

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	FINANCIAL STATEMENTS FOR 2015/16		
DATE OF DECISION:	6 JUNE 2016		
REPORT OF:	SECTION 151 OFFICER		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
<p>In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2015/16 were signed by the Section 151 (S151) Officer on 13 May 2016 which is earlier than the statutory requirement to have the statements signed by the 30 June. 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 & Young, commenced on 6 June 2016 and is due to be completed by the 15th July 2016. Any major changes to the Financial Statements arising from the annual audit will be reported to the 25th July 2016 Governance Committee after the completion of the audit.</p>			
RECOMMENDATIONS:			
	(i)	Notes that the Draft Financial Statements 2015/16 have been signed by the S151 Officer.	
	(ii)	Notes that the approval of the audited Financial Statements 2015/16 by the Governance Committee will take place on the 25 th July 2016.	
	(iii)	Notes that there is a revision to the statement on the Minimum Revenue Provision Policy as set out in paragraph 42.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	<p>It is a legal requirement that the S151 Officer signs the Financial Statements by 30 June 2016 and certifies that they present '<i>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</i>'. It should be noted that this have again been completed earlier than required this year in recognition that for the financial year 2017/18 it will be a legal requirement to have the accounts certified by 31st May.</p> <p>This has been made possible by significant effort from the Finance Team and due to sound financial management procedures being in place. The draft statements have been brought to the June committee in order to give</p>		

	members further opportunity and time to scrutinise them before final approval. 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.
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 S151 Officer no later than 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 Committee are detailed below.
	ACCOUNTING ISSUES AND DEVELOPMENTS
5.	The main accounting issues and developments are: <ul style="list-style-type: none"> • Sale of Higher Value Vacant Council Homes • Strategic Services Partnership – Capita • Development Company • Property Investment Fund • School National Funding Formula • Outcome Based Budgeting
	<u>Pension Fund Deficit</u>
6.	The deficit on the Pension Fund, as at 31 March 2016, has decreased from £390.7M to £366.8M. Further details are included in paragraphs 36 – 38.
	<u>Sale of Higher Value Vacant Council Homes</u>
7.	On 13th October 2015 the Government published the Housing and Planning Bill 2015/16. This bill sets out a number of proposed changes to Housing legislation which will impact on the current delivery of services to tenants and the resources required to do so. One of these proposed changes relates to the sale of higher value vacant council homes. The Bill will enable the government to set out a definition of 'higher value' homes and will create a duty on local authorities to consider selling homes that meet this definition when they become vacant. The Government intends to use the receipts from these sales to fund the extension of the right to buy scheme to housing association tenants and to create a Brownfield Development fund. The Bill will also allow the government to estimate the amount of money it would expect each individual authority to receive, in each financial year, from sales of higher value homes. Authorities will then be required to pay this amount to the Government. Once full details are published we will be able to review

	the impact on the HRA Business Plan both in the potential number of homes that will be required to be sold and the amount due to be paid to the Government under the annual calculation.
	<u>Strategic Services Partnership – Capita</u>
8.	As part of the overall transformation programme, the Council has been working with our major contract partners on new and innovative approaches to delivering services in the most cost effective and efficient way. Our strategic services partner, Capita, currently delivers our IT, HR (including Learning and Development and payroll services), Customer Services, Procurement and Property Services. A full review of this contract has been undertaken, identifying areas where we believe Capita can provide additional support and other areas where changing circumstances mean that those services may be better delivered in house. In addition to these changes we have sought to re-focus some of the support from Capita particularly in relation to our emerging digital programme and Council wide procurement.
9.	The results of this work were presented to Members at Full Council on Wednesday 16th March 2016, and Members agreed that Property and the strategic element of HR will be brought back into the Council. These services will be reintegrated into the Council during 2016/17.
	<u>Development Company</u>
10.	Cabinet approved at its meeting in April 2015 to undertake the necessary works to set up a wholly owned Development Company (DevCo) which could enable the Council to make maximum use of its assets. Recognising that the Council has a number of sites across the city, both in the city centre and surrounding areas of Council owned accommodation which have the potential to deliver more homes for the city and promote economic growth.
11.	The city's estate regeneration programme is designed to create successful communities to ensure everyone in the city will benefit from this economic growth. The creation of a DevCo would afford the Council new opportunities. One of these will be to increase the supply of new housing across the city. Whilst initially considered in relation to the provision of additional homes in the City, consideration is being given to ensuring that the DevCo is adaptable to deal with all development options.
12.	The structure of the DevCo, governance and financing is currently being finalised but is expected to be in place during 2016/17 to provide an alternative delivery model for development in the City.
	<u>Property Investment Fund</u>
13.	Local Authorities face a difficult financial climate with ever decreasing funding from Central Government. This has led to Councils looking at innovative ways to generate regular revenue streams so they can reduce reliance on Central Government funding.
14.	Many Authorities are now acting to strengthen their funding base and reduce reliance on Government grants by building asset portfolios that provide a commercial return and have made the decision to expand their investment property portfolio, which provides an important and substantial

	Portfolio Total	4.65
	Levies & Contributions	(0.07)
	Capital Asset Management	(2.11)
	Other Expenditure & Income	(4.70)
	Transfers to reserves in year	(0.44)
	Grants	(0.60)
	Transfer to Reserves – Year End Surplus	(3.25)
21.	Against this are requests to carry forward budget of £0.13M. Full details of this carry forward will be included in the General Fund Revenue Outturn Report 2015/16 that will go to Council on 20 July 2016.	
	GENERAL FUND BALANCES AND RESERVES	
22.	The General Fund balance stands at £12.8M. This is a net reduction of £7.13M compared to a balance of £19.9M at the end of 2014/15. This is line with the approved budget for 2015/16.	
23.	The General Fund Balance consists of the following allocations:	
		£M
	Amount Required to support 2016/17 budget	3.9
	Minimum Balance as per Risk Assessment	5.5
	Amount over and above minimum balance	3.4
	Total	12.8
24.	The Council maintains a number of useable reserves, as detailed in the Balance Sheet.	
25.	Within the Medium Term Financial Strategy (MTFS), the financial risks facing the Council in the medium term are identified. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the council.	
26.	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. In closing the accounts for 2015/16 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. Full details can be found on page 14 of the Final Accounts.	
	HOUSING REVENUE ACCOUNT (HRA)	
27.	The Table on page 9 of the Final Accounts presents the Council's	

	expenditure and income in a format that shows the net expenditure within the HRA compared to budget. The budget for the year was set at £0.26M surplus with a breakeven actual outturn position for the year. The HRA working balance at 31 March 2016 remains at £2M.		
28.			£M
	Increase in Repairs		2.2
	Savings on Supervision & Management		(0.3)
	Reduction in Capital Financing Charges		(0.7)
	Variation on day to day services		1.2
	Reduction in Capital Funding from Direct Revenue Financing and Depreciation		(0.9)
	Total Variation		0.3
CAPITAL EXPENDITURE			
29.	In 2015/16 the Council spent £75.89M on capital projects. This was £29.62M less than the latest approved estimates, due largely to re-phasing and slippage of expenditure which will now be incurred in 2016/17. Of this expenditure £37.07M related to the General Fund and £38.82M to the HRA.		
30.	The General Fund Capital Outturn 2015/16 and the Housing Revenue Account Revenue and Capital Outturn 2015/16 will be reported to Council in July. These reports contain further details, including setting out how the expenditure has been financed.		
THE COLLECTION FUND			
31.	There is an overall surplus on the Collection Fund of £9.97M to be carried forward into 2016/17. The following table shows how the surplus has been derived:		
			£M
	NDR Surplus for Year		(2.04)
	Council Tax Deficit for Year		1.12
	Total Surplus on Collection Fund 2015/16		(0.92)
	Collection Fund Deficit B/Fwd 2014/15		(9.05)
	Collection Fund Surplus to C/Fwd 2016/17		(9.97)
<u>Council Tax</u>			
32.	The Council Tax element of the Collection Fund had a deficit for the year of £1.12M. There was a surplus brought forward from 2014/15 of £3.27M, to give a surplus to be carried forward to 2016/17 of £2.15M.		
33.	When setting the Council Tax for 2016/17 in February 2016, it was estimated that there would be a surplus of £1.02M to be carried forward. This estimated surplus was taken into account in setting the 2016/17 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 2015/16. This leaves a surplus of £1.13M that will be carried forward to 2016/17 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 setting the Council Tax for 2017/18.
	<u>NDR</u>
34.	The NDR element of the Collection Fund had a surplus for the year of £2.04M. There was a surplus brought forward from 2014/15 of £5.78M, to give a surplus carried forward of £7.83M.
35.	When setting the Council Tax for 2016/17 in February 2016, it was estimated that there would be an NDR surplus of £6.14M to be carried forward (the Council's share of this surplus of £3M was taken into account in setting the 2016/17 budget for the Council). This additional a surplus of £1.69M, that will be carried forward to 2017/18, to be shared between Central Government (50%), Southampton (49%) and Hampshire Fire and Rescue Authority (1%)
	PENSIONS
36.	In 2015/16 the Council paid an employer's contribution of £22.0M into Hampshire County Council's Pension Fund. The employer's rate set for 2015/16 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 adjusted for Schools transfers and inflation.
37.	The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2016 was £625.2M, compared to its estimated liabilities of £992.1M, giving an estimated deficit on the Fund of £366.8M (£390.7M in 2014/15). This was due to an actuarial loss following a change to their financial assumptions.
38.	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 AND OTHER POLICIES
39.	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.
40.	The Accounting Policies are described in detail on pages 25 to 38 of the Financial Statements and cover such items as: <ul style="list-style-type: none"> • Property, Plant and Equipment • Depreciation • Heritage Assets • Pensions • Accruals

	<ul style="list-style-type: none"> • PFI contracts • VAT <p>The main changes to the Accounting Policies in 2015/16 the update of Basis of Preparation of the accounts Adjustments Between Accounting Basis and Funding Basis and the removal of non-material accounting policies</p>
41.	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.
42.	There has also been an amendment to the MRP policy as outlined in Review of Prudential Limits and Treasury Management Outturn 2015/16 report elsewhere on this Agenda.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
43.	The capital and revenue implications are considered as part of the General Fund Capital Outturn report and the General Fund Revenue Outturn report that will be presented to Council in July.
<u>Property/Other</u>	
44.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
45.	Accounts and Audit Regulations 2011.
<u>Other Legal Implications:</u>	
46.	None.
POLICY FRAMEWORK IMPLICATIONS	
47.	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:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	Draft Unaudited Financial Statements 2015/16.

Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?		Yes/No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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	