DECISION-MAKER:		COUNCIL		
SUBJECT:		FINANCIAL STATEMENTS FOR 2012/13		
DATE OF DECISION:		17 JULY 2013		
REPORT OF:		HEAD OF FINANCE & IT (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 2012/13 were signed by the Chief Financial Officer (CFO) on 28 June 2013. The Financial Statements will be submitted to the Governance Committee on 23 September 2013. 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 newly appointed 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 2012.

RECOMMENDATIONS:

It is recommended that Council:

(i) Notes that the Financial Statements 2012/13 have been signed by the Chief Financial Officer.

(ii) Notes that the approval of the Financial Statements 2012/13 by the Governance Committee will take place on 23 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) signs the Financial Statements by 30 June 2013 and certifies 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 2012/13 ACCOUNTS

5. There were no major changes to the 2012/13 Accounts. However, there are a number of Future Changes in Local Government Finance which will impact on the Financial Statements from 2013/14 onwards. These changes are as follows:

   - Technical Reforms of Council Tax;
   - Retention of Business Rates:
   - Localisation of Council Tax Support;
   - Universal Credit;
   - Academy Funding Transfers 2013/14; and
   - Public Health Transfer.

Technical Reforms of Council Tax

6. The Department for Communities and Local Government (DCLG) issued a consultation paper in October 2011 outlining reforms to Council Tax. These changes were included within the Local Government Finance Act 2012 and gave the Council local discretion from April 2013 to make significant changes to the discounts and exemptions that are currently offered on Council Tax , as follows:

   - The application of exemptions to Council Tax to a number of classes of empty property, for example, where improvement works make the building uninhabitable;
   - The introduction of an empty homes premium; and
   - The abolition of the second homes discount.

The Council approved its Local Scheme in January 2013 to apply from 1 April 2013 and took advantage of those changes which will increase the level of Council Tax that is raised and mitigate some of the potential effects of the Localisation changes set out in paragraphs 11 to 13 below.

Retention of Business Rates

7. New arrangements come into force for the Business Rate Retention (BRR) Scheme from 1 April 2013. Historically the Council has purely collected business rates on behalf of Central Government but in the future this income will be shared between Central Government (50%), the Council (49%) and the Hampshire Fire and Rescue Authority (HFRA) (1%).

8. It is recognised that the introduction of BRR whilst offering an incentive to Local Authorities to grow their economies and resulting business rate income, also transfers risks. A reduction in the level of business rates collected below the level assumed and built into the General Fund revenue budget, will directly impact on the Council's bottom line through reduced income. A fall in business rates income could be due to the impact of businesses closing with insufficient new business opening to offset the reduction in rateable value, or it could be due to a higher than anticipated reduction in income due to lost appeals.

9. From 1 April 2013 the Council assume some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. This will include amounts that were paid over to Central Government in respect of 2012/13 and prior years. Previously, such amounts would have been deducted from the total paid to Central Government. However, under the new BRR arrangements Central Government is only liable for 50% of future successful appeals refunds, the Council being liable for 49% and the HFRA for the remaining 1%.

10. In January 2013, the Council were required to submit an estimate (NNDR1 form), to Central Government, of how much they expected to collect in Business Rates in 2013/14. The NNDR1 included an adjustment for future successful appeals of approximately £5.8M, of which the Council is liable for £2.9M. In accordance with CIPFA guidance no provision has been made in the Financial Statements for 2012/13 as the liability does not crystallise until 1 April 2013.

Localisation of Council Tax Support

11. The Comprehensive Spending Review (CSR) 2010 included proposals to localise support for Council Tax from the beginning of the financial year 2013/14. The main change for the Council is that a grant will be paid to the General Fund to replace the funding for Council Tax Benefit paid into the Collection Fund. The major change for recipients is that the grant will cover only around 90% of the current benefits and Local Authorities were expected to introduce revised local benefit schemes that in total reduce benefits by 10% overall, or alternatively fund the reductions through other means. This will not be a uniform reduction as certain recipients, (such as pensioners) are legally excluded from the reduction.

12. A scheme was adopted by Council by the statutory deadline of 31 January 2013, to be implemented from 1 April 2013. The move away from a nationally prescribed scheme for calculating council tax benefit, and the introduction of a local scheme based on a reduction of 10% in the overall grant available from the government brings with it increased risk. One of these risks is that there will be an increase in council tax arrears due to non payment as, some current benefit recipients will be required to pay a higher contribution towards their Council Tax bill or in many cases pay Council Tax for the first time under the new local scheme.

13. Linked to this change is the introduction of the “Universal Credit” a new system for benefit payments, which is to be introduced from October 2013. The financial implications for the Council, who administer Housing Benefit on behalf of the Department for Work and Pensions (DWP), will become clearer as the detailed proposals are developed.

Universal Credit

14. Universal Credit (UC) is one of the key benefit changes introduced by the Welfare Reform Act 2012. This will see the introduction of a single benefit to replace six benefits currently paid by DWP, HM Revenue & Customs (HMRC) and Local Authorities. This includes Housing Benefit which is currently paid by Local Authorities.

15. 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 2012/13 amounted to approximately £40M.

Academy Funding Transfers 2013/14

16. From 2013/14, new funding arrangements for education services will apply for Local Authorities. When a school becomes an Academy, it receives a grant called the Local Authority Central Spend Equivalent Grant (LACSEG) to cover the cost of services previously provided by the Local Authority. The services provided by the Local Authority to schools have previously been funded through a combination of Dedicated Schools Grant (DSG) and Total Formula Grant (TFG). From 2013, the LACSEG for academies and the corresponding element of local government revenue funding will be replaced by the new Education Services Grant (ESG). ESG will be allocated on a simple per-pupil basis to Local Authorities and Academies according to the number of pupils for whom they are responsible.

17. The likelihood is that the number of Academies will increase during 2013/14 and this funding will be reduced accordingly for the Council.

Public Health Transfer

18. The Health and Social Care Act 2012 has provoked the most radical restructure of the National Health Service (NHS) since its inception. As part of its implementation, Primary Care Trusts (PCTs) have been abolished and replaced with Clinical Commissioning Groups (CCG). One of the key outcomes of this move has been to transfer Public Health responsibilities to Local Authorities from 1 April 2013. This places a responsibility on the Council to secure services to prevent disease, prolong life and promote health. To support the commissioning of Public Health services the Council will receive £14.3M as a ring fenced grant in 2013/14and £15.1M in 2014/15.

19. The Director of Public Health has been based within the Council offices for some time, and work to integrate the new responsibilities has now been completed to ensure a smooth transition to the new operating model, with the process being managed through strategic planning and delivery groups and detailed action plans. As the service further embeds the Council will benefit from synergies between existing Council arranged services and those previously secured by Southampton PCT. This is expected to deliver not only cost efficiencies but also better outcomes for residents of Southampton.

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 £3.9M.

21. However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2013. Compared to this working budget, the Council's actual expenditure for the year is £7.4M under budget and this is made up as follows:

	£000's
Reductions in Portfolio Spending	6,093
Reduced Net Borrowing Costs Due to Lower Interest Rates and Re-phasing of the Capital Programme	810
Unused Contingency	344
Other Variations	142
Total	**7,390**

22. Against this are requests to carry forward budget of £926,300 (of which £690,600 relates to central repairs and maintenance) which will be subject to approval by Council.

23. In addition it is proposed to add £300,000 to the General Fund Contingency in 2013/14 (subject to approval by Full Council) to meet possible unplanned pressures in that year.

24. Further draws on the overall favourable position of £7.4M (subject to approval by Full Council) include:

- Pay Reserve (£1.4M) – It is proposed this year to add £1.4M to the Pay Reserve to make provision for any costs that may be incurred in relation to pay related issues. This will increase the total sum set aside in the Reserve in 2013/14 to just over £1.7M.
- Festivals (£50,000) – It is proposed to allocate £50,000 to enable events to be progressed and supported in the City in 2013/14.
- Internships (£25,000) – It is proposed to allocate £25,000 to enable an internship scheme to be developed and implemented in 2013/14.

GENERAL FUND BALANCES

25. The General Fund balance stands at £29.9M and is used as a working balance and to support future spending plans. This compares to a balance of £23.5M at the end of 2011/12.

26. Commitments have been proposed which subject to approval by Council will leave an uncommitted value of balances totalling £10.5M in the medium term which is £5.0M above the minimum level recommended by the CFO following a risk assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

27. 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 £0.3M. Actual net expenditure for the year is a surplus of £0.7M which compared to the budgeted deficit results in an under spend of just over £1.0M. This is made up as follows:

	£000's
Net Saving on Total Repairs	430
Savings on Supervision & Management	1,193
Increase in Direct Revenue Financing	(1,945)
Reduction in Capital Financing Charges	261
Saving on Depreciation	966
Other Variances	103
Total	**1,008**

CAPITAL EXPENDITURE

28. In 2012/13 the Council spent £78.5M on capital projects. This was £9.8M less than the latest approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2013/14. Of this expenditure £54.2M related to the General Fund and £24.3M to the HRA.

29. The General Fund Capital Outturn 2012/13 and the Housing Revenue Account Revenue and Capital Outturn 2012/13 reports elsewhere on the Council Agenda contain further details; including setting out how it is proposed that this expenditure is financed.

THE COLLECTION FUND

30. The Collection Fund had a deficit for the year of £116,300. There was a surplus brought forward from 2011/12 of just over £1.6M, to give a surplus to be carried forward of just over £1.5M.

31. When setting the Council Tax for 2013/14 in February 2013, it was estimated that there would be a surplus of £1.2M to be carried forward. This estimated surplus was taken into account in setting the 2013/14 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 2012/13. This leaves a surplus of £319,400 that will be carried forward to 2013/14 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 2014/15 is set.

PENSIONS

32. In 2012/13 the Council paid an employer's contribution of £20.1M into Hampshire County Council's Pension Fund. The employer's 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.

33. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2013 was £558.6M, compared to its estimated liabilities of £976.8M, giving an estimated deficit on the Fund of £418.2M (£384.5M in 2011/12).

34. 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

35. 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.

36. The Accounting Policies are described in detail on pages 16 to 31 of the Financial Statements and cover such items as:

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

There were no major accounting policy changes in 2012/13. The Governance Committee will be asked to review the policies adopted.

37. 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

Capital/Revenue

38. 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

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

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

40. Accounts and Audit Regulations 2011.

Other Legal Implications:

41. None.

POLICY FRAMEWORK IMPLICATIONS

42. 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.	None

Documents In Members' Rooms

1.	Draft Unaudited Financial Statements 2012/13 http://www.southampton.gov.uk/council-partners/decisionmaking/soa/default.aspx

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/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.	None	