowed shortly before the year end, plus the change in PWLB borrowing identified at each year end as repayable within 12 months.

9.12. **Creditors.** Creditors of the Council have decreased year on year by £3.1 million, principally around payments due to government bodies.

9.13. **Long term Borrowing.** Long term borrowing has increased year on year by a net £15m. This consisted of £7m of new borrowing and £18m to re-financing loans that have matured. £20m of borrowing was repaid during the year, with £10m due to be repaid in the next financial year. These are classified as Short Term Borrowing (see the explanation above). The Cabinet report in June on Treasury Management gave the full background to these recent treasury activities.

9.14. **Other Long Term Liabilities - Pensions.** There has been a £6.4 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 £189.8 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.

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

	<b>£M</b>
Liability as at 1 April 2012	183.3
Increase in Assets	(27.7)
Increase in Liabilities	34.2
<b>Liability as at 31 March 2011</b>	<b>189.8</b>

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.

	<b>Increase / (Decrease)</b>	<b>Closing Balance</b>
	<b>£000</b>	<b>£000</b>
Revaluation Reserve	(31,022)	47,419
Available for Sale Financial Instruments Reserve	(2)	2
Pensions Reserve	(6,436)	(189,785)
Capital Adjustment Account	(28,349)	321,091
Deferred Capital Receipts	23	23
Collection Fund Adjustment Account	354	2,602
Short-term Accumulating Compensated Absences Reserve	549	(2,155)

<b>Total Unusable Reserves</b>	<b>(64,883)</b>	<b>179,197</b>
--------------------------------	-----------------	----------------

9.18. The Revaluation Reserve decreased by a net amount of £31m 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 £28m mostly due to the following: 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 31)**

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 £6m.

## **11. Notes to the Accounts (Page 32)**

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 97)**

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 2012/13 was as follows:

	<b>£000</b>
Balance as at 1 April 2010	3,502
Surplus / (Deficit) for year	nil



---

<b>Balance as at 31 March 2011</b>	<b>3,502</b>
------------------------------------	--------------

---

12.3. Despite the nil change in the HRA revenue balance, the HRA actually generated a surplus after statutory adjustments of £2.3 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 104)**

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 £1,623,000 was generated on the Fund during the year, prior to the distribution of prior year surpluses to the tune of £1,197,000. When added to previous years accumulated fund surpluses, this means that there is now an accumulated surplus at the year-end of £3,074,000. 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 £2,603,000.

### **14. Group Accounts (Page 108)**

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 an after tax surplus of £1.066 million, on a turnover of £10.7m.

### **15. Members Allowances (Page 118)**

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