

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	DRAFT FINANCIAL STATEMENTS FOR 2017/18		
DATE OF DECISION:	11 JUNE 2018		
REPORT OF:	SERVICE DIRECTOR FINANCE AND COMMERCIALISATION (S151)		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sue Cuerden	Tel: 023 80 834153
	E-mail:	Sue.cuerden@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80 834897
	E-mail:	Mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
<p>In accordance with the Accounts and Audit Regulations 2015 the Financial Statements 2017/18 were signed by the Section 151 (S151) Officer on 8 May 2018 which is earlier than the statutory requirement to have the statements signed by the 31st May 2018. 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 21st May 2018 and is due to be completed by the 22nd June 2018. Any major changes to the Financial Statements arising from the annual audit will be reported to the 30th July 2018 Governance Committee after the completion of the audit.</p>			
RECOMMENDATIONS:			
	(i)	Notes that the Draft Financial Statements 2017/18 have been signed by the S151 Officer.	
	(ii)	Notes that the approval of the audited Financial Statements 2017/18 by the Governance Committee will take place on the 30 th July 2018.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	It is a legal requirement that the S151 Officer signs the Financial Statements by 31 May 2018 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 again been completed earlier than required, allowing early start to the annual audit of the accounts.		
2.	The draft statements have been brought to the June committee in order to give members plenty of opportunity and time to scrutinise them before final approval in July. 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.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
3.	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 31 May.																		
DETAIL (Including consultation carried out)																			
	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.																		
	GENERAL FUND REVENUE EXPENDITURE AND INCOME																		
5.	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 12 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 council did complete the year with a balance position and where able to contribute £4M to reserves																		
6.	The following table shows actual expenditure compared to the 2017/18 budget. <u>Table 1 – General Fund Outturn Variance 2017/18</u>																		
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7.	This position incorporates requests from service areas to carry forward £0.52M. Full details of this carry forward will be included in the General Fund Revenue Outturn Report 2017/18 that will go to Council on 18 th July 2018.																		
	GENERAL FUND BALANCE AND RESERVES																		
8.	The General Fund balance stands at £11.3M, which is the approved minimum level as per the February 2018 Medium Term Financial Strategy (MTFS).																		
9.	The Council maintains a number of useable reserves, as detailed in the Balance Sheet.																		
10.	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. Full details can be found on page 17 of the Final Accounts.																		

HOUSING REVENUE ACCOUNT (HRA)																			
11.	<p>The table on page 14 of the Final Accounts presents the HRA expenditure and income in a format that shows the net expenditure compared to budget. The budget for the year was set at £1.0M deficit which was the actual outturn position for the year. The HRA balance at 31 March 2018 is £2M.</p> <p><u>Table 2 – HRA Outturn Variance 2017/18</u></p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">(Under)/ Over Spend £M</th> </tr> </thead> <tbody> <tr> <td>Increase in Repairs</td> <td style="text-align: right;">2.20</td> </tr> <tr> <td>Increase in Supervision & Management</td> <td style="text-align: right;">0.21</td> </tr> <tr> <td>Reduction in Capital Financing Charges</td> <td style="text-align: right;">(0.64)</td> </tr> <tr> <td>Variation on day to day services</td> <td style="text-align: right;">1.77</td> </tr> <tr> <td>Reduction in Capital Funding from Direct Revenue Financing and Depreciation</td> <td style="text-align: right;">(1.56)</td> </tr> <tr> <td>Total Income</td> <td style="text-align: right;">(0.21)</td> </tr> <tr> <td>Total Variation</td> <td style="text-align: right;">0.00</td> </tr> </tbody> </table>		(Under)/ Over Spend £M	Increase in Repairs	2.20	Increase in Supervision & Management	0.21	Reduction in Capital Financing Charges	(0.64)	Variation on day to day services	1.77	Reduction in Capital Funding from Direct Revenue Financing and Depreciation	(1.56)	Total Income	(0.21)	Total Variation	0.00		
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CAPITAL EXPENDITURE																			
12.	<p>In 2017/18 the Council spent £62.43M on capital projects, (£30.44M General Fund expenditure, and £31.99M HRA expenditure).</p> <p>This was £31.12M less than the latest approved estimates, largely due to re-phasing and slippage of expenditure which will now be incurred in 2018/19.</p>																		
13.	<p>The capital outturn position for 2017/18 will be reported to Council in July. This report will contain further details of variances, including setting out how the expenditure has been financed.</p>																		
THE COLLECTION FUND																			
14.	<p>There is an overall surplus on the Collection Fund of £5.93M to be carried forward into 2018/19. The following table shows how the surplus has been derived:</p>																		
<u>Table 3 – Collection Fund Outturn 2017/18</u>																			
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	<u>Council Tax</u>
15.	The council tax element of the Collection Fund had a deficit for the year of £1.45M, against an expected deficit of £2.07M. This improved position resulted in the balance to be carried forward of £2.39M, rather than £1.77M.
16.	When setting the Council Tax and budget for 2018/19 in February 2018, the expected surplus to be carried forward of £1.77M was taken into account. This leaves a surplus of £0.62M that will be carried forward to 2018/19 to be shared between the council, the Police and Crime Commissioner, and Hampshire Fire & Rescue Authority 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 and budget for 2019/20.
	Non Domestic Rates (NDR)
17.	The NDR element of the Collection Fund had a deficit for the year of £2.64M against an expected deficit of £4.74M. This improved position has resulted in a balance to be carried forward of £3.54M rather than £1.44M
18.	When setting the Council Tax and budget for 2018/19 in February 2018, the expected NDR surplus to be carried forward of £1.44M (the Council's share of this surplus was £0.70M) was taken into account in setting the 2018/19 budget for the council. The additional surplus of £2.10M, will be carried forward to 2018/19, to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%).
	PENSIONS
19.	In 2017/18 the Council paid an employer's contribution of £24.5M into Hampshire County Council's Pension Fund. The employer's rate set for 2017/18 was 14.1% 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.
20.	The Council's share of the assets in the Hampshire County Council pension fund at 31 st March 2018 was £793.41M, compared to its estimated liabilities of £1,257.7M, giving an estimated deficit on the Fund of £464.3M (£425.0M in 2016/17). The increase is due to changes in the actuarial assumptions used in relation to demographics, financial and experience.
21.	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
22.	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.
23.	The Accounting Policies are described in detail on pages 29 to 40 of the Financial Statements and cover such items as: <ul style="list-style-type: none"> • Property, Plant and Equipment • Depreciation • Heritage Assets

	<ul style="list-style-type: none"> • Pensions • Accruals • PFI contracts • VAT <p>There have been no significant changes to the Accounting Policies in 2017/18.</p>
24.	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>	
25.	The capital and revenue implications are considered as part of outturn reports that will be presented to Council in July.
<u>Property/Other</u>	
26.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
27.	Accounts and Audit Regulations 2015.
<u>Other Legal Implications:</u>	
28.	None
RISK MANAGEMENT IMPLICATIONS	
29.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
30.	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?	Yes/No
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	Draft Unaudited Financial Statements 2017/18.
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/No
Data Protection Impact Assessment	

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		Yes/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	