

Appendix 1

Overview of the Statutory Statement of Accounts 2015/16

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 2015/16 position when compared to 2014/15.
- 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 2015/16" ("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 2015, together with the Code, as are the explanatory notes accompanying each of the major financial statements. There has not been any change to reporting requirements under the code as in previous years, nor has there been any need to restate the previous year's financial statements.

Format of the Accounts

2. Strategic Report (Page 7)

- 2.1. The Strategic Report (also known as the narrative report) has been expanded from the Explanatory Foreword of previous years to incorporate information about the Council's performance against its corporate priorities, and to set out the principal risks and uncertainties that the Council faces.
- 2.2. The Strategic Report therefore sets out to provide 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 Strategic Report is not to comment on the policies of the authority, rather to explain the financial facts.
- 2.3. The Strategic Report shows a summarised revenue outturn position for the Council, comparing the position against the original budget set for 2015/16. This summarised information has already been reported and debated by the Cabinet when they considered the provisional outturn in June 2016. 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.
- 2.4. A summarised schedule of capital expenditure and its financing is also shown.
- 2.5. Looking forward, the Strategic Report also draws attention to changes to the Council's financial environment during 2016/17 and beyond.

3. Statement of Responsibilities (Page 20)

- 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 21)

- 4.1. The Annual Governance Statement is a corporate document, signed by the Chief Executive and the Leader of the Council. It was separately considered by this Committee at its last meeting, and has been incorporated into the Statement of Accounts prior to publication.

5. Auditor's Report (Page 35)

- 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 2016 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 (Page 40)

- 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	-	11,000
Housing Revenue Account	-	3,502
Earmarked Reserves, <i>of which</i>	16,224	85,129
<i>General Fund</i>	<i>10,504</i>	<i>58,527</i>
<i>HRA</i>	<i>7,411</i>	<i>17,141</i>
<i>Schools</i>	<i>(1,691)</i>	<i>9,461</i>
Capital Receipts	(1,755)	7,498
Major Repairs (HRA)	(2,339)	4,534
Capital Grants Unapplied	(4,813)	8,848
Total Usable Reserves	7,317	120,511

- 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 41)

- 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 proportion of the Councils’

sale of council house receipts over to the Government. 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 2015/16 Comprehensive Income and Expenditure Statement results in a surplus of £49.636M. A surplus or deficit is disclosed before any appropriations to and from reserves, including statutory mitigations. This compares with a surplus of £17.979M in 2014/15.

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

- In relation to 2014/15, £31M net increases in asset valuations and £22M actuarial losses on the pension fund
- In relation to 2015/16, £57M net increases in asset valuation, £23M charge to the Housing Revenue Account relating to downward valuation of Council Housing and £18M relating to the write out of the book value of Cecil Jones School as it converted to academy status, and £25M actuarial gains on the pension fund.

9. Balance Sheet (Page 42)

9.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2016. 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 £30M. The movement has been made up as follows:

	£000
Balance as at 1 April 2015	682,233
Capital Investment in year	29,453
Increases in Valuation*	76,033
Decreases in Valuation*	(40,403)
Depreciation in year	(17,507)
Disposals*	(19,224)
Transfers	1,179
Balance as at 31 March 2016	711,764

* See the Unusable Reserves paragraph

The increases in valuation mainly related to the HRA assets including the council dwellings as a result of the rolling revaluation programme. The figure also includes an indexation increase applied to the council dwellings and other land and buildings to reflect the increase in value between the valuation date and the balance sheet date. The decreases in valuation were as a result of impairments identified as part of the rolling revaluation programme, a review carried out at the balance sheet date, and as a result of the regular review of the fixed asset register. The decreases related to various assets including council dwellings, garages and hostels.

- 9.3. **Heritage Assets.** The value at which Heritage assets are carried in the balance sheet has decreased by a net £0.6M. The movement has been made up as follows:

	£000
Balance as at 1 April 2015	38,009
Capital Investment in year	501
Decreases in Valuation*	(501)
Depreciation in year	(626)
Balance as at 31 March 2016	37,383

* See the Unusable Reserves paragraph

- 9.4. **Investment Property.** The value of investment properties has increased by a net £1M. The movement has been made up as follows;

	£000
Balance as at 1 April 2015	22,135
Capital Investment in year	26
Revaluations and Impairments	2,189
Transfers	(1,263)
Balance as at 31 March 2016	23,087

- 9.5. **Long Term Investments.** There has been an overall increase of £13M due to the value of long term monies invested into two property funds during 2015/16. These investments were reported to Cabinet in June as part of the Annual Treasury Management Report for 2015/16.
- 9.6. **Long Term Debtors.** This primarily represents the value of deferred payments in respect of Adult Social Care provision, separately identified from the main debtors here for the first time.
- 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 an overall increase of £3M in Short term investments with the increase in value

relating to redemption of part of the investment managed by the council's external fund manager, offset by investment into a fixed term deposit account.

- 9.8. **Short Term Debtors.** Debtors to the Council have increased year on year by £0.8M. This modest movement belies the fact that there has been a significant shift from customer debt towards government debt. Reasons include the reclassification by government of academies as part of government, whereas they were previously shown under "other entities".
- 9.9. **Cash and cash equivalents.** There has been an overall decrease of £8.6M in cash and cash equivalents, this comprises a £2.9M increase in cash in the council's main bank account, an decrease of £2.5M in the cash and cash equivalents held by schools and a £9.0M decrease in investments deemed to be cash equivalents.
- 9.10. The level of the investments deemed to be cash equivalents at 31/3/16 is lower than the average of these funds managed internally during 2015/16 which is not unusual for a year end position and no PWLB borrowing was taken out during the year.
- 9.11. The movement between the balance of cash in the council's main bank account, in investments deemed to be cash equivalents and in short term investments 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 £0.4M, reflecting the net of short term monies repaid and taken out, 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 increased year on year by £3M due to the timing of payments around Easter.
- 9.14. **Long term Borrowing.** Long term borrowing has increased year on year by a net £3.1M due to monies being drawn down from the Green Investment Bank loan relating to the LED Street Lighting project. The Cabinet report in June on Treasury Management gave the full background to these recent treasury activities
- 9.15. **Other Long Term Liabilities - Pensions.** There has been a £15.6 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 £160.7 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 net decrease is attributable to both an increase in scheme asset values and a decrease in scheme liabilities, as set out below:

	£000
Liability as at 1 April 2015	176,286
Increase in Assets	(3,486)
Decrease in Liabilities	(12,147)
Liability as at 31 March 2016	160,653

9.17. The increase in assets arises from the returns on investment and employer and employee contributions outweighing pension payments made to retired staff; the decrease in liabilities arises from a change in the discount rate used by the actuary, plus the inherent difference between the growth in new liabilities from current scheme membership and the discharge of liabilities to existing pensioners.

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

9.19. **Unusable Reserves.** These comprise the following reserves:

	Increase / (Decrease) £000	Closing Balance £000
Revaluation Reserve	52,429	191,525
Available for Sale Financial Instruments Reserve	3	6
Pensions Reserve	(15,633)	(160,653)
Capital Adjustment Account	(26,548)	283,234
Deferred Capital Receipts	225	225
Collection Fund Adjustment Account	108	3,430
Short-term Accumulating Compensated Absences Reserve	(469)	(1,111)
Total Unusable Reserves	42,319	316,656

9.20. The Revaluation Reserve increased by a net amount of £52 million as a result of the amounts identified for revaluation by the rolling programme or other sources and by an exercise to apply an indexation uplift to the council dwellings and other land and buildings, which were permitted by the accounting code to be applied to the reserve.

9.21. The Pension Reserve movement is the contra entries for the movement in the Pensions Liability set out in 9.15 above.

9.22. The Capital Adjustment Account has decreased by £27 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, disposals of non-current assets and the capital financing applied in the year.

10. Cash Flow Statement (Page 43)

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 £8.6 million.

11. Notes to the Accounts (Page 45)

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 113)

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 2015/16 was as follows:

	£000
Balance as at 1 April 2015	3,502
Surplus / (Deficit) for year	nil
Balance as at 31 March 2016	3,502

12.3. Despite the nil change in the HRA revenue balance, the HRA actually generated a surplus after statutory adjustments of £7.4 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 121)

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 deficit of £709,000 was generated on the Fund during the year, prior to the distribution of prior year surpluses to the tune of £1,186,000. When added to previous years accumulated fund surpluses, this means that there is now an accumulated surplus at the year-end of £2,490,000. 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 £3,440,000.

14. Group Accounts (Page 127)

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 £0.383M, on a turnover of £10.1M.

15. Members Allowances (Page 142)

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