DECISION-MAKER:	AUDIT COMMITTEE STANDARDS AND GOVERNANCE COMMITTEE
SUBJECT:	STATEMENT OF ACCOUNTS 2010/11
DATE OF DECISION:	22 SEPTEMBER 2011 28 SEPTEMBER 2011
REPORT OF:	HEAD OF FINANCE (CHIEF FINANCIAL OFFICER)
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2010/11, which were signed by the Chief Financial Officer (CFO) on 30 June 2011, are submitted for approval to the Audit Committee and Standards and Governance Committee. The statutory deadline for approving the accounts has changed from the 30 June to the 30 September.

The accounts that have been submitted for approval have been the subject of the Annual Audit and reflect all agreed amendments to date.

Under 8.3(c) of the Regulations after approval the accounts must be signed and dated by the person presiding at the meeting.

However, as the Audit has not been formally signed off there may be some late changes which will be reported to the Standards and Governance Committee after the completion of the Audit on 30 September 2011.

RECOMMENDATIONS:

AUDIT COMMITTEE

It is recommended that Audit Committee:

(i) Recommend to the Standards and Governance Committee that the 2010/11 Statement of Accounts be approved.

(ii) Review and consider the accounting policies adopted by the authority;

STANDARDS AND GOVERNANCE COMMITTEE

It is recommended that Standards and Governance Committee:

(i) Approve the Statement of Accounts 2010/11 and that they be signed by the person presiding at the meeting subject to any changes required after the completion of the Audit.

(ii) Approve, if necessary, any changes required to the draft accounts following the completion of the Annual Audit; a schedule of which will be provided.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement to that the Statement of Accounts 2010/11 be approved and signed by the person presiding at the meeting, subject to any changes required after the completion of the Audit, by 30 September 2011.

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 person presiding at the meeting to approve the Financial Statements by 30 September.

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 the Committees are detailed below.

CHANGES TO THE 2010/11 ACCOUNTS

5. The Financial Statements for 2010/11 are the first to be prepared on an International Financial Reporting Standards (IFRS) basis, adapted for the public sector by the Code of Practice on Local Authority Accounting (The Code). This has resulted in the restatement of some opening balances and transactions, with the result that some prior year comparative figures in the Financial Statements for 2010/11 are different from the equivalent figures presented in the 2009/10 financial statements.

6. The Accounting Policies applied to the 2010/11 Financial Statements have been reviewed and changed, where appropriate, to comply with IFRS

   The main changes are:

   - **Property, Plant and Equipment** - Property, Plant and Equipment (previously known as fixed assets) ‘have been renamed, reclassified and redefined. The Code also requires changes in the value of investment property to be charged, along with other expenditure and income from investment properties, to the Comprehensive Income and Expenditure Statement.
   - **Cash and cash equivalents** - The definition of Cash and Cash Equivalents has changed and they are now represented by cash in hand, deposit accounts and Money Market Funds which are repayable without penalty on notice of not more than 24 hours.
   - **Government Grants and Contributions** - Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable and any conditions have been met. Previously, unused grants were held in a Capital Grants & Contributions Unapplied account in the Liabilities section of the Balance Sheet until they were expended, at which point they were transferred to Government Grants & Contributions Deferred account and recognised as income over the life of the assets which they were used to fund.

- **Leases Reclassification** - As part of the implementation of IFRS the Council has reclassified a number of Plant and Equipment operating leases to finance leases.
- **Short-Term Accumulating Absences -** The Council has made an accrual for the cost of Teacher's Annual Leave entitlement not taken by the year end, in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) methodology. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. No Accrual has been made in respect of annual leave and flexi-time carried forward by non-teaching staff as this is considered not to be material.

7. These changes have had no effect on the General Fund balances available to the authority or on Council Tax.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

8. 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 contribution from reserves of £3.9M.

However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2011. Compared to this working budget, the Council's actual expenditure for the year is £4.7M under budget and this is made up as follows:

	£000's
Reductions in Portfolio Spending	2,485
Reduced Net Borrowing Costs Due to Lower Interest Rates and Re-phasing of the Capital Programme	1,652
Reduction and Re-phasing of Project Costs (Funded from within the Revenue Development Fund)	235
Unspent Contingencies	211
Other Variations	73
Total	**4,656**

9. Against this are requests to carry forward budget of £629,000 (of which £158,000 relates to central repairs and maintenance) which will be subject to approval by Council. Further draws on the overall favourable position of £4.7M (subject to approval by Full Council) include:

- Revenue Development Fund (£100,000) – In recognition of the fact that there are uncertainties in relation to timing and speed of progress of complex and strategic projects, the funding for these projects has been placed into a Revenue Development Fund from 2010/11 to enable the Council to retain flexibility in funding. The outstanding funding at the end of 2010/11 is £235,200 and it is proposed that £100,000 of this under spend is carried into 2011/12 and added to the Revenue Development Fund.
- Organisational Development Reserve (£3,986,600) – 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 £4.0M into the Organisational Development Reserve which is used for restructuring, re-training, redeployment and redundancy costs in future years.

GENERAL FUND BALANCES

10. The General Fund balance stands at £17.4M and is used as a working balance and to support future spending plans. This compares to a balance of £19.8M at the end of 2009/10.

11. Commitments have been proposed which subject to approval by Council will leave an uncommitted value of balances totalling £4.5M in the medium term which is in line with the minimum level recommended by the CFO following a risk assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

12. 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 £389,000.

Actual net expenditure for the year is a surplus of £34,000 which compared to the budgeted deficit results in an under spend of £423,000. This is made up as follows:

	£000's
Net Saving on Total Repairs	139
Savings on Supervision & Management	287
Savings on Capital Financing	221
Increase in Subsidy Paid to CLG	(101)
Reduction in Dwelling Rent Income	(120)
Other Variances	(3)
Total	**423**

CAPITAL EXPENDITURE

13. In 2010/11 the Council spent £126.8M on capital projects. This was £13.3M less than the approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2011/12. Of this expenditure £93.2M related to the General Fund and £33.6M to the HRA.

THE COLLECTION FUND

14. The Collection Fund had a surplus for the year of £38,100. There was a surplus brought forward from 2009/10 of just over £4.0M, to give a surplus to be carried forward of £4.1M. When setting the Council Tax for 2011/12 in February 2011, it was estimated that there would be a surplus of £3.8M to be carried forward.

15. This estimated surplus was taken into account in setting the 2011/12 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 2010/11. This leaves a surplus of £296,700 that will be carried forward to 2011/12 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 2012/13 is set.

PENSIONS

16. In 2010/11, the Council paid an employer's contribution of £23.0M 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 is 13.1% of employees' pay plus a fixed payment equivalent to 6.0% of the payroll as at 31 March 2010.

17. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2011 was £457.3M, compared to its estimated liabilities of £760.8M, giving an estimated deficit on the Fund of £303.5M (£409.0M in 2009/10).

18. In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases were previously determined by reference to the Retail Price Index (RPI).

19. The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI has resulted in a reduction in the pension liability and therefore the pension deficit on the balance sheet. This £100.7M reduction in liabilities, due to the above change, has been accounted for as a (negative) past service cost, and has been treated as an exceptional item both within the Comprehensive Income and Expenditure Statement £90.8M and the HRA Income and Expenditure Statement £9.9M.

20. 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

21. 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.

22. The Accounting Policies are described in detail on pages 16 to 32 of the Financial Statements and cover such items as:

- Fixed assets
- Depreciation
- Pensions
- Accruals
- PFI contracts
- VAT
- Leasing

The Audit Committee will be asked to review the policies adopted and note the new policies adopted for 2010/11 under 'Accounting Issues and Developments' on pages 9 and 10 of the Financial Statements.

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 Audit Committee and the Standards and Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.

FINANCIAL STATEMENTS AMENDMENTS

23. There were a number of mainly presentational, and additional disclosure adjustments to the Draft Financial Statements signed by the CFO on 30 June 2011 and presented for Audit.

24. The latest Draft Financial Statements along with full details of any changes made are available in Members rooms or on request from the report author but the main adjustments were:

- Amendment to the Cash Flow Statement as not updated for a late adjustment to provisions;
- PFI Future obligations table required to be slightly amended and additional disclosure with respect to Street Lighting payments in 2010/11;
- Financial Instruments disclosures required to be amended as excluded a category of Financial Instrument;
- Events after the Balance Sheet Date – Additional disclosure required with regard to Pooled Budget arrangement with NHS Southampton of £15.2 per annum for 10 years (Integrated Commissioning of Learning Disability Services and financial arrangements);

- Capital Commitments – Additional disclosure with regard to Lordshill Academy of £13.96M; and
- Capital Grants and Contributions Receipts in Advance – Additional disclosure table and note added.

25. The Annual Governance Report prepared by the Audit Commission is on the Agenda for consideration and the high level findings are that an unqualified opinion has been issued in relation to both the Financial Statements and the arrangements in place to secure value for money.

RESOURCE IMPLICATIONS

Capital

26. The capital implications were considered as part of the Capital Outturn report presented to Council on 14 July 2011.

Revenue

27. The revenue implications were considered as part of the Revenue Outturn report that was presented to Council on 14 July 2011.

Property/Other

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

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

29. Accounts and Audit Regulations 2011

Other Legal Implications:

30. None.

POLICY FRAMEWORK IMPLICATIONS

31. 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.

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KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	N/A

SUPPORTING DOCUMENTATION

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

Appendices

1.	None

Documents In Members' Rooms

1.	Latest Draft Financial Statements 2010/11
2.	Schedule of Changes Made to Draft Financial Statements Signed by CFO on 30 June 2011

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No

Other Background Documents

Integrated 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.		