

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	FINANCIAL STATEMENTS FOR 2014/15		
DATE OF DECISION:	15 JUNE 2015		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2014/15 were signed by the Chief Financial Officer (CFO) on 29 May 2015. A month earlier than the statutory requirement to have the statements signed by the 30 June. A copy of the draft unaudited Financial Statements is available in the Members Room.

The Annual Audit, carried out by our auditors Ernst & Young, commenced on 8 June 2015 and is due to be completed by the end of August 2015. Any major changes to the Financial Statements arising from the annual audit will be reported to the September Governance Committee after the completion of the audit.

RECOMMENDATIONS:

It is recommended that Governance Committee:

- (i) Notes that the Draft Financial Statements 2014/15 have been signed by the CFO.
- (ii) Notes that the approval of the audited Financial Statements 2014/15 by the Governance Committee will take place on the 14 September 2015.
- (iii) Notes that there is a revision to the statement on the Minimum Revenue Provision Policy as set out in paragraphs 12 to 15.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement that the CFO signs the Financial Statements by 30 June 2015 and certifies that they present '*a true and fair position of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year*'. It should be noted that this has been completed earlier than required this year in recognition that for the financial year 2017/18 it will be a legal requirement to have the accounts certified by 31st May. This has been made possible by significant effort from the Finance Team and due to sound financial management procedures being in place. The draft statements have been brought to the June committee in order to give members further opportunity and time to scrutinise them before final approval. It is envisaged that the September report will detail any non-trivial amendments made as a result of the audit along with an amended set of statements.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the Financial Statements are prepared and signed by the CFO no later than 30 June.

DETAIL

CONSULTATION

3. Not applicable.

FINANCIAL STATEMENTS

4. The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee are detailed below.

ACCOUNTING ISSUES AND DEVELOPMENTS

5. The main accounting issues and developments are:
 - Pension Fund Deficit;
 - Universal Credit;
 - Limited Liability Partnership;
 - Minimum Revenue Provision.

Pension Fund Deficit

6. The deficit on the Pension Fund, as at 31 March 2015, has increased from £331.4M to £390.7M. Further details are included in paragraphs 30 – 32.

Universal Credit

7. Universal Credit (UC) is one of the key benefit changes introduced by the Welfare Reform Act 2012. 2016 will now see the phased introduction of a single benefit to replace six benefits currently paid by DWP, HM Revenue and Customs (HMRC) and Local Authorities. This includes Housing Benefit currently paid by Local Authorities.
8. The introduction of UC will have a significant impact on the residents of the city as they will need to adjust to receiving a single monthly benefit payment which will include an element to cover their housing costs. They will need to manage their finances on a monthly basis, pay their rent to their landlord and apply and manage their benefit claim online. UC will have a significant impact on the Council as it will no longer receive Housing Benefit, direct from Central Government, with respect to Council Dwellings Rent Rebates which in 2014/15 amounted to approximately £40.8M.

Limited Liability Partnership

9. Southampton City Council on 15 September 2014 entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.
10.
 - Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
 - To undertake specific regeneration opportunities by entering into land

transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;

- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes through true partnership working incorporating the insourcing principle which optimises the use of Council staff or the Council's Strategic Service Partner – Capita Property and infrastructure where it is practical and prior to the appointment of any third party.

11. There were no material transactions in the financial year ended 31 March 2015.

Minimum Revenue Provision (MRP)

12. As set out in Appendix 4 of the Review of Prudential Limits and Treasury Management Outturn 2014/15 report, elsewhere on this agenda, there has been a proposed change to the MRP policy for 2014/15.
13. Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 states that capital receipts maybe used to repay the principal element of any amount borrowed by Local Authorities to fund capital expenditure.
14. Applying capital receipts to redeem borrowing will reduce the level of MRP which the council needs to set aside from revenue as a prudent provision i.e. MRP which would have otherwise been put aside to repay borrowing will be reduced by the amounts which have instead been repaid from Capital Receipts.
15. SCC have applied this policy in 2014/15 and have reflected this in the final accounts of the authority. A total of £11.5M of loan repayments have been made in 2014/15, of which a sum of £6.2M (the equivalent calculated value of MRP for 2014/15 under the authority's current MRP policy) has been funded by the set aside of Capital Receipts. This sum fully reduces the need to make a MRP contribution, funded from revenue, in 2014/15.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

16. The Financial Statements present the Income and Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge. The Table on page 7 of the Financial Statements presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that the revised budget assumed a total draw from reserves of £16.7M.

17. However, further changes have been made to the revised budgets 2014/15 that were reported to Council in February 2015. Compared to this working budget the Council's actual expenditure for the year is £13.9M under budget and this is made up as follows:

	(Under) / Over Spend £M
Portfolio Total	(3.94)
Levies & Contributions	(0.20)
Capital Asset Management	(8.80)
Other Expenditure & Income	(0.95)
NET GF SPENDING	(13.9)

18. Against this are requests to carry forward budget of £0.29M. Full details of these carry forwards will be included in the General Fund Revenue Outturn Report 2014/15 that will go to Council on 15 July 2015.

GENERAL FUND BALANCES AND RESERVES

19. The General Fund balance stands at £19.9M. This is a net reduction of £33.5M compared to a balance of £53.4M at the end of 2013/14. This include a transfer of £34.0M to earmarked (usable) reserves, which now total £62.8M.
20. The General Fund Balance consists of the following allocations:

	£M
Amount Required to support 2015/16 budget	7.1
Minimum Balance as per Risk Assessment	5.5
Amount over and above minimum balance	7.3
Total	19.9

The amount over and above the minimum balance could be utilised to support the revenue budget going forward, however this will need to be considered after a review of the minimum level of balances required as per Appendix 12 of the budget report agreed by Council on 11 February 2015.

21. It should be noted that new reserves have been created, namely a Medium Term Financial Risk Reserve and Taxation Reserve, to assist the Council in meeting the risks that have been identified within the Council's Medium Term Financial Strategy and as per the Reserves Prioritisation Schema set out in Appendix 10 of the aforementioned budget report.

HOUSING REVENUE ACCOUNT (HRA)

22. The Table on page 9 of the Financial Statements presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. This shows a budget and an actual deficit of £0.3M. However, there were some significant offsetting variances made up as follows:

	£M
Increase in Repairs	4.3
Savings on Supervision & Management	(1.0)
Reduction in Capital Financing Charges	(1.1)
Other Variances	(0.2)
Variation on day to day services	2.0
Reduction in Capital Funding from Direct Revenue Financing and Depreciation	(2.0)
Total Variation	0

CAPITAL EXPENDITURE

23. In 2014/15 the Council spent £79.3M on capital projects. This was £14.4M less than the latest approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2015/16. Of this expenditure £49.1M related to the General Fund and £30.2M to the HRA.
24. The General Fund Capital Outturn 2014/15 and the Housing Revenue Account Revenue and Capital Outturn 2014/15 will be reported to Council in July. These reports contain further details, including setting out how the expenditure has been financed.

THE COLLECTION FUND

25. There is an overall surplus on the Collection Fund of £9.1M to be carried forward into 2015/16. The following table shows how the surplus has been derived:

	£M
NDR Surplus for Year	(23.6)
Council Tax Surplus for Year	(2.6)
Total Surplus on Collection Fund 2014/15	(26.2)
Collection Fund Deficit B/Fwd 2013/14	17.1
Collection Fund Surplus to C/Fwd 2015/16	(9.1)

Council Tax

26. The Council Tax element of the Collection Fund had a surplus for the year of £2.6M. There was a surplus brought forward from 2013/14 of just over £0.6M, to give a surplus to be carried forward of just over £3.2M.

27. When setting the Council Tax for 2015/16 in February 2015, it was estimated that there would be a surplus of £3.7M to be carried forward. This estimated surplus was taken into account in setting the 2015/16 Council Tax and was shared by the City Council, the Police and Crime Commissioner for Hampshire and the HFRA in proportion to the precepts levied by each authority in 2014/15. This leaves a deficit of £472,500 that will be carried forward to 2015/16 to be shared between the precepting authorities in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when setting the Council Tax for 2016/17.

NNDR

28. The NNDR element of the Collection Fund had a surplus for the year of £23.6M. There was deficit brought forward from 2013/14 of £17.8M, to give a surplus carried forward of £5.8M.
29. When setting the Council Tax for 2015/16 in February 2015, it was estimated that there would be an NDR surplus of £4.8M to be carried forward (the Council's share of this surplus of £2.4M was taken into account in setting the 2015/16 Council). This additional a surplus of £1M, that will be carried forward to 2016/17, to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%).

PENSIONS

30. In 2014/15 the Council paid an employer's contribution of £21.3M into Hampshire County Council's Pension Fund. The employer's rate set for 2014/15 was 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and was equivalent to 6.0% of the value of the payroll as at 31 March 2010 adjusted for Schools transfers and inflation.
31. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2015 was £618.6M, compared to its estimated liabilities of £1,009.3M, giving an estimated deficit on the Fund of £390.7M (£331.4M in 2013/14). This was due to an actuarial loss following a change to their financial assumptions.
32. The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.

ACCOUNTING AND OTHER POLICIES

33. The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices and meets the requirements of the Accounts and Audit regulations 2011.

34. The Accounting Policies are described in detail on pages 23 to 35 of the Financial Statements and cover such items as:

- Property, Plant and Equipment
- Depreciation
- Heritage Assets
- Pensions
- Accruals
- PFI contracts
- VAT

The main changes to the Accounting Policies in 2014/15 were the removal of non-material accounting policies.

35. The majority of the accounting policies adopted by the Council are in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting and the Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.

36. There has also been an amendment to the MRP policy as outlined in Review of Prudential Limits and Treasury Management Outturn 2014/15 report elsewhere on this Agenda.

RESOURCE IMPLICATIONS

Capital/Revenue

37. The capital and revenue implications are considered as part of the General Fund Capital Outturn report and the General Fund Revenue Outturn report that will be presented to Council in July.

Property/Other

38. There are no specific property implications arising from this report.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

39. Accounts and Audit Regulations 2011.

Other Legal Implications:

40. None.

POLICY FRAMEWORK IMPLICATIONS

41. Not applicable. It should be noted that the Financial Statements are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK.

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Appendices

1.	None
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Documents In Members' Rooms

1.	Internet link - http://www.southampton.gov.uk/council-democracy/council-data/statement-accounts.aspx
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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
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