Explanatory Foreword by the Chief Finance Officer

1. Introduction

The purpose of this foreword is to highlight some of the most important matters reported in the accounts and provide a summary of the council's overall financial position.

The Statement of Accounts is by necessity a lengthy document presented in the very formal manner required by regulation. However, in this foreword I can introduce the council's finances in plainer terms.

The original net budget was set by Council in March 2011 at £274.8m for the financial year 2011/12. Approximately half of the council's budget is funded by government grant (£145.3m) with the balance of the council's funding coming from local taxpayers, funded by a Band D council tax of £1,059.93 which the council has kept at the same level since 2008/09.

During the financial year ended 31st March 2012 the council's financial standing has been maintained. Our tight approach to financial control has meant that:

- The total net expenditure of the council was again contained within budget; the final outturn being an under spend against budget of £52k
- The General Fund balance as at 31st March 2012 stands at £15.4m, achieving the target figure in the medium term financial strategy and representing 5.8% of the council General Fund budget for 2012/13.
- The accounts have been prepared in advance of the statutory deadline

The council's financial management cycle includes an assessment of all the risks the council faces at the start of the year. The council began monitoring the delivery of its planned efficiency savings of £22m for 2011/12 before the financial year had even begun.

These accounts show that the council has again achieved its priority of providing value for money for residents, delivering an overall balanced budget through sound financial management including a tight monthly financial monitoring process. The scale of this achievement must be judged in the context of significant real terms reductions in funding, rising expectations of service users both in terms of quality and quantity, and economic uncertainty.

The process of planning and control to produce these statements has once more worked extremely well. The Closing Board, for the fourth year, monitored the production of these accounts and involved both the Corporate and Service Finance teams. This built on the continuing improvements in reconciliations and other financial controls across the council.

I have ensured that the council has maintained its prudent position in a number of risk areas by maintaining a healthy but not excessive level of earmarked reserves, which (excluding school balances) stand at £75.5m, down from £83.8m. It is particularly important to maintain healthy reserves as we continue to operate in a period of great economic uncertainty in addition to a fiscal environment where the council's grant funding is likely to continue to be scaled back significantly by central government over the medium to longer term.

Our continued focus on council tax collection in 2011/12 has yielded an in-year collection of 97.2%. This is the highest ever level of collection for Ealing. Cash management will continue to be a key focus in 2012/13 to drive further value for the residents of the borough.

The council continues to focus its resources to deliver services in accordance with council priorities and the approved medium term financial strategy. The council's financial objectives during 2011/12 were:

- Align spending plans with the council's vision and strategic objectives and resident priorities
- Keep council tax as low as possible
- Maintain a balanced budget position and set a medium term financial plan maintaining and strengthening that position
- Provide a robust framework to assist the decision making process
- Undertake a prudent level of capital investment to meet the Council's strategic priorities and remain within prudential borrowing limits
- Manage Council finances within the context of a forward looking three year rolling business planning framework
- Deliver value for money to local taxpayers
- Exercise probity, prudence and strong financial control
- Manage risk, including strengthening reserves as appropriate & maintaining sustainable levels of debt
- Continually review budgets to ensure resources are targeted on key objectives

The council responded to the civil disorder during August 2011 by introducing measures to assist local businesses including setting aside a £250,000 fund to help small independent businesses affected and giving businesses rate relief totalling some £200,000 to help them cope with hardship caused by the civil disorder.

Looking ahead, the council must plan to contain expenditure on demand-led services if it is to sustain its strong position. In addition, the Council must develop robust plans for funding its long-term capital investment. The provision of primary school places continues to be a pressure on the council and although contained within our medium term financial strategy will need to be continually monitored.

The council's Pension Fund net assets increased from £657.5m to £691.5m during the year, an increase of 5.1%. The fund remains cash positive on its revenue account, showing an in year excess of income over expenditure of £31.5m.

The Housing Revenue Account (HRA) has an accumulated surplus of £8m at the end of the financial year.

These accounts include the return of £1.665m of the council's £2m investment in the Icelandic bank Glitnir, from the Glitnir winding up board. The council anticipates the recovery of the balance of the pay out in the near future, which will take the final sum recovered to over £2m.

The cost of servicing debt was kept within the prudential limits set by the council for 2011/12 with the council's borrowing costs at £96.9m (including a one-off cost of £55.7m as a premium in respect of the early repayment of housing debt, see the following paragraph for details). In accordance with the council's agreed treasury management strategy and in order to take advantage of historically low levels of interest, the council undertook long-term borrowing of £60m. This will mature over several fixed periods of up to 50 years at fixed rates of interest to assure the funding of vital capital schemes in future years.

The council's debt reduced significantly during the year from £664.7m to £501.7m mainly as a result of changes to the HRA subsidy system brought about by the terms of the Localism Act 2011, under which the council will no longer receive housing subsidy but, under the self-financing determination, the Government (DCLG) redeemed £203m of the council's housing debt. The council will now take full control of the housing rental income enabling more effective planning for the long term management of this key service and assets.

In June 2010, central government invited schools across the country to become academies, making them independent of local authorities. During 2011/12 Wood End Junior, Drayton Manor High School, Featherstone High and Twyford Church of England schools all became academies. As a result of this the council transferred the assets and liabilities in respect of these schools to the academies as part of the transfer agreement. As a result the council wrote off £15m from its balance sheet in the year for the land and building of Featherstone High School. The other academies were previously foundation schools and the assets were not held on the council's balance sheet in 2010/11.

In summary these accounts show the council has worked hard to maintain its financial health in the face of the many challenges ahead. However 2012/13 – 2014/15 will require further budget savings to continue this position. The approved general fund savings target for 2012/13 of £33m is demanding and there is always a risk of an in-year shortfall despite the council's excellent track record in financial management as the council still faces a range of significant financial risks particularly from demand-led budgets.

There are also significant changes on the horizon from the government's new funding system for local authorities which comes in from April 2013 replacing the current formula grant system with the business rates retention system and also the localisation of council tax support in the same financial year which pose additional funding risks to the council.

I hope that you find the following statement of accounts useful and informative in helping you to understand how the council manages its finances in delivering value for money services for residents. If you have any questions or comments on the council's accounts or their presentation, please e-mail finalaccounts@ealing.gov.uk or write to the Executive Director of Corporate Resources, Ealing Council, Perceval House, 14-16 Uxbridge Road, Ealing W5 2HL.

2. The Statement of Accounts

The council's statement of accounts has been produced under the CIPFA/LASAAC Code of Practice on Local Authority Accounting based on International Financial Reporting Standards (IFRS).

The statement of accounts is set out on pages 7 to 98 and consists of the following:

2.1. **The Statement of Responsibilities** for the Statement of Accounts.

2.2. **The Comprehensive Income and Expenditure** Statement which shows the net cost for the current year of all the services for which the council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together income and expenditure relating to all of the council's services. Both income and expenditure are measured using essentially the same accounting conventions (International Financial Reporting Standards) that a large company would use in preparing its audited annual financial statements.

2.3. **The Movement in Reserves Statement** (MiRS) reconciles the outturn on the Comprehensive Income and Expenditure Statement to the balance on the General Fund that is established by complying with the relevant statutory provisions. The MiRS shows the true economic cost of providing council services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

2.4. **The Balance Sheet**, which shows the assets and liabilities and net worth of the council.

2.5. **The Cash Flow Statement** - this consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties, showing the reasons for changes in cash, cash equivalents and the bank account during the year.

2.6. **Housing Revenue Account (HRA)**, which shows the income and expenditure transactions relating to the council's housing stock. The account is completely separate, ring fenced, and receives no subsidy nor makes any contribution to any of the council's other accounts. Therefore this account has no effect upon the level of council tax.

2.7. **The Collection Fund Account** which shows the income and expenditure transactions relating to the collection of income from non-domestic rates and council tax and the subsequent disbursement of these to the council's General Fund and the Greater London Authority.

2.8. **The Pension Fund Revenue Account and Net Assets Statement**, which are maintained separately from the council's other financial transactions by the council acting as a trustee.

2.9. **An Annual Governance Statement**, which is not part of the Statement of Accounts, but is required to be included alongside it in the same publication. This is an important distinction, as the Statement is not covered directly by the Chief Finance Officer's certification or the audit report (although it will be reviewed by the auditors as 'other information').

2.10. The statement relates to the system of internal control as it applied during the financial year for the accounts that it accompanies.

3. Comprehensive Income and Expenditure Statement items

3.1. Services Provided

The council's gross revenue spending was split over the following main services. This expenditure is as included in the Comprehensive Income and Expenditure Statement and therefore includes items such as depreciation and impairment of assets which are reversed out in the Movement in Reserves Statement so as not to impact on council tax levels.

	£m
Housing	290.9
Children's and Education	400.2
Adult Social Care	112.7
Corporate Services	69.4
Cultural, Environmental and Planning	75.3
Highways, Roads and Transport	50.5
Total	**999.0**

3.2. 2011/12 Budget and Actual Comparison

The main components of the General Fund budget (excluding the HRA) for 2011/12 and how these compare with the actual income and expenditure for the year are set out below:

	Revised Budget	Outturn	Variance
	£000	£000	£000
Services net expenditure	274,825	274,773	(52)
Income from Government Grant and Local Taxpayers	(274,825)	(274,825)	0
Increase in General Fund Balance for the Year	**0**	**(52)**	**(52)**

4. Housing Revenue Account

The Housing Revenue Account has made a surplus of £1,089k for 2011/12, which compares favourably to the budgeted deficit of £54k. This increases the accumulated balance from £7m at 1 April 2011 to £8.1m at 31 March 2012.

5. Capital Expenditure

Capital expenditure for 2011/12 from the capital programme was £88.7m. The capital expenditure by service and its financing is shown below:

	£M	%
Housing & Regeneration	22.9	26
Environment & Customer Services	17.9	20
Education	40.1	45
Corporate	4.6	5
Social Services	3.2	4
Total	**88.7**	**100**

Financed by:

	£M	%
Borrowing	19.5	22
Capital & Other Grants	40.6	46
Revenue Contributions	14.3	16
Major Repairs Reserve	13.5	15
Capital Receipts	0.8	1
Total	**88.7**	**100**

6. Collection Fund

The Collection Fund balance reduced by £3.3m in 2011/12. There was an underlying surplus of £1.2m to the fund offset by a contribution to the council General Fund (£3.5m) and the Greater London Authority (£1.0m) in respect of the distribution of the estimated surplus at 31 March 2011. The cumulative surplus has reduced to £2.5m at 31 March 2012, of which £0.6m is due to the Greater London Authority.