DECISION-MAKER:		COUNCIL		
SUBJECT:		FINANCIAL STATEMENTS FOR 2013/14		
DATE OF DECISION:		16 JULY 2014		
REPORT OF:		CHIEF FINANCIAL OFFICER		
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2013/14 were signed by the Chief Financial Officer (CFO) on 30 June 2014. The Financial Statements will be submitted to the Governance Committee on 15 September 2014. A copy of the draft unaudited Financial Statements is available in the Members Room.

Presenting the accounts at this time means that the Annual Audit, carried out by our auditors Ernst & Young, will not have been completed. Any major changes to the Financial Statements arising from the annual audit will be reported to the Governance Committee after the completion of the audit on 30 September 2014.

RECOMMENDATIONS:

It is recommended that Council:

(i) Notes that the Financial Statements 2013/14 have been signed by the CFO.

(ii) Notes that the approval of the Financial Statements 2013/14 by the Governance Committee will take place on 15 September 2014, subject to any changes required after the completion of the Audit. Any such changes will be presented to the Governance Committee.

(iii) Notes the revised statement on the Minimum Revenue Provision Policy as set out in paragraphs 7-13.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement that the CFO signs the Financial Statements by 30 June 2014 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*'.

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 by 30 June.

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 Council are detailed below.

ACCOUNTING ISSUES AND DEVELOPMENTS

5. The Main Accounting Issues and Developments are:
   - Strategic Services Partnership with Capita;
   - Minimum Revenue Provision;
   - Non-Domestic Rate Income;
   - Universal Credit

Strategic Services Partnership with Capita

6. The ten year Strategic Services Partnership contract with Capita, entered into on 1 October 2007, was subject to extensive renegotiations in 2013/14, resulting in significant savings, and benefits, and an extension of the contract for an additional five years in accordance with the original agreement.

Minimum Revenue Provision (MRP)

7. As set out in the Treasury Management Strategy Report 2013/14 to Council in February 2013 advice was to be sought on whether the Council's approach to accounting for MRP was in accordance with MRP guidance; primarily this was in relation to the MRP treatment of the debt transferred from Hampshire County Council when the Council became a Unitary Authority.
8. Further to this the Treasury Management Strategy Report 2014/15 to Council in February 2014 set out that discussions were ongoing with the External Auditors with respect to reducing our MRP charge in 2013/14 by approximately £4.5M (of which £3.9M relates to prior years) as we believed we had overprovided against

our annual MRP policy of setting aside the MRP required by statute / DCLG guidance. This change in treatment has now been applied and further detail is set out below.

9. Each year local authorities are required to set aside some of their revenue for the provision of debt. This is known as the MRP. The provision must be prudent but the regulations governing these arrangements do not define what "prudent provision" is. And while there is guidance on MRP produced by the government, it is made clear that it is the local authority's decision as to what a prudent level of provision is.

10. An issue for Southampton City Council has arisen as a result of MRP calculation on borrowing that is mainly associated with debt transferred from Hampshire County Council to Southampton when it became a unitary authority in 1997. With the implementation of the prudential framework in 2004, the objective was that the move from the former MRP scheme to the new arrangements should not increase a local authority's MRP liability. The mechanism for achieving neutrality between the old and the new system is known as "Adjustment A". Consistent with the guidance, the original adjustment in 1 April 2004 was based on the value of the debt at that time. Following that, in the interests of prudence, the adjustment was reduced each year in line with the actual debt outstanding. This had the effect of increasing the amount of minimum revenue provision for each financial year.

11. A review of the Council's calculation of the MRP has taken place and, following consideration of the guidance, the view is that this was not the appropriate approach. This is because the guidance states that the, "Adjustment A" should not be varied from year to year. With this in mind the Council is justified in recalculating its MRP retrospectively. Additionally, the guidance states that if the calculation of the MRP results in an anomalous or disadvantageous result if may modify its approach to achieve the intended neutrality.

12. In this case, by being "overly prudent" in the past, the Council has provided for a greater charge from the general fund to MRP. With the benefit of hindsight, this was not the most appropriate course of action and it is considered that action to adjust the position is justified.

13. To resolve this, the Council has recalculated the MRP for the years 2006/07 to 2013/14, using the value attributed to "Adjustment A" in 2004/05 which gives a cumulative reduction in the Council's MRP of £4.5m (£3.9m relates to prior years). The MRP for 2013/14 has therefore been reduced by £4.5m.

Non-Domestic Rate Income (NNDR)

14. From 1 April 2013 the arrangements in respect of NNDR changed from a position where the Authority purely collected business rates on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies, (Hampshire Fire and Rescue Authority (HFRA) in Southampton's case). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment. Risks of non-collection include rates billed from 1 April, those not yet collected from

prior years and appeals that were not resolved before that date.

15. The Council, in preparing the 2013/14 NNDR 1 return to Government of the estimate of the projected income for the year, significantly underestimated, along with a large number of councils across the country, the impact of potential losses for prior years' appeals as at 31 March 2013 at £5.8M.

16. A detailed analysis of refunds made over a number of years, and appeals yet to be settled, indicated that the starting appeals provision for 2013/14 should have been approximately £21.4M, of which £14.1M related to prior years' appeals.

17. This underestimate of the starting appeals provision, along with a substantial reduction to Southampton's rateable value, has resulted in an NNDR Collection Fund deficit in 2013/14 of approximately £17.8M of which Southampton's share is £8.7M (49%). The Council has opted not to spread the impact of the appeals provision over five years, as allowed under the recently laid regulations, resulting in a safety net payment to the Council of approximately £1.6M.

Universal Credit

18. 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 & Customs (HMRC) and Local Authorities. This includes Housing Benefit currently paid by Local Authorities.

19. 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 2013/14 amounted to approximately £40M.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

20. 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 addition to reserves of £4.1M.

21. However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2014. Compared to this working budget the Council's actual expenditure for the year is £11.8M under budget and this is made up as follows:

	(Under) / Over Spend £000's
Portfolio Total	**(6,207)**
Levies & Contributions	(2)
Capital Asset Management	(127)
Other Expenditure & Income	(984)
NET GF SPENDING BEFORE MRP ADJUSTMENT	**(7,320)**
MRP adjustment	(4,527)
NET GF SPENDING	**(11,847)**

22. Against this are requests to carry forward budget of £2,067,100 (of which £528,100 relates to central repairs and maintenance) which will be subject to approval by Council.

GENERAL FUND BALANCES

23. The General Fund balance stands at £53.4M and is used as a working balance and to support future spending plans. This compares to a balance of £29.9M at the end of 2012/13.

24. Commitments have been proposed which subject to approval by Council will leave an uncommitted value of balances totalling £9M in the medium term which is £3.5M above the minimum level recommended by the CFO following a risk assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

25. 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 deficit of £962,000. Actual net expenditure for the year is a deficit of £1,011,000 which compared to the budgeted deficit results in an over spend of £49,000. This is made up as follows:

	£000's
Increase in Repairs	617
Savings on Supervision & Management	(882)
Reduction in Capital Financing Charges	(828)
Other Variances	145
Variation on day to day services	**(948)**

Increase in Capital Funding from Direct Revenue Financing and Depreciation	997
Total Variation	**49**

CAPITAL EXPENDITURE

26. In 2013/14 the Council spent £77.4M on capital projects. This was £12.7M less than the latest approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2014/15. Of this expenditure £46.8M related to the General Fund and £30.6M to the HRA.

27. The General Fund Capital Outturn 2013/14 and the Housing Revenue Account Revenue and Capital Outturn 2013/14 reports elsewhere on the Council Agenda contain further details, including setting out how it is proposed that this expenditure is financed.

THE COLLECTION FUND

28. The Total Collection Fund deficit for the year is £16.7m. A year end surplus on Council Tax of £1.1M and a year end deficit of £17.8M on NNDR. There was a Council Tax surplus brought forward from 2012/13 of just over £1.5M, to give a Collection Fund deficit to be carried forward of just under £15.2M.

Council Tax

29. The Council Tax element of the Collection Fund had a surplus for the year of £1.1M. There was a surplus brought forward from 2012/13 of just over £1.5M, to give a surplus to be carried forward of just over £2.6M.

30. When setting the Council Tax for 2014/15 in February 2014, it was estimated that there would be a surplus of £2.1M to be carried forward. This estimated surplus was taken into account in setting the 2014/15 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 2013/14. This leaves a surplus of £530,400 that will be carried forward to 2014/15 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 2015/16 is set.

NNDR

31. The NNDR element of the Collection Fund had a deficit for the year of £17.8M. As 2013/14 is the first year of Business Rate Retention there were no brought forward balances giving a deficit to be carried forward of just over £17.8M.

32. When setting the Council Tax for 2014/15 in February 2014, it was estimated that there would be an NNDR deficit of £17.6M to be carried forward. The Council's share of the deficit (£8.6M) was taken into account in setting the 2014/15 Council. This leaves a deficit of £154,300 that will be carried forward to 2015/16 to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%)

PENSIONS

33. In 2013/14 the Council paid an employer's contribution of £20.4M into Hampshire County Council's Pension Fund. The employer's rate set for 2011/12 to 2013/14 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.

34. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2014 was £558.4M, compared to its estimated liabilities of £889.8M, giving an estimated deficit on the Fund of £331.4M (£418.2M in 2012/13).

35. 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

36. 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.

37. The Accounting Policies are described in detail on pages 16 to 30 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 2013/14 were the removal of non-material accounting policies and amendment to the Pensions Policy to incorporate the IAS19 changes. The Governance Committee will be asked to review the policies adopted.

38. 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>

39. The capital implications are considered as part of the Capital Outturn report that

is presented elsewhere on the Agenda. The revenue implications are considered as part of the Revenue Outturn report that is presented elsewhere on the Agenda.

Property/Other

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

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

41. Accounts and Audit Regulations 2011.

Other Legal Implications:

42. None.

POLICY FRAMEWORK IMPLICATIONS

43. 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:	

SUPPORTING DOCUMENTATION

Appendices

1.	
2.	

Documents In Members' Rooms

1.	Draft Unaudited Financial Statements 2013/14 http://www.southampton.gov.uk/council-partners/decisionmaking/soa/statement_of_accounts_1314.aspx
2.	

Equality Impact Assessment

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

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.		
2.		