DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	STATEMENT OF ACCOUNTS 2011/12
DATE OF DECISION:	25 SEPTEMBER 2012
REPORT OF:	HEAD OF FINANCE & IT (CHIEF FINANCIAL OFFICER)
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2011/12, which were signed by the Chief Financial Officer (CFO) on 29 June 2012, are submitted for approval to the Governance Committee. The statutory deadline for approving the accounts is the 30 September. The accounts that have been submitted for approval have been the subject of the Annual Audit and reflect all agreed amendments to date.

Under 8.3(c) of the Regulations after approval the accounts must be signed and dated by the person presiding at the meeting. However, as the Audit has not been formally signed off there may be some late changes which will be reported to the Governance Committee after the completion of the Audit on 30 September 2012.

RECOMMENDATIONS:

It is recommended that the Governance Committee:

(i) Approve the Statement of Accounts 2011/12 and that they be signed by the person presiding at the meeting subject to any changes required after the completion of the Audit.

(ii) Approve, if necessary, any changes required to the draft accounts following the completion of the Annual Audit; a schedule of which will be provided.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement to that the Statement of Accounts 2011/12 be approved and signed by the person presiding at the meeting, subject to any changes required after the completion of the Audit, by 30 September 2012.

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 person presiding at the meeting to approve the Financial Statements by 30 September.

DETAIL (Including consultation carried out)

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 the Committee are detailed below.

CHANGES TO THE 2011/12 ACCOUNTS

5. The main changes to the 2011/12 Accounts are:
   - The adoption of FRS (Financial Reporting Standard) 30 Heritage Assets within the Financial Statements; and
   - The full disclosure of the £12M Equal Pay Provision, provided in the 2009/10 Statements, which was previously redacted.

6. **Heritage Assets** - The adoption of FRS 30 Heritage Assets, which is a change in accounting policy, requires the Council to restate the previous year's Balance Sheet and Comprehensive Income and Expenditure Account for the impact of including Heritage Assets on the Balance Sheet as if they had always been accounted for on this basis. As required by the Code of Practice the Balance Sheets as at 1 April 2010 and 31 March 2011 have been restated.

7. There is no discernable impact on the prior years Comprehensive Income and Expenditure Account, as noted in our Accounting Policy, the only Heritage Assets brought onto the Balance Sheet are the Works of Art valued at £190M which are considered to have an infinite life and the reclassification of some Historic Buildings and Ancient Monuments from Property, Plant and Equipment to Heritage Assets of approximately £5.5M including:
   - The Tudor House Museum;
   - Gods House Tower;
   - The Bargate;
   - The Wool House;
   - Tudor Merchants Hall; and
   - Town Walls and various Vaults

8. **Equal Pay Provision** - The Council raised a £12M Equal Pay Provision in the 2009/10 Financial Statements which was not fully disclosed in either the 2009/10 or the 2010/11 Financial Statements on the grounds that, the Monitoring Officer felt that to disclose the information would seriously prejudice the Council's position with regard to ongoing litigation.

9. The £12M Capitalisation Direction received was fully utilised in 2009/10, financing the Equal Pay provision over the maximum period allowed of 20 years. Although the Equal Pay provision was redacted from the 2009/10 and the 2010/11 Financial Statements, the Minimum Revenue Provision was calculated having taken into account the capital financing requirement arising from the capitalisation direction.

10. These changes have had no effect on the General Fund balances available to the authority or on Council Tax.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

11. The Financial Statements present 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 4 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 £1.5M.

However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2012. Compared to this working budget, the Council's actual expenditure for the year is £6.9M under budget and this is made up as follows:

	£000's
Reductions in Portfolio Spending	3,833
Reduced Net Borrowing Costs Due to Lower Interest Rates and Re-phasing of the Capital Programme	129
Exceptional Income – VAT	2,746
Other Variations	215
Total	**6,923**

12. Against this are requests to carry forward budget of £786,000 (of which £521,000 relates to central repairs and maintenance) which were approved by Council in July 2012. Further draws on the overall favourable position of £6.7M (approved by Full Council) include:

- Organisational Development Reserve (£2.2M) – Every year as part of the outturn position officers review the funding within the strategic reserve to deal with organisational change. It is proposed this year given the overall under spend to contribute an additional £2.2M into the Organisational Development Reserve which is used for restructuring, re-training, additional HR resourcing, redeployment and redundancy costs in future years. Of this sum £0.8M is required to meet the costs associated with the ongoing work to implement Equal Pay. This will increase the total sum set aside in the Organisational Development Reserve in 2012/13 to almost £7.3M.

- Change Programme (£1.0M) – The Change Programme was approved by Cabinet on 21 November 2011. The aim of the Programme, which compromises a number of major pieces of work, is to ensure that the Council responds to the enormous changes facing the public sector and transforms the way we do business, reducing our costs and becoming a fit for purpose organisation by 2015. In order to help provide capacity and investment where required to take these major pieces of work forward, it is proposed that £1.0M of the under spend from 2011/12 is set aside for this purpose to be allocated by the Change Programme Steering Group on a business case basis. This will increase the total sum set aside to fund the Change Programme to almost £2.5M, an element of which is already committed.
- Marlands House Vacation (£1.0M) – Work associated with the implementation of the Accommodation Strategy (including the major works associated with the civic centre) is underway, and we are now looking to the next phase of the Strategy. Further rationalisation of office accommodation can be achieved as a result of vacating Marlands House, delivering ongoing revenue savings and avoiding future capital spending commitments. However, additional one off revenue funding is required to facilitate this and it is proposed that £1.0M of the under spend from 2011/12 is added to the Strategic Reserve to ensure that this can be achieved.
- Interest Equalisation Reserve (£1.0M) – In achieving interest rate savings, the Council has exposed itself to variable interest rate risk and whilst in the current climate of low interest rates this is obviously a sound strategy, at some point when the market starts to move the Council will need to act quickly to lock into fixed long term rates. It was therefore recommended in the February 2009 Treasury Management Strategy report to Full Council that an Interest Equalisation Reserve be created from the savings arising from the switch to lower rate variable interest rate debt, and maintained at a prudent level to help to manage volatility in the future and ensure that there is minimal impact on annual budget decisions. It is recommended that an additional £1.0M is added to the Interest Equalisation Reserve to ensure that adequate provision is made for the future increase in interest costs associated with the ongoing utilisation of variable interest rates. This will increase the total sum set aside in the Interest Equalisation Reserve to almost £3.1M.
- Additional Contribution to DRF Funding (£0.3M) – It is forecast that additional capital expenditure of £0.3M in relation to SeaCity will need to be funded in 2012/13. It is proposed to fund this from revenue and utilise an element of the 2011/12 under spend for this purpose.

GENERAL FUND BALANCES

13. The General Fund balance stands at £23.5M and is used as a working balance and to support future spending plans. This compares to a balance of £17.4M at the end of 2010/11.

14. Commitments were proposed which following approval by Council in July left an uncommitted value of balances totalling £5.5M in the medium term.

15. At this time the Executive, having considered additional priorities that they wished to progress in the current year, put forward proposals for new one off expenditure in 2012/13. These initiatives which were approved by Council totalled £240,000 and will be funded from balances. The Chief Financial Officer (CFO) recommends that the minimum level of the General Fund Balance should be £5.0M, which has been derived by looking at a risk-based approach to the overall General Fund Revenue Account and after funding these one off spending proposals they will reduce to £5.3M.

HOUSING REVENUE ACCOUNT (HRA)

16. The table on page 6 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 that the budget assumed a surplus of £472,000. Actual net expenditure for the year is a surplus of £998,000 which compared to the budgeted deficit results in an under spend of £526,000. This is made up as follows:

	£000's
Net Saving on Total Repairs	172
Savings on Supervision & Management	359
Increase in Direct Revenue Financing	(71)
Reduction in Capital Financing Charges	103
Reduction in Dwelling Rent Income	(39)
Other Variances	2
Total	**526**

17. The Localism Act which passed into law in November 2011 enabled the reform of council housing finance. The HRA subsidy system has now been abolished and replaced with self-financing whereby authorities support their own housing stock from their own income. This reform required a readjustment of each authority's housing-related debt based on a valuation of its council housing stock. The Department for Communities and Local Government's (CLG) issued the final Settlement Payment Determination in February 2012.

18. As the Council's debt level generated by the housing reform model was higher than the Subsidy Capital Financing Requirement (SCFR), the Council was required to pay the CLG the difference between the two, which was £73.8M. This payment was funded through new borrowing from the Public Works Loan Board (PWLB)

CAPITAL EXPENDITURE

19. In 2011/12 the Council spent £102.0M on capital projects. This was £14.8M less than the approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2012/13. Of this expenditure £79.9M related to the General Fund and £22.1M to the HRA.

THE COLLECTION FUND

20. The Collection Fund had a deficit for the year of £2.4M. There was a surplus brought forward from 2010/11 of just under £4.1M, to give a surplus to be carried forward of £1.7M. When setting the Council Tax for 2012/13 in February 2012, it was estimated that there would be a surplus of £435,800 to be carried forward.

21. This estimated surplus was taken into account in setting the 2012/13 Council Tax and was shared by the City Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority in proportion to the precepts levied by each authority in 2011/12. This leaves a surplus of £1.2M that will be carried forward to 2012/13 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 the Council Tax for 2013/14 is set.

PENSIONS

22. In 2011/12 the Council paid an employer's contribution of £23.3M into Hampshire County Council's Pension Fund. The employer's rate in 2010/11 was 19.1% of employees' pay. The rate set for 2011/12 to 2013/14 is 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 is equivalent to 6.0% of the value of the payroll as at 31 March 2010.

23. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2012 was £484.0M, compared to its estimated liabilities of £868.5M, giving an estimated deficit on the Fund of £384.5M (£303.5M in 2010/11).

24. 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 POLICIES

25. 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.

26. The Accounting Policies are described in detail on pages 16 to 33 of the Financial Statements and cover such items as:

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

The Governance Committee will be asked to review the policies adopted and note the new Heritage Asset policy adopted for 2011/12 under 'Accounting Issues and Developments' on page 9. However, it should be borne in mind that the majority of the accounting policies adopted by the Council are in line with CIPFA's Code of Practice on Local Authority Accounting (the CODE) and the Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.

FINANCIAL STATEMENTS AMENDMENTS

27. There were a number of mainly presentational, and additional disclosure adjustments to the Draft Financial Statements signed by the CFO on 29 June 2012 and presented for Audit.

28. The latest Draft Financial Statements along with full details of any changes made are available in Members rooms on request from the report author, the main adjustments were:

- <u>Grants and Contributions (Note 42)</u> - £209k amendment to amounts received in year (no Balance Sheet or Comprehensive Income and Expenditure Statement (CIES) impact) and the related impact on the Cash Flow Statement and Notes.
- <u>Cash Flow Statement and Notes</u> - In addition to the amendment required due to the Grants and Contributions adjustment above, minor adjustments required with respect to Agency Creditors (plus - £9k) and Cash Flows from Financing Activities (minus £9k), and Depreciation (minus - £630k) and Impairment (plus £630k).
- <u>Collection Fund</u> - £67k reduction to Income Collectable from Business Ratepayers offset by reduction to Payment to the National Pool (late adjustment to the NNDR3 Return).
- <u>HRA Property Plant and Equipment (PP&E)</u> - A Balance Sheet adjustment was required between PP&E (minus - £388k) and the Capital Adjustment Account (plus £388k) with respect to HRA PP&E being overstated by £388k. Although, there is no impact on the Council's retained reserves, adjustments were also required to the CIES, the Movement in Reserves Statement (MIRS) and the related disclosure note; the Cash Flow Statement and related disclosure notes; the HRA CIES and related notes; and the Amounts Reported for Resource Allocation Decisions disclosure.

- Sundry Debtors and the Capital Adjustment Account (CAA) - Sundry Debtors and the CAA required amendment due to an overstatement of approximately £4.4M within Sundry Debtors;
- Surplus Assets (PP&E) - Balance Sheet adjustments were required between Surplus Assets (minus £8.5M, and minus £4.9M) and Investment Property Assets (plus - £8.5M) and Assets Held for Sale (plus £4.9M). This is because surplus Investment Property Assets should continue to be treated as Investment Property and surplus assets held for sale i.e. those surplus assets that are actively being marketed and are likely to be sold within the next 12 months, should be categorised as such. (Additional disclosure note added as none previously recognised).
- Explanatory Forward and Exceptional Items - Additional disclosure added to Explanatory Forward and Exceptional Items Note 6 with regard to the £73.8M HRA Self Financing Settlement paid to the Department for Communities and Local Government (DCLG) and the related PWLB Loans.

29. The Annual Governance Report prepared by the Audit Commission is on the Agenda for consideration and the high level findings are that an unqualified opinion has been issued in relation to both the Financial Statements and the arrangements in place to secure value for money.

RESOURCE IMPLICATIONS

Capital

30. The capital implications were considered as part of the Capital Outturn report presented to Council on 11 July 2012.

Revenue

31. The revenue implications were considered as part of the Revenue Outturn report that was presented to Council on 11 July 2012.

Property/Other

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

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

33. Accounts and Audit Regulations 2011

Other Legal Implications:

34. None.

POLICY FRAMEWORK IMPLICATIONS

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

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KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	
2.	

Documents In Members' Rooms

1.	Latest Draft Financial Statements 2011/12
2.	Schedule of Changes Made to Draft Financial Statements Signed by CFO on 30 June 2012

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No

Other Background Documents

Integrated 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.		
2.		