

<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>		
<b>SUBJECT:</b>	<b>DRAFT FINANCIAL STATEMENTS FOR 2018/19</b>		
<b>DATE OF DECISION:</b>	<b>10 JUNE 2019</b>		
<b>REPORT OF:</b>	<b>INTERIM SERVICE DIRECTOR FINANCE AND COMMERCIALISATION (S151)</b>		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>Stephanie Skivington</b>	<b>Tel:</b> <b>023 80832692</b>
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<b>Director</b>	<b>Name:</b>	<b>John Harrison</b>	<b>Tel:</b> <b>023 80834897</b>
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<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			
<b>BRIEF SUMMARY</b>			
<p>In accordance with the Accounts and Audit Regulations 2015 the Financial Statements 2018/19 were signed by the Section 151 (S151) Officer on 15 May 2019 which is earlier than the statutory requirement to have the statements signed by the 31 May 2019. 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 &amp; Young LLP, commenced on 20 May 2019 and is due to be completed by 28 June 2019. Any major changes to the Financial Statements arising from the annual audit will be reported to the 29 July 2019 Governance Committee after the completion of the audit.</p>			
<b>RECOMMENDATIONS:</b>			
	(i)	Notes that the Draft Financial Statements 2018/19 have been signed by the S151 Officer and are now brought to Committee for comment.	
	(ii)	Notes that the audited Financial Statements 2018/19 will be presented to the Committee on 29 July 2019 for approval.	
<b>REASONS FOR REPORT RECOMMENDATIONS</b>			
1.	It is a legal requirement that the S151 Officer signs the Financial Statements by 31 May 2019 and certifies that they present 'a true and fair position of the financial position of the authority at the end of the year to which it relates and of that authority's income and expenditure for that year'. It should be noted that this has again been completed earlier than required, allowing an 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 comment on 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 (if necessary). A full report on the outturn compared to revised budget will be presented to Council in July 2019.		

<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	The Financial Statements have been prepared in accordance with statutory requirements. 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.
<b>DETAIL (Including consultation carried out)</b>	
	<b>FINANCIAL STATEMENTS</b>
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.
	<b>GENERAL FUND REVENUE EXPENDITURE AND INCOME</b>
5.	Within the Financial Statements, the Comprehensive Income and Expenditure Statement (CIES) presents the income and expenditure of the Council in a statutory format which includes notional costs that have no impact on the Council Tax charge. The table on page 11 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. The Council did complete the year with a balanced position and was able to contribute £4.72M to reserves. This was an improvement of £4.14M compared to the position reported in the quarter 3 revenue financial monitoring report.
6.	This position incorporates requests from service areas to carry forward £2.92M. Full details of this carry forward will be included in the General Fund Revenue Outturn Report 2018/19 that will go to Council on 17 July 2019.
	<b>GENERAL FUND BALANCE AND RESERVES</b>
7.	The General Fund balance has reduced to £10.07M, which is the approved minimum level per the February 2019 Medium Term Financial Strategy (MTFS).
8.	The Council maintains a number of useable reserves, as detailed in the Balance Sheet.
9.	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 and a further review undertaken in preparation for the 2020/21 MTFS. Full details can be found on page 16 of the Financial Statements.
	<b>HOUSING REVENUE ACCOUNT (HRA)</b>
10.	The table on page 13 of the Financial Statements presents the HRA expenditure and income in a format that shows the net expenditure compared to budget. The budget for the year was set to break even, which was the actual outturn position for the year. The HRA balance at 31 March 2019 remains at £2.0M.
	<b>CAPITAL EXPENDITURE</b>
11.	In 2018/19 the Council spent £91.39M on capital projects, (£48.16M General Fund expenditure, and £43.24M HRA expenditure). This was £33.46M less than the latest approved estimates, largely due to re-phasing and slippage of expenditure which will now be incurred in 2019/20.

12.	The capital outturn position for 2018/19 will be reported to Council in July. This report will contain further details of variances, including setting out how the expenditure has been financed.																					
	<b>THE COLLECTION FUND</b>																					
13.	There is an overall surplus on the Collection Fund of £6.84M to be carried forward into 2019/20, which is an improvement of £1.35M compared to the revised budget (and an improvement of £1.47M in the share attributable to the Council).																					
	<p>Table 1 – Collection Fund Outturn 2018/19</p> <table border="1"> <thead> <tr> <th></th> <th>Budget £M</th> <th>Actual £M</th> </tr> </thead> <tbody> <tr> <td>NDR (Surplus)/Deficit for Year</td> <td>0.44</td> <td>(1.82)</td> </tr> <tr> <td>Council Tax (Surplus)/Deficit for Year</td> <td>0.00</td> <td>0.91</td> </tr> <tr> <td><b>Collection Fund (Surplus)/Deficit in 2018/19</b></td> <td><b>0.44</b></td> <td><b>(0.91)</b></td> </tr> <tr> <td>Collection Fund Surplus B/Fwd from 2017/18</td> <td>(5.93)</td> <td>(5.93)</td> </tr> <tr> <td><b>Collection Fund Surplus C/Fwd to 2019/20</b></td> <td><b>(5.49)</b></td> <td><b>(6.84)</b></td> </tr> <tr> <td>Southampton City Council share</td> <td>(4.04)</td> <td>(5.51)</td> </tr> </tbody> </table>		Budget £M	Actual £M	NDR (Surplus)/Deficit for Year	0.44	(1.82)	Council Tax (Surplus)/Deficit for Year	0.00	0.91	<b>Collection Fund (Surplus)/Deficit in 2018/19</b>	<b>0.44</b>	<b>(0.91)</b>	Collection Fund Surplus B/Fwd from 2017/18	(5.93)	(5.93)	<b>Collection Fund Surplus C/Fwd to 2019/20</b>	<b>(5.49)</b>	<b>(6.84)</b>	Southampton City Council share	(4.04)	(5.51)
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	<b>RETIREMENT BENEFITS</b>																					
14.	In 2018/19 the Council paid an employer's contribution of £29.90M into the Hampshire County Council Pension Fund. The employer's rate set for 2018/19 was 15.1% 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.																					
15.	The Council's share of the assets of the Hampshire County Council Pension Fund at 31 March 2019 was £874.96M, compared to its estimated liabilities of £1,319.80M, giving an estimated deficit on the Fund of £444.84M (£464.29M in 2017/18). The reduction is due to an increase in the value of assets, together with changes in the actuarial assumptions used in relation to demographics, financial and experience.																					
16.	The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.																					
17.	Two pension contingent liabilities have been disclosed within the Financial Statements. Firstly, if the government is unsuccessful in appealing the 'McCloud/Sargeant' judgement this is expected to increase the Council's pension liability by around £2.2M to £4.4M. Secondly, the estimated pension liability for the Council of full Guaranteed Minimum Pension indexation and equalisation for members reaching State Pension Age from 6 December 2018 is in the region of £1.33M.																					
	<b>ACCOUNTING AND OTHER POLICIES</b>																					
18.	The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK, which is recognised by statute as																					

	representing proper accounting practice and meets the requirements of the Accounts and Audit Regulations 2015.
19.	<p>The Accounting Policies are described in detail on pages 30 to 42 of the Financial Statements and cover such items as:</p> <ul style="list-style-type: none"> <li>• Property, Plant and Equipment</li> <li>• Employee Benefits</li> <li>• Financial Instruments</li> <li>• PFI contracts</li> </ul> <p>There have been two significant changes to the Accounting Policies in 2018/19, with IFRS 9 <i>Financial Instruments</i> and IFRS 15 <i>Revenue from Contracts with Customers</i> coming into effect from 1 April 2018.</p> <p>IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a 'forward looking' 'expected loss' model for impairment rather than the previous 'incurred loss' model.</p> <p>IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the previous transfer of risk and reward.</p> <p>Both of these changes have been considered as part of the preparation of the Council's Financial Statements for 2018/19 and neither have had a material impact on the accounts. Additional disclosures have been included where necessary.</p>
20.	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.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
21.	The capital and revenue implications are considered as part of outturn reports that will be presented to Council in July.
<b><u>Property/Other</u></b>	
22.	There are no specific property implications arising from this report.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
23.	Accounts and Audit Regulations 2015.
<b><u>Other Legal Implications:</u></b>	
24.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
25.	Not Applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
26.	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 2018/19.

<b>KEY DECISION?</b>	<b>Yes/No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	All
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	None
<b>Documents In Members' Rooms</b>	
1.	Draft Unaudited Financial Statements 2018/19.
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>Yes/No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>Yes/No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	None