

Appendix 1

Overview of the Statutory Statement of Accounts 2013/14

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 2013/14 position when compared to 2012/13.
- 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 2013/14" ("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. **Employee Benefits (Pensions)** – International Accounting Standards (IAS) underpin the CIPFA Code. One of those standards, IAS19 – Employee Benefits has been updated which changes the way in which income returns from assets such as equities are calculated. This change in the standard has necessitated the previous year's Movement in Reserves and Comprehensive Income and Expenditure Account to be restated. There is no change to the Balance Sheet.
- 1.5. **Recharges** – the Council chose to revise how it accounted for departmental recharges, where one team within a department recharges another, so as to ensure there was no artificial inflation of gross income and expenditure when the Comprehensive Income and Expenditure Account was drawn up. This makes no difference to the net cost of services. On discussion with our external auditors, it has been decided to restate the prior year comparison for this change also.
- 1.6. **Public Health** – Public Health formally transferred to the Council from the now defunct South Essex Primary Care Trust on 1 April 2013. Prior to that date the Council provided the Drug and Alcohol Action Team service on behalf of the PCT. The associated costs and income were accounted for under Adult Social Care. These costs have now been relocated under the defined Public Health line within the Comprehensive Income and Expenditure Statement.
- 1.7. **Group Accounts** – Having continued to review 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. This has led to the decision to consolidate all of the significant trusts; three more than in the previous year. 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 2013/14. This summarised information has already been reported and debated by the Cabinet when they considered the provisional outturn in July 2014. 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 overspend of £845,000 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 2014/15 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 was separately adopted by this Committee at its last meeting, and has been 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 2014 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 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.

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	(845)	11,000
Housing Revenue Account	0	3,502
Earmarked Reserves, <i>of which</i>	21,996	63,240
<i>General Fund</i>	19,780	49,102
<i>HRA</i>	2,653	5,299
<i>Schools</i>	(437)	8,839
Capital Receipts	2,894	7,718
Major Repairs (HRA)	(616)	7,312
Capital Grants Unapplied	(297)	8,750
Total Usable Reserves	23,132	101,522

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 2013/14 Comprehensive Income and Expenditure Statement results in a large surplus of £79.8M. A surplus or deficit is disclosed before any appropriations to and from reserves, including statutory mitigations. This compares with a deficit of £48M in 2012/13.

8.4. The statement for 2013/14 sees the introduction of Public Health as a new service line, following its transfer into the Council on 1 April 2014. The prior year comparator for this represents the value of the Drug and Alcohol Action Team the Council operated on behalf of the PCT, prior to its formal transfer. Previously this expenditure and income was contained under the Adult Social Care line.

8.5. Principal reasons for this year on year movement are set out in note 5 to the accounts, and include

- In relation to 2012/13, £61M net reductions in asset valuations and £8M actuarial losses on the pension fund

- In relation to 2013/14, £33M net increases in asset valuation and £36M actuarial gains on the pension fund.

9. Balance Sheet (Page 30)

9.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2014. 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 £33 million. The movement has been made up as follows:

	£000
Balance as at 1 April 2013	617,234
Capital Investment in year	36,082
Increases in Valuation*	34,485
Decreases in Valuation*	(14,455)
Depreciation in year	(17,978)
Disposals*	(6,107)
Transfers	934
Balance as at 31 March 2014	650,195

* See the Unusable Reserves paragraph

The increases in valuation related to various assets including parks, leisure centres, the pier, theatres and car parks. The figure also includes an indexation increase applied to the council dwellings to reflect the increase in value between valuations. The decreases in valuation related to various assets including council dwelling kitchens and bathrooms, Southend Adult Community College and Southend Leisure and Tennis Centre.

- 9.3. The Council's housing stock is formally valued every five years and a social housing adjustment factor is applied to the market value so that the value on the balance sheet reflects the economic cost to Government of providing Council housing at less than market value. The last valuation was at 1st April 2010 with the next valuation due to be undertaken as at 1st April 2015.
- 9.4. Although the market value of the Council housing had not changed significantly between 1st April 2010 and 31st March 2013, it was felt that due to the recent improvement in the housing market, the value had increased by a significant amount between 1st April 2013 and 31st March 2014.
- 9.5. Wilks Head & Eve (Chartered Surveyors and Town Planners) carried out a market review on behalf of the Council and concluded that average values had increased during the financial year by 5.4%. This increase was applied to the net book value of the Council dwellings and resulted in an adjustment of £13.9 million. £12.9 million of this increase was applied to the revaluation reserve and

£1 million was credited to the HRA Income and Expenditure Account to reverse impairments that had previously been charged there.

- 9.6. **Heritage Assets.** The value at which Heritage assets are carried in the balance sheet has increased by a net £1.5 million. The movement has been made up as follows:

	£000
Balance as at 1 April 2013	8,187
Capital Investment in year	216
Increases in Valuation*	1,501
Depreciation in year	(170)
Balance as at 31 March 2013	8,187

* See the Unusable Reserves paragraph

- 9.7. **Short Term Investments.** (This needs to be considered together with Cash and Cash Equivalents and Short and Long Term Borrowing.) There has been very little movement in Short term investments with the increase in value relating to the investments managed by the council's external fund managers.
- 9.8. **Debtors.** Debtors to the Council have decreased year on year by £11.6m, with all classes of debtor having fallen from their 2012/13 levels. Particularly amounts owed by HMRC in relation to reclaimed VAT are lower at 31 March 2014 than the previous year, and large amounts owed by Essex University and South Essex College in relation to the Forum at 31 March 2013 have since been paid.
- 9.9. **Cash and cash equivalents.** There has been an overall increase of £20 million in cash and cash equivalents, this comprises a £1.5 million increase in cash in the council's main bank account, a very small decrease in the cash and cash equivalents held by schools and an £18.5 million increase in investments deemed to be cash equivalents.
- 9.10. The level of the investments deemed to be cash equivalents at 31/3/14 is consistent with the average of these funds managed internally during 2013/14. The balance is usually lower than average at year end however PWLB borrowing of £9 million was taken out shortly before the year end.
- 9.11. The movement between the balance of cash in the council's main 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.
- 9.12. **Short term Borrowing.** Short term borrowing has decreased year on year by £7 million, reflecting the short term monies repaid in the first few days of the financial year, together with the change in PWLB borrowing identified at each year end as repayable within 12 months.
- 9.13. **Creditors.** Creditors of the Council have decreased year on year by £3.1 million.

9.14. **Long term Borrowing.** Long term borrowing has increased year on year by a net £1 million. This consisted of £9 million of new borrowing and £5 million to re-finance loans that have matured, together with £13 million of loans that are due to be repaid in the next financial year which is classified as Short Term Borrowing (see the explanation above). The Cabinet report in July on Treasury Management gave the full background to these recent treasury activities.

9.15. **Other Long Term Liabilities - Pensions.** There has been a £30.9 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 £158.9 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 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 2013	189,785
Increase in Assets	(30,022)
decrease in Liabilities	(840)
Liability as at 31 March 2014	158,923

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

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

	Increase / (Decrease)	Closing Balance
	£000	£000
Revaluation Reserve	31,904	78,323
Available for Sale Financial Instruments Reserve	-	2
Pensions Reserve	30,862	(158,923)
Capital Adjustment Account	(7,751)	313,340
Deferred Capital Receipts	(16)	7
Collection Fund Adjustment Account	1,339	3,941
Short-term Accumulating Compensated Absences Reserve	301	(1,854)
Total Unusable Reserves	56,639	235,836

- 9.19. The Revaluation Reserve increased by a net amount of £32 million as a result of the amounts identified by the revaluation rolling programme and by an exercise to apply indexation uplift to the council dwellings, which were permitted by the accounting code to be applied to the reserve.
- 9.20. The Pension Reserve movement is the contra entries for the movement in the Pensions Liability set out in 9.14 above.
- 9.21. The Capital Adjustment Account has decreased by £8 million 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 and the capital financing applied in the year.

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 inflow of £20m.

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 106)

- 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 2013/14 was as follows:

	£000
Balance as at 1 April 2013	3,502
Surplus / (Deficit) for year	nil
Balance as at 31 March 2014	3,502

12.3. Despite the nil change in the HRA revenue balance, the HRA actually generated a surplus after statutory adjustments of £2.6 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 113)

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 £2,871,000 was generated on the Fund during the year, prior to the distribution of prior year surpluses to the tune of £826,000. When added to previous years accumulated fund surpluses, this means that there is now an accumulated surplus at the year-end of £5,119,000. 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 £3,942,000.

14. Group Accounts (Page 118)

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 £0.323 million, on a turnover of £10.3m.

15. Members Allowances (Page 131)

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