

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	DRAFT FINANCIAL STATEMENTS FOR 2016/17		
DATE OF DECISION:	12 JUNE 2017		
REPORT OF:	SECTION 151 OFFICER		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
<p>In accordance with the Accounts and Audit Regulations 2015 the Financial Statements 2016/17 were signed by the Section 151 (S151) Officer on 22 May 2017 which is 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.</p> <p>The Annual Audit, carried out by our auditors Ernst & Young, commenced on 5 June 2017 and is due to be completed by the 14th July 2017. Any major changes to the Financial Statements arising from the annual audit will be reported to the 24th July 2017 Governance Committee after the completion of the audit.</p>			
RECOMMENDATIONS:			
	(i)	To note that the Draft Financial Statements 2016/17 have been signed by the S151 Officer.	
	(ii)	To note that the approval of the audited Financial Statements 2016/17 by the Governance Committee will take place on the 24 th July 2017.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	<p>It is a legal requirement that the S151 Officer signs the Financial Statements by 30 June 2017 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 have again 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.</p> <p>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 July report will detail any non- trivial amendments made as a result of the audit along with an amended set of statements.</p>		

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 S151 Officer no later than 30 June.
DETAIL (Including consultation carried out)	
	FINANCIAL STATEMENTS
3.	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
4.	The main accounting issues and developments are: <ul style="list-style-type: none"> • Pension Fund Deficit • Capital Southampton Ltd (CSL) • PSP Southampton LLP • Modular Housing Factory • Expenditure Funding Analysis
	<u>Pension Fund Deficit</u>
5.	The deficit on the Pension Fund, as at 31 March 2017, has increased from £366.8M to £425.0M. Further details are included in paragraphs 37 – 39.
	<u>Capita Southampton Ltd (CSL)</u>
6.	During 2015/16 the agreement with the Council’s strategic partner, Capita, was reset and this came into effect from 1st April 2016. As a result, the HR Advisory Service and Property Services were reintegrated into the council in 2016/17.
7.	Additionally, the majority of the services provided by Capita, are now provided to the Council through a special purpose vehicle, Capital Southampton Ltd, which enables greater transparency of costs for services provided to the council.
	<u>PSP Southampton LLP</u>
8.	In September 2014, the Council entered into a limited liability partnership (LLP) with PSP Facilitating Ltd to enable 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.
9.	There are currently several opportunities being considered by the partnership with one in progress. The expected outcome of this development is to generate an overall increase in the asset value of properties held by the Council and to generate ongoing enhanced revenue stream to the Council.

	<u>Modular Housing Factory</u>
10.	The council have made a successful bid to the Solent LEP for match funding in the development and set up of a Modular Housing Factory in the city. An in principle award has been made of £3M.
11.	The proposal is to invest in setting up an off-site manufacturing facility in Southampton with the initial aim of meeting the development and regeneration needs of the council and partner housing associations but with the potential to expand quickly across the Solent region and potentially beyond.
12.	Co-investment in the sum of £6 million, the form of equity split equally between the Solent LEP and the council, is proposed with further start up investment being sought from the Homes & Communities Agency (HCA) through the Accelerating Construction Programme. Further investment by other local authorities to support business expansion will be considered once the project is established.
13.	This facility will: <ul style="list-style-type: none"> • Help with the delivery of better quality housing at a faster pace • Have the potential to help address social issues such as fuel poverty through the provision of better insulated homes that require less energy to heat • Support the council's Strategy by ensuring that the city has strong and sustainable growth and people in Southampton live, safe, healthy, independent lives. It will also help meet the Executive Commitment to deliver 365 Affordable Homes a year
	<u>Expenditure and Funding Analysis(EFA) and Comprehensive Income and Expenditure Statement(CIES)</u>
14.	This is a new financial performance statement that is being introduced from 2016/17. Its purpose is to report performance in a similar format used for reporting to management throughout the year.
15.	The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.
16.	The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.
17.	In addition, the Comprehensive Income and Expenditure Statement, cost of services section, has been changed from a SERCOP basis to the council's portfolio reporting basis.
	GENERAL FUND REVENUE EXPENDITURE AND INCOME
18.	Within the Financial Statements, the Comprehensive Income & Expenditure Account (CIES) presents the Income & Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge. The Table on page 8 of the Final Accounts presents the Council's

	expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. The outturn for the council was a contribution to general reserves of £4.17M.		
19.	The following table shows actual expenditure compared to the working budgets 2016/17.		
20.			(Under) / Over Spend £M
	Portfolio Total		3.67
	Levies & Contributions		0.06
	Capital Asset Management		(2.35)
	Other Expenditure & Income		(4.29)
	Non-Specific Grants & Other Funding		(1.17)
	Business Rates		(0.09)
	Transfer to Reserves – Year End Surplus		(4.17)
21.	Against this are requests to carry forward budget of £0.13M. Full details of this carry forward will be included in the General Fund Revenue Outturn Report 2016/17 that will go to Council on 19 July 2017.		
	GENERAL FUND BALANCES AND RESERVES		
22.	The General Fund balance stands at £11.3M. This is a net reduction of £1.5M compared to a balance of £12.8M at the end of 2015/16.		
23.	The council's approved level for the General Fund Balance was £5.5M. Following an assessment of risk by the Chief Financial Officer, it was recommended that this should increase to £11.3M. In reviewing the level of reserves and balances as part of closing the 2016/17 accounts, it was possible to increase the balance to the recommended level in line with the coming year's budget recommendation. There is no proposed draw on the balance to support the budget position in 2017/18.		
24.	The Council maintains a number of useable reserves, as detailed in the Balance Sheet.		
25.	Within the Medium Term Financial Strategy (MTFS), the financial risks facing the Council in the medium term are identified. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the council.		
26.	In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2016/17 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. Full details can be found on page 13 of the Final		

	Accounts.		
	HOUSING REVENUE ACCOUNT (HRA)		
27.	The Table on page 10 of the Final Accounts presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. The budget for the year was set at £1.0M surplus which was the actual outturn position for the year. The HRA working balance at 31 March 2017 has increased accordingly to £3M.		
28.			£M
	Increase in Repairs		2.4
	Savings on Supervision & Management		(0.3)
	Reduction in Capital Financing Charges		(1.3)
	Variation on day to day services		0.8
	Reduction in Capital Funding from Direct Revenue Financing and Depreciation		(0.7)
	Total Income		(0.1)
	Total Variation		0.0
	CAPITAL EXPENDITURE		
29.	In 2016/17 the Council spent £120.61M on capital projects. This was £32.82M less than the latest approved estimates, due largely to re-phasing and slippage of expenditure which will now be incurred in 2017/18. Of this expenditure £69.41M related to the General Fund and £51.20M to the HRA.		
30.	The Capital Outturn position for 2016/17 will be reported to Council in July. These report will contain further details, including setting out how the expenditure has been financed.		
	THE COLLECTION FUND		
31.	There is an overall surplus on the Collection Fund of £10.02M to be carried forward into 2017/18. The following table shows how the surplus has been derived:		
			£M
	NDR Deficit for Year		1.65
	Council Tax Surplus for Year		(1.70)
	Total Surplus on Collection Fund 2016/17		(0.50)
	Collection Fund Surplus B/Fwd 2015/16		(9.97)
	Collection Fund Surplus to C/Fwd 2017/18		(10.02)

	<u>Council Tax</u>
32.	The Council Tax element of the Collection Fund had a surplus for the year of £1.70M. There was a surplus brought forward from 2015/16 of £2.14M, to give a surplus to be carried forward to 2017/18 of £3.84M.
33.	When setting the Council Tax for 2017/18 in February 2017, it was estimated that there would be a deficit of £0.07M to be carried forward. This estimated surplus was taken into account in setting the 2017/18 Council Tax and was shared by the City Council, the Police & Crime Commissioner for Hampshire and the HFRA in proportion to the precepts levied by each authority in 2016/17. This leaves a surplus of £1.77M that will be carried forward to 2017/18 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 2018/19.
	NDR
34.	The NDR element of the Collection Fund had a deficit for the year of £1.65M. There was a surplus brought forward from 2015/16 of £7.83M, to give a surplus carried forward of £6.18M.
35.	When setting the Council Tax for 2017/18 in February 2017, it was estimated that there would be an NDR surplus of £4.74M to be carried forward (the Council's share of this surplus of £2.8M was taken into account in setting the 2017/18 budget for the Council). This additional a surplus of £1.44M, that will be carried forward to 2018/19, to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%)
	PENSIONS
36.	In 2016/17 the Council paid an employer's contribution of £24.9M into Hampshire County Council's Pension Fund. The employer's rate set for 2016/17 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.
37.	The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2017 was £770.8M, compared to its estimated liabilities of £1,195.8M, giving an estimated deficit on the Fund of £425.0M (£366.8M in 2015/16). This was due to an actuarial loss following a change to their financial assumptions.
38.	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
39.	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 2015.
40.	The Accounting Policies are described in detail on pages 26 to 39 of the Financial Statements and cover such items as: <ul style="list-style-type: none"> • Property, Plant and Equipment

	<ul style="list-style-type: none"> • Depreciation • Heritage Assets • Pensions • Accruals • PFI contracts • VAT <p>The main change to the Accounting Policies in 2016/17 was updating the basis of preparation to remove reference to SERCOP.</p>
41.	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.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
42.	The capital and revenue implications are considered as part of outturn reports that will be presented to Council in July.
<u>Property/Other</u>	
43.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
44.	Accounts and Audit Regulations 2015.
<u>Other Legal Implications:</u>	
45.	None
RISK MANAGEMENT IMPLICATIONS	
46.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
47.	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:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	Draft Unaudited Financial Statements 2016/17.

Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
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	