DECISION-MAKER:	COUNCIL
SUBJECT:	FINANCIAL STATEMENTS 2011/12
DATE OF DECISION:	11 JULY 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 were signed by the Chief Financial Officer (CFO) on 29 June 2012. The Financial Statements will be submitted to the Governance Committee on 25 September 2012. 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 the Audit Commission, 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 2012.

RECOMMENDATIONS:

It is recommended that Council:

(i) Notes that the Financial Statements 2011/12 have been signed by the Chief Financial Officer.

(i) Notes that the approval of the Financial Statements 2011/12 by the Governance Committee will take place on 25 September, subject to any changes required after the completion of the Audit. Any such changes will be presented to the Governance Committee.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement that the Chief Financial Officer (CFO) sign the Financial Statements by 30 June 2012 and certify that they present:

   '*a true and fair view 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.

CHANGES TO THE 2011/12 ACCOUNTS

5. The main changes to the 2011/12 Accounts are:

   - The adoption of Financial Reporting Standard (FRS) 30 Heritage Assets within the Financial Statements; and
   - The full disclosure of the Equal Pay Provision, provided for 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. 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 a number of Historic Buildings and Ancient Monuments which have been reclassification from Property, Plant and Equipment to Heritage Assets. These reclassified assets are valued at approximately £5.5M and include:

   - The Tudor House Museum;
   - Gods House Tower;
   - The Bargate;
   - The Wool House;
   - Tudor Merchants Hall; and
   - Town Walls and various Vaults

7. **Equal Pay Provision** - The Council raised a £12M Equal Pay Provision in the 2009/10 Financial Statements. This 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. For the 2011/12 Financial Statements the Council is disclosing the provision in full and the Balance Sheets have been restated accordingly.

   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.

8. These changes have had no effect on the General Fund balances available to the authority or on Council Tax in 2011/12.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

9. 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**

10. Against this are requests to carry forward budget of £786,000 (of which £521,000 relates to central repairs and maintenance) which will be subject to approval by Council. Further draws on the overall favourable position of £6.9M (subject to approval 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. 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 short term 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

11. 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.

12. Commitments have been proposed which subject to approval by Council will leave an uncommitted value of balances totalling £5.5M in the medium term which is £0.5M above the minimum level recommended by the CFO following a risk assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

13. 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 £0.5M. Actual net expenditure for the year is a surplus of £1.0M which compared to the budgeted surplus results in an under spend of just over £0.5M. 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**

14. 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.

15. 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

16. 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

17. 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.

18. 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

19. 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.

20. 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).

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 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 2011.

23. The Accounting Policies are described in detail on pages 15 to 32 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.

RESOURCE IMPLICATIONS

Capital/Revenue

24. 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

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

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

26. Accounts and Audit Regulations 2011.

Other Legal Implications:

27. None.

POLICY FRAMEWORK IMPLICATIONS

28. 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.

AUTHOR:	Name:	Alison Chard	Tel:	023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk		

SUPPORTING DOCUMENTATION

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

Appendices

1.	None

Documents In Members' Rooms

1.	Draft Unaudited Financial Statements 2011/12

Integrated Impact Assessment

Do the implications/subject/recommendations in the report require an Integrated Impact Assessment to be carried out.	No

Other Background Documents

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	

Integrated Impact Assessment and Other Background documents available for inspection at:

WARDS/COMMUNITIES AFFECTED:	None