

# Statement of Accounts

2012-13







## FINANCIAL STATEMENTS 2012/13

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# FINANCIAL FOREWORD

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Southampton City Council are by their nature both technical and complex. Consequently, this foreword explains some of the statements and sections included within this document and provides a summary of the Council's financial performance for 2012/13.

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the Council is required to produce a set of accounts in order to inform stakeholders of the Council that we have properly accounted for all the public money we have received and spent and that the financial standing of the Council is on a secure basis.

The Council's Financial Statements concentrate on clear and accurate reporting of the financial position of the Council in relation to a particular year. They do not however aim to fulfill the role of an annual report of a company. This would duplicate much of the work already published in other documents produced by the Council – in particular the Council Plan, the Medium Term Service and Financial Plan and the Corporate Improvement Plan.

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# FINANCIAL FOREWORD

## FINANCIAL SUMMARY

The Financial Statements bring together all the financial activities of the Council for the year, comprising two distinct elements:

- Revenue (General Fund and Housing Revenue Account)
- Capital (General Fund and Housing Revenue Account)

## REVENUE

### General Fund Revenue Account Summary

The revenue account (known as the General Fund) bears the net cost of providing day-to-day services. In this section of the foreword we will:

- Compare actual spending to budget,
- Explain the big differences,
- Explain where the money came from, and
- Show where the money went.

### Comparing Actual Spending to Budget

The Council Tax Requirement for the year was set at £83.2M and was supported by a council tax which was frozen at the same level as 2011/12 (which gave a Band D council tax of £1,239.21 for Southampton City Council).

The total net expenditure budget for the year was financed by:

- £97.6M of business rates (National Non-Domestic Rates from the Pool),
- £1.9M of general government grant (Revenue Support Grant),
- £0.4M Collection Fund surplus, and
- £83.2M of council tax income.

It also assumed a draw would be made from general reserves and working balances of just over £1.0M.

The Comprehensive Spending Review (CSR) announcement in October 2010 and the provisional Local Government Finance Settlement in December 2010 set out unprecedented reductions in Local Government funding for the four year period 2011/12 to 2014/15, with the decrease front loaded. Announcements in December 2011 confirmed that spending reductions on the planned scale were necessary to meet the actual reductions in Government grant. The grant settlement covered the two year period 2011/12 and 2012/13 and the Council's loss of formula grant was 10.1% and 6.6% in the two years respectively.

Furthermore, since the Council set its 2012/13 budget in February 2012, the economic outlook has remained challenging. In year action was taken in response to the ongoing financial pressures facing the Council, with a rigorous assessment of vacant posts being undertaken prior to external recruitment to ensure that only essential posts were recruited to. In addition to this recruitment freeze on all but essential vacant posts, a moratorium on all non essential spend was put in place to yield additional in-year savings to support the overall budget.

The original budget plans were updated during the course of the year and the draw from working balances was revised to £3.9M in February. Subsequent changes resulted in an anticipated contribution to balances of £0.3M compared to the originally planned draw of £1.0M, a decrease of £1.3M.

The final outturn for the year was such that a contribution was made to balances of £7.7M.

Overall, there was a net reduction in the use of the Authority's reserves and general balances in the year of some £7.4M compared with the working budget.

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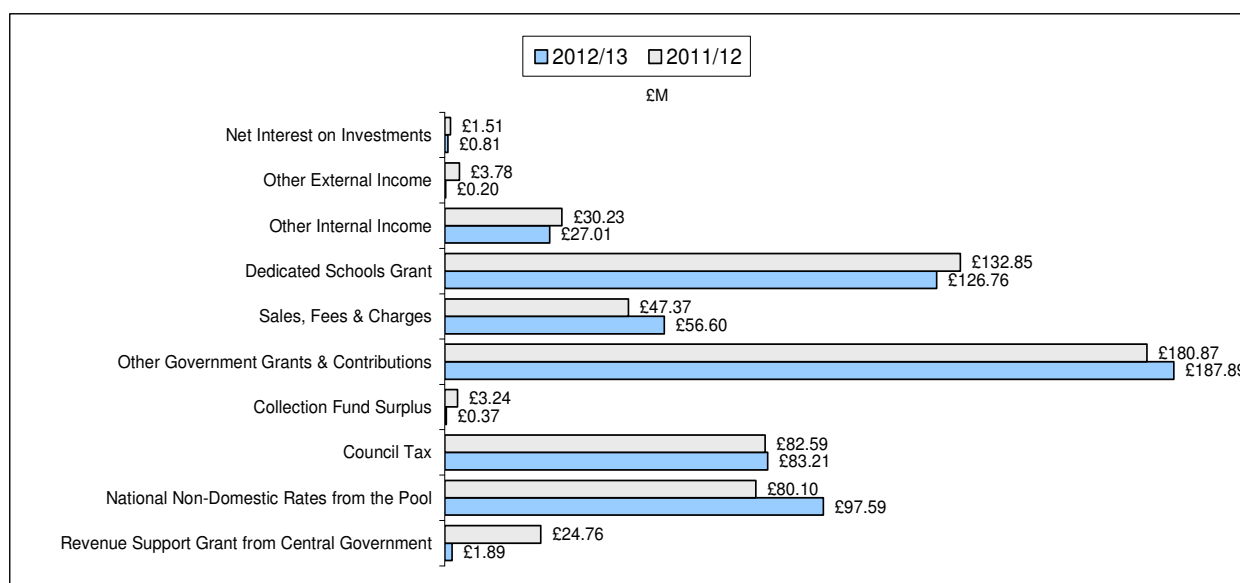
## Explaining the Big Differences

The major variances between the revised budget for the use of reserves and general balances in the year and the actual usage are:

|                                                                                                | £000's                |
|------------------------------------------------------------------------------------------------|-----------------------|
| Savings in Portfolio budgets                                                                   | (6,093)               |
| Reduced net borrowing costs due to lower interest rates and rephasing of the capital programme | (810)                 |
| Unused Contingency                                                                             | (344)                 |
| Other Variances                                                                                | (143)                 |
| <b>Total</b>                                                                                   | <b><u>(7,390)</u></b> |

## Where the Money Came From

The following chart provides an analysis of the Council's main sources of income for the year which totalled £582.3M and also shows the comparative figures for 2011/12 (£587.3M):



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## Where the Money Went

The following table provides a high level summary of the Council's net expenditure:

| <b>GENERAL FUND REVENUE EXPENDITURE 2012/13</b> |                                   |                       |                           |                 |
|-------------------------------------------------|-----------------------------------|-----------------------|---------------------------|-----------------|
| <b>Revised Budget</b>                           |                                   | <b>Working Budget</b> | <b>Actual Expenditure</b> | <b>Variance</b> |
| <b>£000's</b>                                   |                                   | <b>£000's</b>         | <b>£000's</b>             | <b>£000's</b>   |
| 67,523                                          | Adult Services                    | 64,526                | 64,240                    | (286)           |
| 39,688                                          | Children's Services               | 39,906                | 39,983                    | 77              |
| 5,533                                           | Communities                       | 4,801                 | 4,341                     | (460)           |
| 22,398                                          | Environment & Transport           | 23,409                | 21,887                    | (1,522)         |
| 13,156                                          | Housing & Leisure Services        | 13,445                | 13,570                    | 125             |
| 4,274                                           | Leader's Portfolio                | 4,274                 | 3,747                     | (527)           |
| 43,981                                          | Resources                         | 45,219                | 42,892                    | (2,327)         |
| <b>196,553</b>                                  | <b>Sub-total for Portfolios</b>   | <b>195,580</b>        | <b>190,660</b>            | <b>(4,920)</b>  |
| 26,626                                          | Other Items                       | 24,468                | 23,295                    | (1,173)         |
| <b>223,179</b>                                  | <b>Portfolio Total</b>            | <b>220,048</b>        | <b>213,955</b>            | <b>(6,093)</b>  |
| 649                                             | Levies & Contributions            | 649                   | 655                       | 6               |
| (13,301)                                        | Capital Asset Management          | (13,301)              | (14,111)                  | (810)           |
| (123,397)                                       | Other Expenditure & Income        | (124,495)             | (124,988)                 | (493)           |
| <b>87,130</b>                                   | <b>NET GF SPENDING</b>            | <b>82,901</b>         | <b>75,511</b>             | <b>(7,390)</b>  |
| (3,925)                                         | Draw (from) /Addition to Balances | 304                   | 7,694                     | 7,390           |
| <b>83,205</b>                                   | <b>Budget Requirement</b>         | <b>83,205</b>         | <b>83,205</b>             | <b>0</b>        |

Portfolio Expenditure is analysed below by category to explain further where the money went.

|                                                  | <b>£000's</b>  |
|--------------------------------------------------|----------------|
| Salaries & Wages & Other Employee Costs          | 97,422         |
| Premises Costs                                   | 11,819         |
| Transportation Costs                             | 3,821          |
| Supplies & Services                              | 91,825         |
| Internal Charges                                 | 7,671          |
| Other Direct Costs (Includes School Allocations) | 212,861        |
| <b>Total Expenditure</b>                         | <b>425,419</b> |
| Internal Income                                  | (25,583)       |
| Fees, Charges & Rents                            | (48,713)       |
| Grants / Contributions                           | (160,463)      |
| <b>Total Net Expenditure</b>                     | <b>190,660</b> |



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The summary of General Fund Revenue expenditure can no longer be directly reconciled to the Comprehensive Income and Expenditure Statement due to the changes in format introduced in 2006/07. At this point, the Consolidated Revenue Account was replaced by the Income and Expenditure Account and the Statement of Movement on the General Fund Balance. Subsequently this has been superseded by the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement.

The analysis of Income and Expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Cabinet and Council on the basis of budget reports analysed by Service Portfolios. These reports are prepared on a different basis in particular:

- No charges are included within Service Portfolios in relation to capital expenditure, whereas depreciation, revaluations and impairments losses are charged to Comprehensive Income and Expenditure Statement.
- The cost of retirement benefits is based on actual payments to the pension fund rather than notional current service costs accrued in year.

**Note 8 (Amounts Reported for Resource Allocation Decisions)** serves to reconcile the financial information reported internally to that reported in the Comprehensive Income and Expenditure Statement to increase transparency and improve the understanding of stakeholders.

### Housing Revenue Account Summary

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to, or from the council tax payer. In this section of the foreword we will:

- Compare actual spending to budget,
- Explain the big differences, and
- Show where the money came from and where it went.

#### Comparing Actual Spending to Budget

The net income budget for the year was set at £0.3M deficit and the actual outturn for the year was a net surplus of £0.7M which represents an under spend of £1.0M. The HRA working balance at 31 March 2013 is £3.3M.

#### Explaining the Big Differences

The major variances are detailed below:

|                                           | £000's         |
|-------------------------------------------|----------------|
| Savings in Programme & Responsive Repairs | (430)          |
| Savings in Supervision and Management     | (1,193)        |
| Reduction in Capital Financing Charges    | (261)          |
| Saving on Depreciation                    | (966)          |
| Increase in DRF                           | 1,945          |
| Other Variances                           | (103)          |
| <b>Total</b>                              | <b>(1,008)</b> |



## FINANCIAL FOREWORD

### Where the Money Came From and Where the Money Went

The following provides an analysis of the Council's main sources of income for the year and provides a high level summary of net expenditure.

| <b>HRA REVENUE EXPENDITURE 2012/13</b>  |               |               |                 |
|-----------------------------------------|---------------|---------------|-----------------|
|                                         | <b>Budget</b> | <b>Actual</b> | <b>Variance</b> |
|                                         | <b>£000's</b> | <b>£000's</b> | <b>£000's</b>   |
| Dwelling Rents                          | 65,093        | 65,151        | (58)            |
| Other Rents                             | 1,221         | 1,257         | (36)            |
| <b>Total Rental Income</b>              | <b>66,314</b> | <b>66,408</b> | <b>(94)</b>     |
| Service Charge Income from Tenants      | 1,341         | 1,330         | 11              |
| Service Charge Income from Leaseholders | 587           | 564           | 23              |
| Interest Received                       | 10            | 35            | (25)            |
| <b>Total Income</b>                     | <b>68,252</b> | <b>68,337</b> | <b>(85)</b>     |
| Responsive Repairs                      | 10,178        | 10,140        | (38)            |
| Programmed Repairs                      | 4,359         | 3,967         | (392)           |
| <b>Total Repairs</b>                    | <b>14,537</b> | <b>14,107</b> | <b>(430)</b>    |
| Rents Payable                           | 80            | 84            | 4               |
| Debt Management                         | 70            | 48            | (22)            |
| Supervision & Management                | 18,718        | 17,525        | (1,193)         |
| Capital financing charges               | 16,400        | 16,139        | (261)           |
| Depreciation                            | 17,172        | 16,206        | (966)           |
| Direct Revenue Financing                | 1,615         | 3,560         | 1,945           |
| <b>Total Expenditure</b>                | <b>68,592</b> | <b>67,669</b> | <b>(923)</b>    |
| <b>(Surplus) / Deficit for Year</b>     | <b>340</b>    | <b>(668)</b>  | <b>(1,008)</b>  |

The above summary of Housing Revenue Account expenditure, which reflects the Council's actual year end position of £1.0M under spent, can no longer be directly reconciled to the HRA Income and Expenditure Statement due to the changes in format introduced in 2006/07. At this point the Income and Expenditure Account was replaced by the Comprehensive Income and Expenditure Statement and the Statement of Movements on the HRA Balance.

## CAPITAL

### General Fund Capital Summary

Our capital account shows the income and expenditure transactions made to:

- Buy or sell land, property or other assets,
- Build new property,
- Improve our properties or other assets, and/or
- Provide grants or loans to others for the above type of activity.

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### Comparing Actual Spending to Budget

The budget for the year was to spend £61.9M on capital projects and final capital spend for the year was £7.7M less than the budget at £54.2M.

The table below summarises the capital expenditure for the year for each Portfolio:

|                            | Budget<br>£000's | Actual<br>£000's | Variance<br>£000's |
|----------------------------|------------------|------------------|--------------------|
| Adult Services             | 2,029            | 2,106            | 77                 |
| Children's Services        | 26,763           | 28,455           | 1,692              |
| Environment & Transport    | 19,911           | 14,079           | (5,832)            |
| Housing & Leisure Services | 3,959            | 2,848            | (1,111)            |
| Leader's<br>Resources      | 2,300<br>6,980   | 807<br>5,895     | (1,493)<br>(1,085) |
| <b>Total General Fund</b>  | <b>61,942</b>    | <b>54,190</b>    | <b>(7,752)</b>     |

### Explaining the Big Differences

The final spend for the year was £7.7M lower than the budget mainly due to slippage on schemes which will be spent in 2013/14. Some of the major slippage was on the following schemes:

- Highways Schemes £1.7M
- Integrated Transport Schemes £1.5M
- Accommodation Strategy £1.0M
- Academy Schemes £0.8M
- Vehicle Purchase for Weekly Bin Collection Support Scheme £0.8M
- Southampton New Arts Centre £0.7M
- Pupil Referral Unit £0.7M

### Where the Money Came From

The table below shows how capital spending was financed:

|                          | £000's        |
|--------------------------|---------------|
| Unsupported Borrowing    | 5,540         |
| Capital Receipts         | 10,609        |
| Capital Grants           | 32,488        |
| Contributions            | 2,730         |
| Direct Revenue Financing | 2,823         |
| <b>Total</b>             | <b>54,190</b> |

### Housing Revenue Account (HRA) Capital Summary

The HRA capital account shows the income and expenditure transactions made to:

- Improve the Council's properties,
- Build new property,
- Improve the neighbourhoods surrounding the property, and
- Implement estate regeneration projects.

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### Comparing Actual Spend to Budget

The budget for the year was to spend £26.4M on capital projects and final capital spend for the year was £2.1M less than budget at £24.3M. The table below summarises the capital expenditure for the year:

|                                     | Budget<br>£000's | Actual<br>£000's | Variance<br>£000's |
|-------------------------------------|------------------|------------------|--------------------|
| Modern Facilities                   | 10,312           | 10,018           | (294)              |
| Safe Wind & Weather Tight           | 5,800            | 5,268            | (532)              |
| Well Maintained Communal Facilities | 5,106            | 4,670            | (436)              |
| Warm & Energy Efficient             | 2,253            | 1,889            | (364)              |
| Estate Regeneration                 | 2,488            | 2,152            | (336)              |
| New Build                           | 392              | 273              | (119)              |
| <b>Total</b>                        | <b>26,351</b>    | <b>24,270</b>    | <b>(2,081)</b>     |

### Explaining the Big Differences

The final spend for the year £2.1M lower than the budget mainly due to slippage on schemes which will be spent in 2013/14. Some of the major slippage was on the following schemes:

- Safe, Wind and Weather Tight £0.5M
- Well Maintained Communal Facilities £0.5M
- Modern Facilities Central Heating Gas Boilers £0.4M
- Warm and Energy Efficient £0.2M
- Estate Regeneration £0.1M

### Where the Money Came From

The table below shows how capital spending was financed:

|                                                 | £000's        |
|-------------------------------------------------|---------------|
| Capital Receipts                                | 784           |
| Capital Grants / Contributions                  | 992           |
| Direct Revenue Financing                        | 6,288         |
| Depreciation (formerly Major Repairs Allowance) | 16,206        |
| <b>Total</b>                                    | <b>24,270</b> |

## RESERVES AND BALANCES

The Council maintains a number of earmarked reserves. These are special reserves kept for specific types of expenditure.

The Council also maintains a general reserve to provide a financial cushion should something unexpected happen that leads to significant unplanned expenditure. The final balance at 31 March 2013 was £29.9M. The revenue working balance provides day-to-day cash flow cover for the revenue account because inevitably there is a mismatch between the money being paid out and the money coming in. This year £7.7M was added to working balances and a net amount of £1.3M was transferred to other reserves resulting in an increase in the General Fund balance of £6.4M.

In the medium term it is forecast that general reserve will reduce from £29.9M to £5.5M which is the minimum level recommended by the Chief Financial Officer following a risk assessment of the required level to be maintained.

The HRA budget assumed a draw from balances of £0.3M but the HRA working balance actually increased by £0.7M from £2.6M to £3.3M due to a net under spend in the year of £1.0M.

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## ACCOUNTING ISSUES AND DEVELOPMENTS

### ROMANSE – CCTV Partnership

On 9 May 2012 Southampton City Council entered into a contract worth £0.8M per annum with Balfour Beatty Living Places Limited to provide the City's Intelligent Transport System (ROMANSE) and Public Safety CCTV service for ten years with effect from 1 October 2012.

### Strategic Services Partnership with Capita

The ten year Strategic Services Partnership contract with Capita, entered into on 1 October 2007, is currently subject to extensive renegotiations, with a view to identifying significant savings, and benefits, and the possibility of extending the contract for an additional five years in accordance with the original agreement.

## Future Changes in Local Government Finance

### Technical Reforms of Council Tax

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 Bill and gave the Council local discretion from April 2013, as follows:

- The application of exemptions to Council Tax where, for example, improvement works make the building uninhabitable;
- To introduce an empty homes premium; and
- To abolish 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.

### Council Tax Localisation

The Comprehensive Spending Review (CSR) 2010 included proposals to localise support for Council Tax from the beginning of the financial year 2013/14. The Government issued a Consultation Paper in August 2011 setting out proposals for the changes.

The DCLG issued a formal response to the consultation process which outlined the intention to introduce the requirement that billing Authorities implement a Council Tax Discount Scheme to replace Council Tax Benefit. In May and June 2012, a range of further papers were issued by the DCLG relating to the new arrangements. 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 (total circa £2M for Southampton), 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. Therefore, some current benefit recipients will be required to pay a higher contribution towards their Council Tax bill.

A scheme was adopted by Council by the statutory deadline of 31 January 2013, with new processes ready to operate from the implementation date of 1 April 2013. There was a wide consultation exercise with stakeholders in order that their views were taken into account in the finalised scheme. Council Tax bills have now been sent to residents for 2013/14 based on the agreed Local Scheme.

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

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 currently paid by Local Authorities. 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

## FINANCIAL FOREWORD

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

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 LA Block LACSEG for academies and the corresponding element of local government revenue funding will be replaced by the new Education Services Grant (ESG). The 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.

Funding will be transferred from Local Authorities ESG on a simple per-pupil basis. The ESG is allocated using the same per-pupil rates. Local Authorities will receive £15 for all pupils for the statutory duties that do not transfer to academies. The per-pupil rate for pupils in mainstream schools is £116 per pupil. Local Authorities receive £116 for all pupils in schools they maintain. The grant is paid for all pupils aged 3-19. Pupils in a Pupil Referral Unit are weighted 3.75 and Special Schools 4.25. The grant is not ring fenced.

As part of the Local Government Resource Review the funding for these services has been transferred from the Formula Grant into the ESG; which is part of the DSG. The likelihood is that the number of Academies will increase during 2013/14 this funding will be reduced accordingly.

## Other Government Initiatives with Implications for the Future Funding and Operation of the Council

### Public Health Transfer

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 2013/14. This figure will increase to £15.1M in 2014/15.

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.

### Non-Domestic Rate Income (NNDR)

From 1 April 2013 the arrangements in respect of NNDR change from a position where the Authority purely collects business rates on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies, (Hampshire Fire and Rescue Authority (HFRA) in Southampton's case). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment. Risks of non-collection include rates billed from 1 April, those not yet collected from prior years, and appeals that were not resolved before that date.

In relation to Southampton's NNDR there is a general risk of non-collection, and potential losses for prior year appeals as at 31 March 2013 was estimated at £5.8M. Southampton's share of these potential losses is 49% (£2.8M), with the balance being Government 50% (£2.9M) and HFRA 1% (£0.1M). These are potential losses at the point of change and if these losses are exceeded then the Council will further bear its share of that excess.

Conversely, the Council will benefit from any growth in its NNDR Rateable Value Base with increases also being shared in the same ratios.

# RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

## 1. The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council that Officer is the Head of Finance & IT.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve Statement of Accounts.

## 2. The Chief Financial Officer's Responsibilities

The Council's Chief Financial Officer (CFO) is the Head of Finance & IT. The CFO is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code (any significant non-compliance being fully disclosed).

The CFO has also:

- Kept proper accounting records, which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## 3. Certification of the Accounts

I certify that the Financial Statements presents the true and fair position of Southampton City Council at 31<sup>st</sup> March 2013 and its income and expenditure for the year ended 31<sup>st</sup> March 2013.

Signed **A Lowe** \_\_\_\_\_ Date 23 September 2013

Head of Finance & IT and Chief Financial Officer

## 4. Approval of the Accounts

I certify that the Financial Statements have been approved by a resolution of the Governance Committee in accordance with the Accounts and Audit Regulations 2003 and is authorised for issue.

Signed **D Furnell** \_\_\_\_\_ Date 23 September 2013

Chair, Governance Committee

# THE FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| <u>2011/12</u>     |                  |                  |                                                                                             | <u>2012/13</u>     |                |                  |                  |
|--------------------|------------------|------------------|---------------------------------------------------------------------------------------------|--------------------|----------------|------------------|------------------|
| <u>Expenditure</u> | <u>Income</u>    | <u>Net</u>       |                                                                                             | <u>Expenditure</u> | <u>Income</u>  | <u>Net</u>       |                  |
| £000's             | £000's           | £000's           |                                                                                             | Notes              | £000's         | £000's           |                  |
| 86,794             | (22,928)         | 63,866           | Adult Social Care                                                                           |                    | 88,841         | (24,584)         | 64,257           |
| 29,364             | (22,393)         | 6,971            | Central Services to the Public                                                              |                    | 27,992         | (21,292)         | 6,700            |
| 5,237              | (703)            | 4,534            | Corporate and Democratic Core                                                               |                    | 4,088          | (740)            | 3,348            |
| 8,474              | (1,895)          | 6,579            | Non Distributable Costs                                                                     |                    | 5,632          | (1,854)          | 3,778            |
| 228,169            | (167,918)        | 60,251           | Children's and Education Services                                                           |                    | 229,440        | (164,020)        | 65,420           |
| 23,697             | (7,285)          | 16,412           | Cultural and Related Services                                                               |                    | 24,312         | (6,638)          | 17,674           |
| 35,959             | (15,499)         | 20,460           | Environment and Regulatory Services                                                         |                    | 34,184         | (14,617)         | 19,567           |
| 9,376              | (4,400)          | 4,976            | Planning and Development Services                                                           | 5                  | 7,511          | (3,184)          | 4,327            |
| 27,509             | (16,280)         | 11,229           | Highways and Transport Services                                                             |                    | 28,118         | (16,666)         | 11,452           |
| 55,881             | (66,907)         | (11,026)         | Local Authority Housing                                                                     |                    | 50,913         | (71,497)         | (20,584)         |
| 24,508             |                  | 24,508           | Local Authority Housing-impairment loss on dwellings                                        |                    | 10,206         |                  | 10,206           |
| 73,847             |                  | 73,847           | Local Authority Housing- Self Financing                                                     |                    |                |                  | 0                |
| 125,430            | (112,601)        | 12,829           | Other Housing Services                                                                      |                    | 127,789        | (114,844)        | 12,945           |
|                    |                  |                  | <b>Exceptional Items</b>                                                                    | 6                  |                |                  |                  |
| 6,722              |                  | 6,722            | Impairment on General Fund Assets                                                           |                    | 35,531         |                  | 35,531           |
| (5,746)            |                  | (5,746)          | Equal Pay Provision                                                                         |                    | 129            |                  | 129              |
|                    | (4,046)          | (4,046)          | Vat Refund - Fleming Cases                                                                  |                    |                |                  | 0                |
| <b>735,221</b>     | <b>(442,855)</b> | <b>292,366</b>   | <b>Cost of Services</b>                                                                     | 8                  | <b>674,686</b> | <b>(439,936)</b> | <b>234,750</b>   |
|                    |                  | 39,624           | Loss / (Gain) on the disposal of Non Current Assets                                         | 13                 |                |                  | 43,328           |
|                    |                  | 685              | Contributions to Other Local Public Bodies                                                  | 9                  |                |                  | 655              |
|                    |                  | 1,319            | Contributions of Housing Capital Receipts to Government Pool                                |                    |                |                  | 827              |
|                    |                  | <b>41,628</b>    | <b>Other Operating Expenditure</b>                                                          |                    |                |                  | <b>44,810</b>    |
|                    |                  | 737              | Income and Expenditure in relation to Investment Properties and changes in their fair value | 15                 |                |                  | (6,781)          |
|                    |                  | 14,345           | Interest payable and similar charges                                                        | 12                 |                |                  | 15,406           |
|                    |                  | (2,822)          | Interest and Investment Income                                                              | 12                 |                |                  | (2,246)          |
|                    |                  | 8,900            | Pensions Interest Costs & Expected Return on Assets                                         | 40b                |                |                  | 10,850           |
|                    |                  | <b>21,160</b>    | <b>Financing, and Investment Income &amp; Expenditure</b>                                   |                    |                |                  | <b>17,229</b>    |
|                    |                  | (83,746)         | Council Tax Income                                                                          |                    |                |                  | (83,479)         |
|                    |                  | (80,097)         | Non - Domestic Rates Redistribution                                                         |                    |                |                  | (97,591)         |
|                    |                  | (46,894)         | General Government Grants                                                                   | 43                 |                |                  | (26,603)         |
|                    |                  | (43,670)         | Capital Grants and Contributions                                                            | 43                 |                |                  | (24,657)         |
|                    |                  | <b>(254,407)</b> | <b>Taxation and Non-Specific Grant Income</b>                                               |                    |                |                  | <b>(232,330)</b> |
|                    |                  | <b>100,747</b>   | <b>Deficit / (Surplus) on the Provision of Services</b>                                     |                    |                |                  | <b>64,459</b>    |
|                    |                  | 2,754            | Surplus or deficit on revaluation of non current assets                                     | 25a                |                |                  | (12,854)         |
|                    |                  | (49)             | Surplus or deficit on revaluation of available for sale financial assets                    | 25b                |                |                  | (154)            |
|                    |                  | 76,050           | Actuarial (gains) / losses on pension assets / liabilities                                  | 40b                |                |                  | 25,900           |
|                    |                  | <b>78,755</b>    | <b>Other Comprehensive Income and Expenditure</b>                                           |                    |                |                  | <b>12,892</b>    |
|                    |                  | <b>179,502</b>   | <b>Total Comprehensive Income and Expenditure</b>                                           |                    |                |                  | <b>77,351</b>    |



# THE FINANCIAL STATEMENTS

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves', (i.e. those that can be applied to fund expenditure or reduce local taxation), and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the HRA for council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and HRA Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

|                                                                                    | General Fund Balance<br>£000's | Earmarked Reserves<br>£000's | Housing Revenue Account<br>£000's | Capital Receipts Reserve<br>£000's | Major Repairs Reserve<br>£000's | Capital Grants & Contributions Unapplied<br>£000's | Total Usable Reserve<br>£000's | Unusable Reserves<br>£000's | Total Authority Reserve<br>£000's |
|------------------------------------------------------------------------------------|--------------------------------|------------------------------|-----------------------------------|------------------------------------|---------------------------------|----------------------------------------------------|--------------------------------|-----------------------------|-----------------------------------|
| <b>Balance at 1 April 2011</b>                                                     | (17,394)                       | (24,590)                     | (1,623)                           | (1,741)                            | 0                               | (11,179)                                           | (56,527)                       | (965,661)                   | (1,022,188)                       |
| <b>Movement in Reserves during 2011/12</b>                                         |                                |                              |                                   |                                    |                                 |                                                    |                                |                             |                                   |
| Surplus on provision of services (accounting basis)                                | 11,129                         | 0                            | 90,174                            | 0                                  | 0                               | 0                                                  | 101,303                        |                             | 101,303                           |
| Other Comprehensive Income and Expenditure                                         | 0                              |                              |                                   |                                    |                                 |                                                    | 0                              | 78,755                      | 78,755                            |
| <b>Total Comprehensive Income and Expenditure</b>                                  | <b>11,129</b>                  | <b>0</b>                     | <b>90,174</b>                     | <b>0</b>                           | <b>0</b>                        | <b>0</b>                                           | <b>101,303</b>                 | <b>78,755</b>               | <b>180,058</b>                    |
| Adjustments between accounting basis and funding basis under regulations (note 11) | (21,237)                       | 0                            | (89,959)                          | (3,055)                            | 0                               | (519)                                              | (114,770)                      | 114,775                     | 5                                 |
| <b>Net Increase before Transfers to Earmarked Reserves</b>                         | <b>(10,108)</b>                | <b>0</b>                     | <b>215</b>                        | <b>(3,055)</b>                     | <b>0</b>                        | <b>(519)</b>                                       | <b>(13,467)</b>                | <b>193,530</b>              | <b>180,063</b>                    |
| Transfers to / (from) earmarked reserves (note 10)                                 | 3,972                          | (4,397)                      | (1,213)                           | 0                                  | 0                               | 1,637                                              | (1)                            | (4)                         | (5)                               |
| <b>(Increase) / Decrease in Year</b>                                               | <b>(6,136)</b>                 | <b>(4,397)</b>               | <b>(998)</b>                      | <b>(3,055)</b>                     | <b>0</b>                        | <b>1,118</b>                                       | <b>(13,468)</b>                | <b>193,526</b>              | <b>180,058</b>                    |
| <b>Balance at 31 March 2012</b>                                                    | <b>(23,530)</b>                | <b>(28,987)</b>              | <b>(2,621)</b>                    | <b>(4,796)</b>                     | <b>0</b>                        | <b>(10,061)</b>                                    | <b>(69,995)</b>                | <b>(772,135)</b>            | <b>(842,130)</b>                  |

|                                                                                    | General Fund Balance<br>£000's | Earmarked Reserves<br>£000's | Housing Revenue Account<br>£000's | Capital Receipts Reserve<br>£000's | Major Repairs Reserve<br>£000's | Capital Grants & Contributions Unapplied<br>£000's | Total Usable Reserve<br>£000's | Unusable Reserves<br>£000's | Total Authority Reserve<br>£000's |
|------------------------------------------------------------------------------------|--------------------------------|------------------------------|-----------------------------------|------------------------------------|---------------------------------|----------------------------------------------------|--------------------------------|-----------------------------|-----------------------------------|
| <b>Balance at 1 April 2012</b>                                                     | (23,530)                       | (28,987)                     | (2,621)                           | (4,796)                            | 0                               | (10,061)                                           | (69,995)                       | (772,135)                   | (842,130)                         |
| Prior Year Restatement                                                             | 0                              | (556)                        | 0                                 | 0                                  | 0                               | 29                                                 | (527)                          | (29)                        | (556)                             |
|                                                                                    | <b>(23,530)</b>                | <b>(29,543)</b>              | <b>(2,621)</b>                    | <b>(4,796)</b>                     | <b>0</b>                        | <b>(10,032)</b>                                    | <b>(70,522)</b>                | <b>(772,164)</b>            | <b>(842,686)</b>                  |
| <b>Movement in Reserves during 2012/13</b>                                         |                                |                              |                                   |                                    |                                 |                                                    |                                |                             |                                   |
| Surplus on provision of services (accounting basis)                                | 69,518                         | 0                            | (5,059)                           | 0                                  | 0                               | 0                                                  | 64,459                         |                             | 64,459                            |
| Other comprehensive Income and Expenditure                                         | 0                              |                              |                                   |                                    |                                 |                                                    | 0                              | 12,892                      | 12,892                            |
| <b>Total Comprehensive Income and Expenditure</b>                                  | <b>69,518</b>                  | <b>0</b>                     | <b>(5,059)</b>                    | <b>0</b>                           | <b>0</b>                        | <b>0</b>                                           | <b>64,459</b>                  | <b>12,892</b>               | <b>77,351</b>                     |
| Adjustments between accounting basis and funding basis under regulations (note 11) | (75,483)                       | 0                            | 7,120                             | (2,242)                            | 0                               | 892                                                | (69,713)                       | 69,713                      | 0                                 |
| <b>Net Increase before Transfers to Earmarked Reserves</b>                         | <b>(5,965)</b>                 | <b>0</b>                     | <b>2,061</b>                      | <b>(2,242)</b>                     | <b>0</b>                        | <b>892</b>                                         | <b>(5,254)</b>                 | <b>82,605</b>               | <b>77,351</b>                     |
| Transfers to / (from) earmarked reserves (note 10)                                 | (428)                          | 3,155                        | (2,729)                           | 0                                  | 0                               | 0                                                  | (2)                            | 2                           | 0                                 |
| <b>(Increase) / Decrease in Year</b>                                               | <b>(6,393)</b>                 | <b>3,155</b>                 | <b>(668)</b>                      | <b>(2,242)</b>                     | <b>0</b>                        | <b>892</b>                                         | <b>(5,256)</b>                 | <b>82,607</b>               | <b>77,351</b>                     |
| <b>Balance at 31 March 2013</b>                                                    | <b>(29,923)</b>                | <b>(26,388)</b>              | <b>(3,289)</b>                    | <b>(7,038)</b>                     | <b>0</b>                        | <b>(9,140)</b>                                     | <b>(75,778)</b>                | <b>(689,557)</b>            | <b>(765,335)</b>                  |

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold and also includes reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

| <b>31 March 2012</b> |                                                  | <b>31 March 2013</b> |               |                  |
|----------------------|--------------------------------------------------|----------------------|---------------|------------------|
| <b>£000's</b>        |                                                  | <b>Notes</b>         | <b>£000's</b> | <b>£000's</b>    |
| 1,273,606            | Property Plant & Equipment                       | 13                   | 1,213,681     |                  |
| 196,646              | Heritage Assets                                  | 14                   | 196,716       |                  |
| 123,812              | Investment Property                              | 15                   | 120,580       |                  |
| 1,925                | Intangible Assets                                | 16                   | 1,387         |                  |
| 3,478                | Long Term Investments                            | 18 b)                | 3,687         |                  |
| 2,001                | Long Term Debtors                                | 20 b)                | 12,652        |                  |
| <b>1,601,468</b>     | <b>Long Term Assets</b>                          |                      |               | <b>1,548,703</b> |
| 13,383               | Short Term Investments                           | 18 b)                | 15,188        |                  |
| 4,931                | Assets held for Sale                             | 17                   | 7,716         |                  |
| 799                  | Stock (Inventories)                              | 19                   | 810           |                  |
| 54,089               | Short Term Debtors                               | 20 a)                | 57,671        |                  |
| (14,100)             | - Impairment of Short Term Debtors               | 20 a)                | (15,161)      |                  |
| 52,474               | Cash & Cash Equivalents                          | 21                   | 50,917        |                  |
| <b>111,576</b>       | <b>Current Assets</b>                            |                      |               | <b>117,141</b>   |
| (7,891)              | Cash & Cash Equivalents                          | 21                   | (5,361)       |                  |
| (34,560)             | Short Term Borrowing                             | 18 b)                | (56,692)      |                  |
| (62,973)             | Short Term Creditors                             | 22                   | (63,360)      |                  |
| <b>(105,424)</b>     | <b>Current Liabilities</b>                       |                      |               | <b>(125,413)</b> |
| (51,466)             | Long Term Creditors                              | 18 b)                | (54,447)      |                  |
| (7,674)              | Provisions                                       | 23                   | (7,068)       |                  |
| (267,407)            | Long Term Borrowing                              | 18 b)                | (254,815)     |                  |
|                      | Other Long Term Liabilities                      |                      |               |                  |
| (17,683)             | - Deferred Liabilities                           | 18 b)                | (16,976)      |                  |
| (19)                 | - Deferred Capital Balances                      |                      | (13)          |                  |
| (36,165)             | - Cap. Grants & Conts Receipts in Advance        | 43                   | (23,577)      |                  |
| (384,520)            | - Pension Fund Liability                         | 25 e)                | (418,200)     |                  |
| <b>(764,934)</b>     | <b>Long Term Liabilities</b>                     |                      |               | <b>(775,096)</b> |
| <b>842,686</b>       | <b>Net Assets</b>                                |                      |               | <b>765,335</b>   |
|                      | <b>Useable Reserves</b>                          |                      |               |                  |
| 4,796                | Useable Capital Receipts Reserve                 | 11                   | 7,038         |                  |
| 10,032               | Cap. Grants & Conts Unapplied                    | 11                   | 9,140         |                  |
| 29,543               | Earmarked Revenue Reserves                       | 10                   | 26,388        |                  |
|                      | Revenue Balances                                 |                      |               |                  |
| 23,530               | General Fund                                     | 11                   | 29,923        |                  |
| 2,621                | Housing Revenue Account                          | 11                   | 3,289         |                  |
| <b>70,522</b>        |                                                  |                      |               | <b>75,778</b>    |
|                      | <b>Unuseable Reserves</b>                        |                      |               |                  |
| 298,068              | Revaluation Reserves                             | 25 a)                | 304,614       |                  |
| 472                  | Available-for-Sale Financial Instruments Reserve | 25 b)                | 626           |                  |
| 859,430              | Capital Adjustment Account                       | 25 c)                | 803,687       |                  |
| (150)                | Financial Instruments Adjustment Account         | 25 d)                | (103)         |                  |
| (384,520)            | Pension Reserve                                  | 25 e)                | (418,200)     |                  |
| 1,415                | Collection Fund Adjustment Account               | 25 f)                | 1,315         |                  |
| (2,551)              | Accumulated Absences Account                     | 25 g)                | (2,382)       |                  |
| <b>772,164</b>       |                                                  |                      |               | <b>689,557</b>   |
| <b>842,686</b>       |                                                  |                      |               | <b>765,335</b>   |

Signed: D Furnell 23 September 2013

Chair, Governance Committee

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| <u>2011/12</u><br>£000's |                                                                                                                                  | Notes | <u>2012/13</u><br>£000's |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------|-------|--------------------------|
| (100,747)                | Net surplus or (deficit) on the provision of services                                                                            |       | (64,459)                 |
| 112,159                  | Adjustment to surplus or deficit on the provision of services for non cash movements                                             | 26 a) | 131,985                  |
| <u>(56,797)</u>          | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 26 a) | <u>(49,418)</u>          |
| <b>(45,385)</b>          | <b>Net Cash Flows From Operating Activities</b>                                                                                  |       | <b>18,108</b>            |
| (24,596)                 | Net Cash flows from Investing Activities                                                                                         | 26 c) | (27,915)                 |
| 87,317                   | Net Cash flows from Financing Activities                                                                                         | 26 d) | <u>10,780</u>            |
| <b>17,336</b>            | <b>Net Increase or Decrease in Cash and Cash Equivalents</b>                                                                     |       | <b>973</b>               |
| 27,247                   | Cash and cash equivalents at the beginning of the reporting period                                                               | 26 e) | 44,583                   |
| <u><b>44,583</b></u>     | <b>Cash and Cash Equivalents at the End of the Reporting Period</b>                                                              | 26 e) | <u><b>45,556</b></u>     |

## 1. Accounting Policies

### a) General Principles

The Financial Statements summarise the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Financial Statement by the Accounts and Audit Regulations 2011 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Financial Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected.

### c) Acquisitions and Discontinued Operations

Transactions relating to Acquired and Discontinued Operations are separately disclosed within the Comprehensive Income and Expenditure Statement and the Balance Sheet including comparatives as required by the Code of Practice. There were no acquisitions or discontinued operations in 2012/13.

### d) Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand, deposit accounts and Money Market Funds which are repayable without penalty on notice of not more than 24 hours, plus any accrued interest due on them up to the end of the financial year.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### e) Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to understanding the Council's financial performance.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### f) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### g) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction of its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account (CAA) in the Movement in Reserves Statement (MiRS) for the difference between the two.

### h) Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of Teachers' annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS 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 not considered to be material.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### Post Employment Benefits

Employees of the Council are members of two separate pension schemes:

## NOTES TO THE CORE FINANCIAL STATEMENTS

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by Hampshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

As part of the Council's Strategic Services Partnership contract, Capita has admitted body status within the Hampshire pension fund. The staff that transferred to Capita are treated as being part of Southampton City Council for accounting and reporting purposes in respect of pensions. As part of the agreement between the Council and Capita, all (or nearly all) pension risks, and assets and liabilities lie with the Council. Capita is under a legal obligation to pay the employee and employer contributions to Hampshire Pension Fund direct. The Council then reimburse as a 'pass through' cost the full cost to Capita of the employers contributions they have incurred, in effect meaning that the Council has funded the employer contributions incurred for transferred Capita staff.

The accounting treatment in relation to the pension costs and liabilities of the staff transferred to Capita is as follows:

- Assets and Liabilities of the fund will not be split between the Council and Capita, so the 'Liability Related to Defined Benefit Pension Scheme' under Long Term Liabilities in the balance sheet will include the total liability in respect of both Council employees and employees now transferred to Capita.
- The total amount charged to Net Cost of Service in the Income & Expenditure Account will therefore include the total value of Current Service Costs and Past Service costs as provided by the actuaries; this figure will therefore include the cost of retirement benefits earned by both Council employees and employees transferred to Capita.
- The Pension Interest Costs & Expected Return on Assets in the Income & Expenditure Account will be reflective of the Council's share, including the Capita element.
- The SCC actual pension fund contributions for 2012/13 will be excluded from SCC's accounts, and will be a reconciling item in the MiRS.
- The accounts will therefore reflect the full IAS19 position of the Council including the Capita element.

### The Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefits scheme:

- The liabilities of the Hampshire County Council pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates etc, and projections of earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate based on the AA corporate bond rate as required by the Code.
- The assets of the Hampshire County Council pension fund attributable to the Council are included in the balance sheet at fair value:
  - Quoted securities – Current bid price.
  - Unquoted securities – Professional estimate.
  - Unitised securities – Current bid price.
  - Property – Market value.

The change in the net pensions' liability is analysed into seven components:



## NOTES TO THE CORE FINANCIAL STATEMENTS

- **Current Service Cost** – The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- **Past Service Cost** – The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- **Interest Cost** – The expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **Expected Return on Assets** – The annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **Gains/losses on Settlements and Curtailments** – The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, – debited or credited to Surplus or Deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- **Actuarial Gains and Losses** – Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve.
- **Contributions Paid to Hampshire County Council** – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the MiRS this means there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the Council by £418.2M in 2012/13 and by £384.5M in 2011/12.

The total liability of £418.2M has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. For further information please see **Note 40 (Defined Benefit Pension Schemes)**.

### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year in which the liability arises to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### i) Events After the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – The Financial Statements are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Financial Statements are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts, for Southampton City Council this date has been determined as the 23 September 2013.



## j) Financial instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of amortising to revenue the premium over the lifetime of either the repaid loan or any replacement loan, whichever is greater. Discounts must be amortised over the lesser of the remaining lifetime of the repaid loan or ten years.

The write-off period for the HRA is also on a straight-line basis over the lesser of the unexpired period of the redeemed loan or ten years.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MiRS.

### Financial Assets

Financial assets are classified into two types:

- Loans and receivables (including soft loans) – Assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – Assets that have a quoted market price and/or do not have fixed or determinable payments.

### Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and that interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of the likelihood arising from a past event that payments under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Soft Loans

Local authorities sometimes make loans for policy reasons rather than as financial instruments and these loans may be interest-free or at rates below prevailing market rates. For Southampton City Council, the difference between the effective rate of interest and the contractual rate of interest is not deemed to be material to the accounts and therefore has not been accounted for in the Comprehensive Income and Expenditure Statement.

Southampton City Council grants the following types of soft loans:

- Car and Cycle Loans,
- Season Ticket Loans, and
- Welfare Loans.

The Council also provides Private Sector Home Improvement Loans. These are granted for private sector home owners to make improvements to their properties. This is treated as capital expenditure and written off to revenue as Revenue Expenditure Funded from Capital under Statute. The loans are interest free and only become repayable when the property is sold. As these loans are treated as capital expenditure, no debtor is held in the Balance Sheet and as the period of the loan is unknown, they have not been accounted for under the Soft Loan provisions.

### Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income, (e.g. dividends), is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – The market price.
- Other instruments with fixed and determinable payments – Discounted cash flow analysis.
- Equity shares with no quoted market prices – Independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred. These are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Available-for-Sale-Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows, discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment of amortisation).

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be reliably measured, the instrument is carried at cost (less any impairment losses).

### **k) Foreign Currency Transaction**

The Council does not undertake any material foreign currency transactions.

### **l) Government Grants and Other Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

## NOTES TO THE CORE FINANCIAL STATEMENTS

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line, (attributable revenue grants and contributions), or the Taxation and Non-Specific Grant Income, (non-ring fenced revenue grants and all capital grants), line in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the CAA. Amounts in the Capital Grants Unapplied reserve are transferred to the CAA once they have been applied to fund capital expenditure.

### Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions. It is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

### m) Heritage Assets

#### Tangible and Intangible Assets (Described in this Summary of Significant Accounting policies as Heritage Assets)

The Council's Heritage Assets are broadly held in the Council's Museums. The Council has four collections of heritage assets which are held in support of the primary objective of the Council's Museums, i.e. increasing the knowledge and understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured, (including treatment of revaluation gains and losses), in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets are deemed to include elements of intangible assets and are accounted for as follows:

- **Archives** – This consists of a catalogue of which there are over 10,000 accessioned items listed and described. These “items” range from individual documents to huge collections of material, e.g. 1.25 million cards in the Central Index of Merchant Seaman. It is estimated that the Archives take up approximately 2 linear miles of shelving.

No meaningful value can be ascribed to these items consequently the Council does not recognise these assets on the balance sheet.

- **Works of Art** – The art collection which includes paintings (both oil and watercolour), sketches, and sculptures, is designated (i.e. officially recognised as being significant) and numbers approximately 3,500 items most of which have been acquired through donation.

The collection has been brought onto the balance sheet based on insurance values.

- **Archaeology** – The archaeology collections are also designated. The main component of these collections are the excavation archives which result from all archaeological investigations carried out within the city boundary, from full scale excavations to watching briefs to building surveys. These archives consist not only of objects but also paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such “site archives” have been deposited.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeological collection. This is due to the diverse nature of the assets held and lack of comparable market values. Consequently the Council does not recognise these assets on the balance sheet.

- **Local and Maritime Collections** – Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are between two and three hundred thousand items in the collections. About 10% of these items are on databases or spread sheets, the rest are still on paper records.

No meaningful value can be ascribed to these items consequently the Council does not recognise these assets on the balance sheet.

- **Historic Buildings and Ancient Monuments** – The Council has a number of Historic Buildings and Structures including:
  - The Tudor House Museum;
  - Gods House Tower;
  - The Bargate;
  - The Wool House;
  - Tudor Merchants Hall; and
  - Town Walls and various Vaults

Where these Assets are already included within Property, Plant, and Equipment they have been reclassified as Heritage Assets

### Valuation

As noted above valuation of our collections, apart from the Works of Art, has not been pursued as museums place emphasis on the inherent/historic value of items, not their financial worth, and the cost of obtaining this information is not commensurate with the benefits to users of the financial statements, therefore these heritage assets are not recognised in the Balance Sheet.

### n) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired and any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the CAA and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **o) Interests in Companies and Other Entities**

The Council reviews annually any Interests in Companies and Other Entities for any Financial Relationships which under the Code of Practice classification would require the Council to produce Group Accounts.

In 2012/13 there were no relationships which would require the Council to produce Group Accounts.

### **p) Inventories and Long-Term Contracts**

Where possible, inventories are included in the Balance Sheet at the lower of cost, or net realisable value. There are two notable exceptions to this rule in the accounts:

- The Council's Central Stores stock has been valued on an "Average Cost" basis.
- Housing Repairs "Schedule of Rates" work is valued at cost plus overheads and profit.

Where there is internal work in progress it has been eliminated when the accounts are consolidated. Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### **q) Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the CAA and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **r) Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with third parties that involve the use of the assets and resources of the third parties rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and third parties, with the assets being used to obtain benefits for the third parties. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

### **s) Leases**

Leases are classified as finance leases where the terms of the lease substantially transfer all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.



# NOTES TO THE CORE FINANCIAL STATEMENTS

## The Council as Lessee

### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment, applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the CAA in the MiRS for the difference between the two.

### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

## The Council as Lessor

### Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property, applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the MiRS. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the MiRS. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the CAA from the General Fund Balance in the MiRS.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments, (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **t) Overheads and Support Services**

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used and the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – Costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – The cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure within the cost of services.

### **u) Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential, (i.e. repairs and maintenance), is charged as an expense when it is incurred.

#### **Measurement**

Assets are initially measured at cost, comprising:

- The purchase price, and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance, (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the CAAt in the MiRS.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, and Community Assets – Depreciated historical cost.
- Dwellings – Fair value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets Under Construction – Historic cost.



## NOTES TO THE CORE FINANCIAL STATEMENTS

- All Other Assets – Fair value, determined as the amount that would be paid for the asset in its existing use, (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement unless the decrease is considered to be exceptional in nature.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the CAA.

### Impairment

Assets are reviewed at each year-end to ascertain whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement unless the impairment is considered to be exceptional in nature.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life, (i.e. freehold land and certain Community Assets), and assets that are not yet available for use, (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and Other Buildings – Straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, Plant, Furniture and Equipment – A percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- Infrastructure – Straight-line allocation over 40 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately to the extent that the components asset lives differ significantly.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the CAA.

### Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals, (if any), are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the CAA.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. In 2005/06 the government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the government then distributes to local authorities and housing associations on the basis of need. In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules have changed to allow local authorities to retain receipts that exceed a predetermined set level. This predetermined level is known as the share cap. Once the share cap has been achieved any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts that fall within the share cap are still subject to updated pooling arrangements that return a predetermined proportion to the government.

Capital receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow, (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the MiRS.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MiRS.

### v) Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair Value of the Services Received During the Year – Debited to the relevant service in the Comprehensive Income and Expenditure Statement.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Finance Cost – A percentage interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent Rent – Increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment Towards Liability – Applied to write down the Balance Sheet liability towards the PFI operator, (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle Replacement Costs – Proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### w) Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party, (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

#### Provision for Back Pay Arising from Unequal Pay Claims

The Council received a number of Equal Pay claims and made a £12M provision in the 2009/10 Accounts to meet any liabilities arising from the litigation process. The Council applied in full the £12M Equal Pay Capitalisation Direction, in accordance with section 16(2)(b) of the Local Authorities Capital finance and Accounting Regulations 2003 enabling any Expenditure on Equal Pay Claims to be treated as Capital Expenditure. This meant that the impact on the Comprehensive Income and Expenditure Statement in 2009/10 was neutralised by a movement within the Statement of Movement on the General Fund Balance, i.e. there was no impact on the Council's retained surplus for the year.

In 2011/12 £5.7M, of the £12M provision, was released to the Comprehensive Income and Expenditure Statement as an Exceptional item and reversed out to the CAA as per the treatment of the initial provision.

#### Landfill Allowance Schemes

Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA, or by a combination. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

#### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly

## NOTES TO THE CORE FINANCIAL STATEMENTS

within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### x) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the MiRS so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant policies.

### y) Revenue Expenditure Funded From Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the CAA then reverses out the amounts charged so that there is no impact on the level of council tax.

### z) Value Added Tax (VAT)

All Income and expenditure, whether capital or revenue in nature, excludes any amounts related to VAT, as all VAT collected is payable to HMRC and all VAT paid is recoverable from them.

### aa) Strategic Services Partnership with Capita

On 1 October 2007, the Council signed a ten year strategic services partnership contract with Capita. The contract, which involved the TUPE transfer of approximately 650 employees to Capita, delivers a wide range of services including Customer Services, IT, Property and the administration of HR, Payroll, Revenue & Benefits and Procurement.

As part of the contract the majority of the Council's IT assets transferred in ownership to Capita. The contract charges from Capita take account of the fact that we have donated the assets to the contract, i.e. the contract charges would have been higher if we had not donated the assets or if we had charged an amount for them. The contract did not state what this reduction in charges was. Neither was it possible to estimate the open market value of the assets. Therefore, as the IT assets held on the Balance Sheet had been originally recognised at cost and were being depreciated over short lives relevant to the nature of the assets, the Net Book Value (£3.2M) was deemed to be a reasonable approximation to the fair value. The transferred assets have been written out of the Balance Sheet.

A balance for Deferred Consideration, (within Long Term Debtors), has been established with the Net Book Value of the assets. The deferred consideration is then written down to zero over the ten year life of the contract with the debit entry being to the Comprehensive Income and Expenditure Statement. This is then reversed out through the MiRS.

As the Council has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the ten year contract by a reduction in the contract payments, the notional interest related to the value of the assets has been posted to the Comprehensive Income and Expenditure Statement. This has also been reversed out through the MiRS.

## NOTES TO THE CORE FINANCIAL STATEMENTS

This accounting treatment is consistent with the accounting treatment of donated assets on PFI contracts

### ab) Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and NNDR. The fund's key features relevant to accounting for Council Tax in the core financial statements are:

- In its capacity as a billing authority the Council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself.
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.
- Up to 2009/10 the Statement of Recommended Practice, (the SORP), required the Council Tax income included in the Comprehensive Income and Expenditure Statement to be that which under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority.
- From the year commencing 1 April 2009 the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the MiRS.

Since the collection of Council Tax and NNDR Income is in substance an agency arrangement:

- Cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will be therefore a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council Taxpayers, and
- Cash collected from NNDR taxpayers by billing authorities, (net of the cost of collection allowance,) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor. Similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers, (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

### ac) Accounting for the Costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted, (i.e. as energy is used), a liability and expense is recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services.

### ad) Trust Funds

The Council is sole trustee of several trust funds. As required by the SORP the funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. For details of the Trust Fund see Trust and Other Funds section.

### ae) Rounding Convention

Unless otherwise stated the convention used in this document is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables.



### 2. Accounting Standards That Have Been Issued But Not Yet Adopted

The Code requires the council to identify any accounting standards that have been issued but have yet to be adopted and that could have a material impact on the accounts. The following standards apply:

**IAS 19 – Employee Benefits** – This standard was amended in 2011 and the changes which relate to the creation of some new classes of components of defined benefit costs and the re-measurement of the net defined benefit liability are likely to have a material impact on the accounts. The pension fund actuaries have calculated that if the revised standard had been in place for 2012/13 then the expenses recognised for funded benefits would have increased from £26.3M to £34.0M. As this expense is notional and is reversed out via the MiRS it would have no effect on the balance sheet.

**IAS 1 – Presentation of Financial Statements** – This standard was amended in 2011 and the changes which relate to the presentation of gains and losses on revaluations currently shown within Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement. As these changes are presentational there is no impact on the reported amounts.

Changes to other standards including **IFRS 7 – Financial Instruments** and **IAS12 – Income Taxes** are unlikely to have any impact on the accounts.

### 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in **Note 1 (Accounting Policies)**, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements that have the most significant effect on the amounts in the Financial Statements are:

- **Heritage Assets** – The Council has reclassified Property, Plant and Equipment as Heritage Assets where the assets were held and maintained principally for their contribution to knowledge and culture. In addition, the Council has identified and included a number of collections, principally held at museums, as heritage assets.
- **Asset reclassifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises Schools in line with the provisions of the Code of Practice, and they are recognised on the balance sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently five types of schools:

- Community schools,
- Voluntary Aided (VA) schools,
- Voluntary controlled (VC) schools,
- Foundation / Trust schools, and
- Academies

Community schools are owned by the Council, staff are appointed by the Council, who also sets the admission criteria. Therefore, these schools are recognised on the Council's Balance Sheet.

VA schools are maintained schools and often have a religious character with the school being owned by the religious body. These schools are paid capital funding on a similar basis to other categories of school, but the governing body usually pay at least 10% of the costs of capital work. Responsibility for work to VA school premises is shared between the schools governing body and the Council. In simple terms the Council has responsibility for the playing fields and the governing body are liable for all other capital expenditure. The value of these schools is not included in the Council's Balance Sheet.



## NOTES TO THE CORE FINANCIAL STATEMENTS

VC schools are owned by the religious body, staff are appointed by the governors, but are employed by the Council, who also sets the admission criteria. However, like VA Schools the value of these schools is not included within the Council's Balance Sheet.

Staff in Foundation / Trust, VA and Academy schools are appointed by the schools' governing body, who also set the admission criteria. The Council does not receive the economic benefit or service potential of these schools and does not therefore recognise them on the Council's Balance Sheet.

The table below illustrates the number and type of schools:

| Status as at 31 March 2013                     | Infant    | Junior    | Primary   | Secondary | Special  | Total     |
|------------------------------------------------|-----------|-----------|-----------|-----------|----------|-----------|
| Academies                                      | 2         | 2         | 3         | 4         |          | 11        |
| Catholic Voluntary Aided Schools               |           |           | 2         | 1         |          | 3         |
| Church of England Voluntary Aided Schools      |           |           | 1         |           |          | 1         |
| Church of England Voluntary Controlled Schools | 1         | 1         | 2         |           |          | 4         |
| Community Schools                              | 11        | 10        | 17        | 5         | 4        | 47        |
| Foundation Trust                               | 4         | 1         | 3         | 2         | 1        | 11        |
| <b>Grand Total</b>                             | <b>18</b> | <b>14</b> | <b>28</b> | <b>12</b> | <b>5</b> | <b>77</b> |

- Accounting for Schools - Transfers to Academy status** – When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant & Equipment), on the date of transfer to academy the Council accounts for this as a disposal for nil consideration. As at 31 March 2013, the Council held £22.6M on its balance sheet in respect of Schools where approval to transfer has been received but the transfer had not occurred.
- Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken "in the round" and a decision made. The accounting treatment for finance and operating leases is significantly different, (see Accounting Policies on Leases), and could have a significant effect on the Financial Statements.
- PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement.
- Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- Future Funding for Local Government** – There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision or a contingent liability should be made. The judgements are based on the degree of certainty around the results of pending legal actions.
- Doubtful Debts Allowances** – The Council has made judgements about the level of doubtful debts and allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

| Item                                 | Uncertainties                                                                                                                                                                                                                                                                                                                                                                                         | Effect if Actual Results Differ from Assumptions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Property, Plant and Equipment</b> | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.                      | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.<br><br>It is estimated that the annual depreciation charge for buildings would increase by £0.9M if the useful lives were reduced by one year.                                                                                                                                                                                                                                                                                               |
| <b>Pensions Liability</b>            | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £83.2M. However, the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the net pension liability for funded LGPS benefits had decreased by £1.3M as a result of estimates being corrected in the light of experience and increased by £65.5M as a consequence of updating the assumptions. |
| <b>Arrears</b>                       | At 31 March 2013, the Council had a balance of sundry debtors of £9.0M. The current level of impairment allowance, (Bad Debt Provision), based on previous experience, is £1.2M, which represents 13% of the balance.                                                                                                                                                                                 | If collection rates were to deteriorate, increasing our impairment rate (bad debt) to 40% of the balance, it would require an additional £2.4M to set aside as an allowance.                                                                                                                                                                                                                                                                                                                                                                              |

### 5. Prior Period Adjustment

#### Reclassifications and Restatements

The Council identified balances that were misclassified in the previous year's Financial Statements:

- The New Deals for Communities (NDC) creditor of £1.0M included £556,000 which has been reclassified as Earmarked Revenue Reserves.
- Net corrections of £29,000 between Unused Capital Grants and Contributions Reserve and the CAA have also been made.

These adjustments have been reflected in the previous year's comparative figures on the Balance Sheet, Comprehensive Income and Expenditure Statement, and the Cash Flow Statement as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Balance Sheet 2011/12 Extract

|                                          | <b>31 March 2012</b><br><b>£000's</b> |
|------------------------------------------|---------------------------------------|
| <b>Short Term Creditors</b>              |                                       |
| Balance 2011/12 Accounts                 | 63,529                                |
| Earmarked Revenue Reserves               | (556)                                 |
| <b>Restated Opening Balance</b>          | <b>62,973</b>                         |
| <b>Earmarked Revenue Reserves</b>        |                                       |
| Balance 2011/12 Accounts                 | 28,987                                |
| Short Term Creditors                     | 556                                   |
| <b>Restated Opening Balance</b>          | <b>29,543</b>                         |
| <b>Cap. Grants &amp; Conts Unapplied</b> |                                       |
| Balance 2011/12 Accounts                 | 10,061                                |
| Capital Adjustment Account               | (29)                                  |
| <b>Restated Opening Balance</b>          | <b>10,032</b>                         |
| <b>Capital Adjustment Account</b>        |                                       |
| Balance 2011/12 Accounts                 | 859,401                               |
| Cap. Grants and Conts Unapplied          | 29                                    |
| <b>Restated Opening Balance</b>          | <b>859,430</b>                        |

### Consolidated Income and Expenditure Statement 2011/12 Extract

|                                                     | <u>Accounts</u><br><u>Income</u> | <u>Adjustments</u> | <u>Income</u>    | <u>Restated</u><br><u>Expenditure</u> | <u>Net</u>      |
|-----------------------------------------------------|----------------------------------|--------------------|------------------|---------------------------------------|-----------------|
|                                                     | £000's                           | £000's             | £000's           | £000's                                | £000's          |
| Cost of Services                                    | (442,299)                        | (556)              | (442,855)        | 735,221                               | 292,366         |
| <b>Cost of Services</b>                             | <b>(442,299)</b>                 | <b>(556)</b>       | <b>(442,855)</b> | <b>735,221</b>                        | <b>292,366</b>  |
| Planning & Development Services                     | (3,844)                          | (556)              | (4,400)          | 9,376                                 | 4,976           |
|                                                     | <u>Accounts</u>                  | <u>Adjustments</u> | <u>Accounts</u>  | <u>Adjustments</u>                    | <u>Restated</u> |
| <b>Total Comprehensive Income &amp; Expenditure</b> | <b>180,058</b>                   | <b>(556)</b>       | <b>180,058</b>   | <b>(556)</b>                          | <b>179,502</b>  |

### Cash Flow Statement 2011/12 Extract

|                                                                                                                                  | <u>Accounts</u><br><u>£000's</u> | <u>Adjustments</u><br><u>£000's</u> | <u>Restated</u><br><u>£000's</u> |
|----------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------------------|----------------------------------|
| Net surplus or (deficit) on the provision of services                                                                            | (101,303)                        | 556                                 | (100,747)                        |
| Adjustments to surplus or deficit on the provision of services for noncash movements                                             | 26 (a)                           | 112,715                             | (556)                            |
| Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (56,797)                         |                                     | (56,797)                         |
| <b>Net Cash flows from operating activities</b>                                                                                  | <b>(45,385)</b>                  | <b>0</b>                            | <b>(45,385)</b>                  |
| <b>Note 26 (a)</b>                                                                                                               |                                  |                                     |                                  |
| Increase/(Decrease) in Creditors                                                                                                 | (20,257)                         | (556)                               | (20,813)                         |

Note 8 Reconciliation to Subjective Analysis comparatives have also been amended to reflect the £556,000 restatement above within Government Grants and Contributions, amounts not reported to Management.

## 6. Exceptional Items

### a) Revaluation of Property Plant and Equipment

The Council, as in prior years, discloses downward revaluations of General Fund and HRA properties as exceptional items.

### b) Vat Refund – Fleming Cases

The Council, following the House of Lords judgement in respect of Michael Fleming (which prevented HM Revenue Customs enforcing regulations which would legally limit VAT Reclaims to the three previous years), submitted a number of “Fleming” claims most of which were settled in the 2009/10 Financial Year.

During 2011/12 the Council received notifications of further settlements in respect of Trade Waste and Sports Services “Fleming” claims of approximately £4.0M. As these claims related to periods prior to 1 April 2011 they were disclosed as an Exceptional item within the Cost of Services in the Comprehensive Income and Expenditure Statement.

There were no further “Fleming” VAT Refunds in 2012/13.

### c) Equal Pay Provision

The £5.7M Equal Pay Provision reversal in 2011/12 was treated as an Exceptional Item within the Cost of Services in the Comprehensive Income and Expenditure Statement.

The £129,000 utilised in year, in addition to the £330,000 provision brought forward, has also been treated as an exceptional item.

### d) Housing Revenue Account (HRA) Self Financing Buy-Out

The Council paid £73.8M to the DCLG in full and final settlement for the HRA Self Financing buy-out.

There are no similar entries required for the 2012/13 Financial Year.

## 7. Events after the Reporting Period

The Financial Statements were authorised for issue by the Head of Finance & IT on 23 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### a) Retention of Business Rates

1 April 2013 is when the new arrangements for the Retention of Business Rates come into effect. From this date the Council assumes 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 Retention of Business Rates arrangements Central Government is only liable for 50% of future successful appeals refunds, the Council being liable for 49% and Hampshire Fire and Rescue Authority for the remaining 1%.

In January 2013, the Council were required to submit an estimate (NNDR1 Return) 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 as the liability does not crystallise until 1 April 2013. (The loss of The Freightliner Terminal Rateable Value of £1.2M referred to below was not reflected in our estimate to Central Government).

### b) The Freightliner Terminal

In May 2013, Southampton’s Valuation Office Agency (VOA) Relationship Manager gave retrospective notice of a significant deletion from the City’s rating list. The Freightliner Terminal will be deleted from the City’s rating list and moved to the Central Railways rating list with effect from 16 March 2012.

The impact of this deletion is that the Council will have to refund the 2012/13 Business Rates of £0.6M, and lose Rateable Value from the City’s rating list of £1.2M in 2013/14.

The £0.6M refund due to the Freightliner Terminal has been reflected in both the 2012/13 Collection Fund Account and the end of year submission (NNDR3 Return) to Central Government, therefore the full cost of

## NOTES TO THE CORE FINANCIAL STATEMENTS

the refund will be met by Central Government under the Business Rate arrangements that were in place for the Financial Year ended 31 March 2013.

Under the new arrangements the impact, of the £1.2M Freightliner Rateable Value removal from the Council's VOA Rateable Value listing, is a reduction in Business Rates income collectable of £568,000, (i.e. rateable value multiplied by the small business non domestic rating multiplier), and this reduction will be borne by Central Government (50%), the Council (49%), and HFRA (1%).

### **c) Public Health Reform**

The Health and Social Care Act 2012 has provoked the most radical restructuring of the 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.

## **8. Amounts Reported for Resource Allocation Decisions**

The purpose of this note is to reconcile the financial information reported internally to that reported in the Comprehensive Income and Expenditure Statement.

The analysis of Income and Expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by SeRCOP. However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed by Service Portfolios. These reports are prepared on a different basis in particular:

- No charges are included within Service Portfolios in relation to capital expenditure, whereas depreciation, revaluations and impairments losses are charged to Comprehensive Income and Expenditure Statement.
- The cost of retirement benefits is based on actual payments to the pension fund rather than notional current service costs accrued in year.

# NOTES TO THE CORE FINANCIAL STATEMENTS

| 2012/13 Reconciliation               | Adult Services  | Children's Services | Communities    | Environment & Transport | Housing & Leisure Services | Leader's Portfolio | Resources       | Sub-Total Portfolios | Trading Areas  | General Fund Portfolio Total | Housing Revenue Account | Service Analysis Total |
|--------------------------------------|-----------------|---------------------|----------------|-------------------------|----------------------------|--------------------|-----------------|----------------------|----------------|------------------------------|-------------------------|------------------------|
|                                      | £000's          | £000's              | £000's         | £000's                  | £000's                     | £000's             | £000's          | £000's               | £000's         | £000's                       | £000's                  | £000's                 |
| Fees, Charges & Other Service Income | (10,355)        | (12,163)            | (560)          | (19,333)                | (5,797)                    | (2,302)            | (23,786)        | (74,296)             | (7,152)        | (81,448)                     | (68,337)                | (149,785)              |
| Government Grants & Contributions    | (12,754)        | (139,916)           | (2,473)        | (4,088)                 | (241)                      | (540)              | (451)           | (160,463)            | 0              | (160,463)                    |                         | (160,463)              |
| <b>Total Income</b>                  | <b>(23,109)</b> | <b>(152,079)</b>    | <b>(3,033)</b> | <b>(23,421)</b>         | <b>(6,038)</b>             | <b>(2,842)</b>     | <b>(24,237)</b> | <b>(234,759)</b>     | <b>(7,152)</b> | <b>(241,911)</b>             | <b>(68,337)</b>         | <b>(310,248)</b>       |
| Employee Expenses                    | 19,008          | 30,679              | 3,323          | 12,723                  | 10,330                     | 5,194              | 16,165          | 97,422               | 657            | 98,079                       | 8,963                   | 107,042                |
| Other Operating Expenses             | 68,055          | 160,981             | 3,857          | 29,669                  | 6,540                      | 1,173              | 50,051          | 320,326              | 4,865          | 325,191                      | 54,955                  | 380,146                |
| Internal Charges                     | 286             | 402                 | 194            | 2,916                   | 2,738                      | 222                | 913             | 7,671                | 1,491          | 9,162                        | 3,751                   | 12,913                 |
| <b>Total Operating Expenses</b>      | <b>87,349</b>   | <b>192,062</b>      | <b>7,374</b>   | <b>45,308</b>           | <b>19,608</b>              | <b>6,589</b>       | <b>67,129</b>   | <b>425,419</b>       | <b>7,013</b>   | <b>432,432</b>               | <b>67,669</b>           | <b>500,101</b>         |
| <b>Net Controllable Cost</b>         | <b>64,240</b>   | <b>39,983</b>       | <b>4,341</b>   | <b>21,887</b>           | <b>13,570</b>              | <b>3,747</b>       | <b>42,892</b>   | <b>190,660</b>       | <b>(139)</b>   | <b>190,521</b>               | <b>(668)</b>            | <b>189,853</b>         |
| Net Non Controllable Costs           | 6,078           | 25,299              | 1,111          | 10,929                  | 7,335                      | 294                | (27,612)        | 23,434               |                | 23,434                       |                         | 23,434                 |
| <b>Total Portfolio Cost</b>          | <b>70,318</b>   | <b>65,282</b>       | <b>5,452</b>   | <b>32,816</b>           | <b>20,905</b>              | <b>4,041</b>       | <b>15,280</b>   | <b>214,094</b>       | <b>(139)</b>   | <b>213,955</b>               | <b>(668)</b>            | <b>213,287</b>         |

## Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement

|                                                                           | £000's         |
|---------------------------------------------------------------------------|----------------|
| <b>Total Service Analysis Cost</b>                                        | <b>213,287</b> |
| Add Services Not Included in Main Analysis                                | (878)          |
| Add Amounts Reported to Management Outside Services                       | (129,872)      |
| Add Amounts Not Reported to Management                                    | 17,792         |
| Remove Amounts Reported to Management Not Included in Cost of Services    | 134,421        |
| <b>Cost of Services in Comprehensive Income and Expenditure Statement</b> | <b>234,750</b> |

## Reconciliation to Subjective Analysis

|                                                       | Service Analysis | Services Not Included in Main Analysis | Amounts Reported to Management Outside Services | Amounts Not Reported to Management | Amounts Reported to Management Not Included in Cost of Services | Cost of Services in Comprehensive Income and Expenditure Statement | Corporate Adjustments | Total            |
|-------------------------------------------------------|------------------|----------------------------------------|-------------------------------------------------|------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------|-----------------------|------------------|
|                                                       | £000's           | £000's                                 | £000's                                          | £000's                             | £000's                                                          | £000's                                                             | £000's                | £000's           |
| Fees, Charges & Other Service Income                  | (149,785)        | (2,159)                                | (202)                                           | (4,909)                            | 7,062                                                           | (149,993)                                                          |                       | (149,993)        |
| Government Grants & Contributions                     | (160,463)        | (129,480)                              | (26,604)                                        |                                    | 26,604                                                          | (289,943)                                                          | (51,260)              | (341,203)        |
| Interest and Investment Income                        |                  |                                        | (806)                                           |                                    | 806                                                             | 0                                                                  | (2,246)               | (2,246)          |
| Income From Council Tax                               |                  |                                        | (373)                                           |                                    | 373                                                             | 0                                                                  | (83,479)              | (83,479)         |
| NNDR Redistribution                                   |                  |                                        | (97,591)                                        |                                    | 97,591                                                          | 0                                                                  | (97,591)              | (97,591)         |
| <b>Total Income</b>                                   | <b>(310,248)</b> | <b>(131,639)</b>                       | <b>(125,576)</b>                                | <b>(4,909)</b>                     | <b>132,436</b>                                                  | <b>(439,936)</b>                                                   | <b>(234,576)</b>      | <b>(674,512)</b> |
| Employee Expenses                                     |                  | 107,042                                |                                                 | 129                                | (3,239)                                                         | 103,932                                                            | 10,850                | 114,782          |
| Other Operating Expenses                              |                  | 380,146                                | 130,761                                         |                                    | (20,415)                                                        | 487,519                                                            |                       | 487,519          |
| Internal Charges                                      |                  | 12,913                                 |                                                 |                                    | (659)                                                           | 12,254                                                             |                       | 12,254           |
| Depreciation, Amortisation and Impairment             |                  |                                        |                                                 | (25,496)                           | 70,448                                                          | 25,496                                                             | 70,448                | 70,448           |
| Investment Properties                                 |                  |                                        |                                                 |                                    |                                                                 | 0                                                                  | (6,781)               | (6,781)          |
| Interest Payable and Similar Charges                  |                  |                                        |                                                 | 12,191                             |                                                                 | (12,191)                                                           | 0                     | 15,406           |
| Other Miscellaneous Items                             |                  |                                        |                                                 | 531                                |                                                                 | 2                                                                  | 533                   | 533              |
| Draw from Balances                                    |                  |                                        |                                                 | 7,694                              |                                                                 | (7,694)                                                            | 0                     | 0                |
| Precepts & Levies                                     |                  |                                        |                                                 | 655                                |                                                                 | (655)                                                              | 0                     | 655              |
| Payments to Housing Capital Receipts Pool             |                  |                                        |                                                 |                                    |                                                                 | 0                                                                  | 827                   | 827              |
| Loss / (Gain) on Disposal of Fixed Assets             |                  |                                        |                                                 |                                    |                                                                 | 0                                                                  | 43,328                | 43,328           |
| <b>Total Operating Expenses</b>                       |                  | <b>500,101</b>                         | <b>130,761</b>                                  | <b>(4,296)</b>                     | <b>46,135</b>                                                   | <b>1,985</b>                                                       | <b>674,686</b>        | <b>64,285</b>    |
| Net Non Controllable Costs                            |                  | 23,434                                 |                                                 |                                    | (23,434)                                                        |                                                                    | 0                     | 0                |
| <b>Surplus / Deficit on the Provision of Services</b> |                  | <b>213,287</b>                         | <b>(878)</b>                                    | <b>(129,872)</b>                   | <b>17,792</b>                                                   | <b>134,421</b>                                                     | <b>234,750</b>        | <b>(170,291)</b> |



# NOTES TO THE CORE FINANCIAL STATEMENTS

| 2011/12 Reconciliation               | Adult Social Care & Health | Childrens Services & Learning | Environment & Transport | Housing General Fund | Leader's Portfolio | Leisure & Culture | Resources       | Sub-Total Portfolios | Trading Areas  | General Fund Portfolio Total | Housing Revenue Account | Service Analysis Total |
|--------------------------------------|----------------------------|-------------------------------|-------------------------|----------------------|--------------------|-------------------|-----------------|----------------------|----------------|------------------------------|-------------------------|------------------------|
|                                      | £000's                     | £000's                        | £000's                  | £000's               | £000's             | £000's            | £000's          | £000's               | £000's         | £000's                       | £000's                  | £000's                 |
| Fees, Charges & Other Service Income | (9,700)                    | (13,819)                      | (18,643)                | (4,950)              | (2,109)            | (2,309)           | (23,730)        | (75,260)             | (7,001)        | (82,261)                     | (64,087)                | (146,348)              |
| Government Grants & Contributions    | (10,961)                   | (147,817)                     | (3,595)                 | (168)                | (1,761)            | (371)             | (441)           | (165,114)            |                | (165,114)                    |                         | (165,114)              |
| <b>Total Income</b>                  | <b>(20,661)</b>            | <b>(161,636)</b>              | <b>(22,238)</b>         | <b>(5,118)</b>       | <b>(3,870)</b>     | <b>(2,680)</b>    | <b>(24,171)</b> | <b>(240,374)</b>     | <b>(7,001)</b> | <b>(247,375)</b>             | <b>(64,087)</b>         | <b>(311,462)</b>       |
| Employee Expenses                    | 19,734                     | 31,911                        | 12,376                  | 8,032                | 7,600              | 5,566             | 20,060          | 105,279              | 771            | 106,050                      | 7,983                   | 114,033                |
| Other Operating Expenses             | 65,442                     | 168,725                       | 30,469                  | 4,717                | 3,307              | 3,977             | 48,866          | 325,503              | 4,436          | 329,939                      | 51,166                  | 381,105                |
| Internal Charges                     | 280                        | 615                           | 3,293                   | 1,615                | 360                | 430               | 930             | 7,523                | 1,628          | 9,151                        | 3,940                   | 13,091                 |
| <b>Total Operating Expenses</b>      | <b>85,456</b>              | <b>201,251</b>                | <b>46,138</b>           | <b>14,364</b>        | <b>11,267</b>      | <b>9,973</b>      | <b>69,856</b>   | <b>438,305</b>       | <b>6,835</b>   | <b>445,140</b>               | <b>63,089</b>           | <b>508,229</b>         |
| <b>Net Controllable Cost</b>         | <b>64,795</b>              | <b>39,615</b>                 | <b>23,900</b>           | <b>9,246</b>         | <b>7,397</b>       | <b>7,293</b>      | <b>45,685</b>   | <b>197,931</b>       | <b>(166)</b>   | <b>197,765</b>               | <b>(998)</b>            | <b>196,767</b>         |
| Net Non Controllable Costs           | 6,399                      | 25,306                        | 11,390                  | 741                  | 1,749              | 5,185             | (27,739)        | 23,031               |                | 23,031                       |                         | 23,031                 |
| <b>Total Portfolio Cost</b>          | <b>71,194</b>              | <b>64,921</b>                 | <b>35,290</b>           | <b>9,987</b>         | <b>9,146</b>       | <b>12,478</b>     | <b>17,946</b>   | <b>220,962</b>       | <b>(166)</b>   | <b>220,796</b>               | <b>(998)</b>            | <b>219,798</b>         |

## Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement

|                                                                           | £000's         |
|---------------------------------------------------------------------------|----------------|
| <b>Total Service Analysis Cost</b>                                        | <b>219,798</b> |
| Add Services Not Included in Main Analysis                                | (916)          |
| Add Amounts Reported to Management Outside Services                       | (29,195)       |
| Add Amounts Not Reported to Management                                    | 73,265         |
| Remove Amounts Reported to Management Not Included in Cost of Services    | 29,414         |
| <b>Cost of Services in Comprehensive Income and Expenditure Statement</b> | <b>292,366</b> |

## Reconciliation to Subjective Analysis

|                                                       | Service Analysis | Services Not Included in Main Analysis | Amounts Reported to Management | Amounts Not Reported to Management Outside Services | Amounts Reported to Management Not Included in Cost of Services | Cost of Services in Comprehensive Income and Expenditure Statement | Corporate Adjustments | Total            |
|-------------------------------------------------------|------------------|----------------------------------------|--------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------|-----------------------|------------------|
|                                                       | £000's           | £000's                                 | £000's                         | £000's                                              | £000's                                                          | £000's                                                             | £000's                | £000's           |
| Fees, Charges & Other Service Income                  | (146,348)        | (2,352)                                | (5,386)                        |                                                     | 7,133                                                           | (146,953)                                                          |                       | (146,953)        |
| Government Grants & Contributions                     | (165,114)        | (122,942)                              | (22,136)                       | (7,846)                                             | 22,136                                                          | (295,902)                                                          | (90,564)              | (386,466)        |
| Interest and Investment Income                        |                  |                                        | (1,510)                        |                                                     | 1,510                                                           | 0                                                                  | (2,822)               | (2,822)          |
| Income From Council Tax                               |                  |                                        |                                |                                                     |                                                                 | 0                                                                  | (83,746)              | (83,746)         |
| NNDR Redistribution                                   |                  |                                        |                                |                                                     |                                                                 | 0                                                                  | (80,097)              | (80,097)         |
| <b>Total Income</b>                                   | <b>(311,462)</b> | <b>(125,294)</b>                       | <b>(29,032)</b>                | <b>(7,846)</b>                                      | <b>30,779</b>                                                   | <b>(442,855)</b>                                                   | <b>(257,229)</b>      | <b>(700,084)</b> |
| Employee Expenses                                     |                  | 114,033                                |                                | (8,572)                                             |                                                                 | 105,461                                                            | 8,900                 | 114,361          |
| Other Operating Expenses                              |                  | 381,105                                | 124,378                        |                                                     | 57,186                                                          | (3,107)                                                            | 559,562               | 559,562          |
| Internal Charges                                      |                  | 13,091                                 |                                | (740)                                               |                                                                 | 12,351                                                             |                       | 12,351           |
| Depreciation, Amortisation and Impairment             |                  |                                        | (25,077)                       | 56,268                                              | 25,077                                                          | 56,268                                                             |                       | 56,268           |
| Investment Properties                                 |                  |                                        |                                |                                                     |                                                                 | 0                                                                  | 737                   | 737              |
| Interest Payable and Similar Charges                  |                  |                                        | 13,682                         |                                                     | (13,682)                                                        | 0                                                                  | 14,345                | 14,345           |
| Other Miscellaneous Items                             |                  |                                        | 4,411                          |                                                     | (2,832)                                                         | 1,579                                                              |                       | 1,579            |
| Draw from Balances                                    |                  |                                        | 6,136                          |                                                     | (6,136)                                                         | 0                                                                  |                       | 0                |
| Precepts & Levies                                     |                  |                                        | 685                            |                                                     | (685)                                                           | 0                                                                  | 685                   | 685              |
| Payments to Housing Capital Receipts Pool             |                  |                                        |                                |                                                     |                                                                 | 0                                                                  | 1,319                 | 1,319            |
| Loss / (Gain) on Disposal of Fixed Assets             |                  |                                        |                                |                                                     |                                                                 | 0                                                                  | 39,624                | 39,624           |
| <b>Total Operating Expenses</b>                       |                  | <b>508,229</b>                         | <b>124,378</b>                 | <b>(163)</b>                                        | <b>104,142</b>                                                  | <b>(1,365)</b>                                                     | <b>735,221</b>        | <b>800,831</b>   |
| Net Non Controllable Costs                            |                  | 23,031                                 |                                | (23,031)                                            |                                                                 | 0                                                                  |                       | 0                |
| <b>Surplus / Deficit on the Provision of Services</b> |                  | <b>219,798</b>                         | <b>(916)</b>                   | <b>(29,195)</b>                                     | <b>73,265</b>                                                   | <b>29,414</b>                                                      | <b>292,366</b>        | <b>(191,619)</b> |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 9. Other Operating Expenditure

Contributions paid to other local public bodies are detailed in the table below:

| <u>2011/12</u><br>£000's |                         | <u>2012/13</u><br>£000's |
|--------------------------|-------------------------|--------------------------|
| 31                       | Southern Seas Fisheries | 31                       |
| 612                      | Coroners Services       | 581                      |
| 42                       | Flood Defence           | 43                       |
| <u>685</u>               |                         | <u>655</u>               |

## 10. Transfers to / (from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2012/13.

|                                          | <u>Balance</u><br><u>31 March</u> | <u>Transfers</u><br><u>Out</u> | <u>Transfers</u><br><u>In</u> | <u>Balance</u><br><u>31 March</u> |
|------------------------------------------|-----------------------------------|--------------------------------|-------------------------------|-----------------------------------|
|                                          | <u>2012</u>                       | <u>2012/13</u>                 | <u>2012/13</u>                | <u>2013</u>                       |
| <u>Earmarked Reserves</u>                | <u>£000's</u>                     | <u>£000's</u>                  | <u>£000's</u>                 | <u>£000's</u>                     |
| <b><u>General Fund</u></b>               |                                   |                                |                               |                                   |
| PFI Sinking Fund                         | 4,578                             | (164)                          |                               | 4,414                             |
| SCC External Investments                 | 34                                |                                |                               | 34                                |
| Pay Reserve                              | 250                               |                                | 61                            | 311                               |
| On Street Parking                        | 1,513                             |                                | 193                           | 1,706                             |
| Transport Repairs Reserve                | 77                                | (77)                           |                               | 0                                 |
| Interest Equalisation Reserve            | 2,063                             |                                | 1,000                         | 3,063                             |
| Transformation                           | 1,500                             |                                | 556                           | 2,056                             |
| Cremator Replacement                     | 556                               | (556)                          |                               | 0                                 |
| General Fund Contributions to Capital    | 3,731                             | (601)                          |                               | 3,130                             |
| PYA - Creditor Restatement               | 556                               | (556)                          |                               | 0                                 |
|                                          | <u>14,858</u>                     | <u>(1,954)</u>                 | <u>1,810</u>                  | <u>14,714</u>                     |
| <b><u>HRA</u></b>                        |                                   |                                |                               |                                   |
| Housing Act Advances                     | 17                                |                                | 1                             | 18                                |
| Housing Revenue Contributions to Capital | 2,728                             | (2,728)                        |                               | 0                                 |
|                                          | <u>2,745</u>                      | <u>(2,728)</u>                 | <u>1</u>                      | <u>18</u>                         |
| <b><u>Schools</u></b>                    |                                   |                                |                               |                                   |
| School Balances                          | 11,940                            | (284)                          |                               | 11,656                            |
|                                          | <u>29,543</u>                     | <u>(4,966)</u>                 | <u>1,811</u>                  | <u>26,388</u>                     |

## 11. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

# NOTES TO THE CORE FINANCIAL STATEMENTS

|                                                                                                                                                                                                      | General<br>Fund<br>Balance | Earmarked<br>Reserves | Housing<br>Revenue<br>Account | Capital<br>Receipts<br>Reserves | Major<br>Repairs<br>Reserve | Capital<br>Grants &<br>Cont's<br>Unapplied | Total<br>Usable<br>Reserves | Unusable<br>Reserves | Total<br>Authority<br>Reserves |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------|-------------------------------|---------------------------------|-----------------------------|--------------------------------------------|-----------------------------|----------------------|--------------------------------|
|                                                                                                                                                                                                      | £000's                     | £000's                | £000's                        | £000's                          | £000's                      | £000's                                     | £000's                      | £000's               | £000's                         |
| <b>Balance at 1 April 2012</b>                                                                                                                                                                       | <b>(23,530)</b>            | <b>(28,987)</b>       | <b>(2,621)</b>                | <b>(4,796)</b>                  | <b>0</b>                    | <b>(10,061)</b>                            | <b>(69,995)</b>             | <b>(772,135)</b>     | <b>(842,130)</b>               |
| Prior Year Restatement                                                                                                                                                                               |                            | (556)                 |                               |                                 |                             | 29                                         | (527)                       | (29)                 | (556)                          |
| <b>Balance at 1 April 2012 - Restated</b>                                                                                                                                                            | <b>(23,530)</b>            | <b>(29,543)</b>       | <b>(2,621)</b>                | <b>(4,796)</b>                  | <b>0</b>                    | <b>(10,032)</b>                            | <b>(70,522)</b>             | <b>(772,164)</b>     | <b>(842,686)</b>               |
| <b>Movement in Reserves during 2012/13</b>                                                                                                                                                           |                            |                       |                               |                                 |                             |                                            |                             |                      |                                |
| Surplus or (deficit) on Provision of Services                                                                                                                                                        | 69,518                     |                       | (5,059)                       |                                 | 0                           | 0                                          | 64,459                      |                      | 64,459                         |
| <b>Other Comprehensive Income and Expenditure</b>                                                                                                                                                    |                            |                       |                               |                                 |                             |                                            |                             |                      |                                |
| Surplus or deficit on revaluation of non current assets                                                                                                                                              |                            |                       |                               |                                 |                             |                                            | 0                           | (12,854)             | (12,854)                       |
| Surplus or deficit on revaluation of available for sale financial assets                                                                                                                             |                            |                       |                               |                                 |                             |                                            |                             | (154)                | (154)                          |
| Actuarial (gains) / losses on pension assets / liabilities                                                                                                                                           |                            |                       |                               |                                 |                             |                                            | 0                           | 25,900               | 25,900                         |
| <b>Total Comprehensive Income and Expenditure</b>                                                                                                                                                    | <b>69,518</b>              | <b>0</b>              | <b>(5,059)</b>                | <b>0</b>                        | <b>0</b>                    | <b>0</b>                                   | <b>64,459</b>               | <b>12,892</b>        | <b>77,351</b>                  |
| <b>Adjustments between accounting basis &amp; funding basis under regulations</b>                                                                                                                    |                            |                       |                               |                                 |                             |                                            |                             |                      |                                |
| Amortisation of Intangible Fixed Assets                                                                                                                                                              | (761)                      |                       |                               |                                 |                             |                                            | (761)                       | 761                  | 0                              |
| Depreciation and Impairment of Fixed Assets                                                                                                                                                          | (59,411)                   |                       | (10,275)                      |                                 |                             |                                            | (69,686)                    | 69,686               | 0                              |
| Movement on Market Value of Investment                                                                                                                                                               | 2,623                      |                       | 69                            |                                 |                             |                                            | 2,692                       | (2,692)              | 0                              |
| Assets Transferred to CAPITA                                                                                                                                                                         | (330)                      |                       |                               |                                 |                             |                                            | (330)                       | 330                  | 0                              |
| Capital Grants and Contributions Applied                                                                                                                                                             | 35,218                     |                       | 992                           |                                 |                             |                                            | 36,210                      | (36,210)             | 0                              |
| Capital Grants and Contributions Unapplied                                                                                                                                                           | (1,252)                    |                       | 360                           |                                 |                             | 892                                        | 0                           | 0                    | 0                              |
| Revenue Expenditure Funded from Capital Under Statute                                                                                                                                                | (13,367)                   |                       |                               |                                 |                             |                                            | (13,367)                    | 13,367               | 0                              |
| Short-term Accumulating Compensated                                                                                                                                                                  | 169                        |                       |                               |                                 |                             |                                            | 169                         | (169)                | 0                              |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements            | 60                         |                       |                               |                                 |                             |                                            | 60                          | (60)                 | 0                              |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement                                                                          | (24,984)                   |                       | (2,936)                       |                                 |                             |                                            | (27,920)                    | 27,920               | 0                              |
| Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners                                                                   | 18,022                     |                       | 2,118                         |                                 |                             |                                            | 20,140                      | (20,140)             | 0                              |
| Statutory Provision for the Financing of Capital Investment                                                                                                                                          | 9,962                      |                       | 10,434                        |                                 |                             |                                            | 20,396                      | (20,396)             | 0                              |
| Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool                                                                                                         | (827)                      |                       |                               | 827                             |                             |                                            | 0                           | 0                    | 0                              |
| Capital expenditure charged in-year to the General Fund Balance                                                                                                                                      | 2,823                      |                       | 6,288                         |                                 |                             |                                            | 9,111                       | (9,111)              | 0                              |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements | (100)                      |                       |                               |                                 |                             |                                            | (100)                       | 100                  | 0                              |
| Transfers to/(from) Major Repairs Reserve                                                                                                                                                            |                            |                       |                               |                                 | 68                          |                                            | 68                          | (68)                 | 0                              |
| HRA Depreciation (formerly Major Repairs Allowance)                                                                                                                                                  |                            |                       |                               |                                 | (16,206)                    |                                            | (16,206)                    | 16,206               | 0                              |
| Financing of HRA Assets                                                                                                                                                                              |                            |                       |                               |                                 | 16,138                      |                                            | 16,138                      | (16,138)             | 0                              |
| Amortisation of Item 8 Discount                                                                                                                                                                      |                            |                       | (13)                          |                                 |                             |                                            | (13)                        | 13                   | 0                              |
| Net (loss) / gain on sale of Fixed Assets                                                                                                                                                            | (43,245)                   |                       |                               |                                 |                             |                                            | (43,245)                    | 0                    | (43,245)                       |
| Capital Receipts not matched by Disposal of Assets                                                                                                                                                   | (83)                       |                       | 83                            |                                 |                             |                                            | 0                           | 0                    | 0                              |
| Capital Receipts in Year                                                                                                                                                                             |                            |                       |                               | (17,022)                        |                             |                                            | (17,022)                    | 0                    | (17,022)                       |
| Non-current Asset Disposals                                                                                                                                                                          |                            |                       |                               |                                 |                             |                                            | 0                           | 60,267               | 60,267                         |
| Capital Receipts Financing of New Capital Expenditure                                                                                                                                                |                            |                       |                               | 11,393                          |                             |                                            | 11,393                      | (11,393)             | 0                              |
| Other - inc Repayment of Temporary Borrowing                                                                                                                                                         |                            |                       |                               | 2,560                           |                             |                                            | 2,560                       | (2,560)              | 0                              |
|                                                                                                                                                                                                      | <b>(75,483)</b>            | <b>0</b>              | <b>7,120</b>                  | <b>(2,242)</b>                  | <b>0</b>                    | <b>892</b>                                 | <b>(69,713)</b>             | <b>69,713</b>        | <b>0</b>                       |
| Net Increase/Decrease before Transfers to Earmarked Reserves                                                                                                                                         | (5,965)                    | 0                     | 2,061                         | (2,242)                         | 0                           | 892                                        | (5,254)                     | 82,605               | 77,351                         |
| Transfers to/(from) Earmarked Reserves (Note 10)                                                                                                                                                     | (428)                      | 3,155                 | (2,729)                       | 0                               | 0                           | 0                                          | (2)                         | 2                    | 0                              |
| (Increase)/Decrease movement in Year                                                                                                                                                                 | (6,393)                    | 3,155                 | (668)                         | (2,242)                         | 0                           | 892                                        | (5,256)                     | 82,607               | 77,351                         |
| <b>Balance at 31 March 2013</b>                                                                                                                                                                      | <b>(29,923)</b>            | <b>(26,388)</b>       | <b>(3,289)</b>                | <b>(7,038)</b>                  | <b>0</b>                    | <b>(9,140)</b>                             | <b>(75,778)</b>             | <b>(689,557)</b>     | <b>(765,335)</b>               |

# NOTES TO THE CORE FINANCIAL STATEMENTS

|                                                                                                                                                                                                      | General Fund Balance | Earmarked Reserves | Housing Revenue Account | Capital Receipts Reserves | Major Repairs Reserve | Capital Grants & Cont's Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------|-------------------------|---------------------------|-----------------------|-----------------------------------|-----------------------|-------------------|--------------------------|
|                                                                                                                                                                                                      | £000's               | £000's             | £000's                  | £000's                    | £000's                | £000's                            | £000's                | £000's            | £000's                   |
| <b>Balance at 1 April 2011</b>                                                                                                                                                                       | <b>(17,394)</b>      | <b>(24,590)</b>    | <b>(1,623)</b>          | <b>(1,741)</b>            | <b>0</b>              | <b>(11,179)</b>                   | <b>(56,527)</b>       | <b>(965,661)</b>  | <b>(1,022,188)</b>       |
| <b>Movement in Reserves during 2011/12</b>                                                                                                                                                           |                      |                    |                         |                           |                       |                                   |                       |                   |                          |
| Surplus or (deficit) on Provision of Services                                                                                                                                                        | 11,129               |                    | 90,174                  |                           | 0                     | 0                                 | <b>101,303</b>        |                   | <b>101,303</b>           |
| <b>Other Comprehensive Income and Expenditure</b>                                                                                                                                                    |                      |                    |                         |                           |                       |                                   |                       |                   |                          |
| Surplus or deficit on revaluation of non current assets                                                                                                                                              |                      |                    |                         |                           |                       |                                   | <b>0</b>              | 2,754             | <b>2,754</b>             |
| Surplus or deficit on revaluation of available for sale financial assets                                                                                                                             |                      |                    |                         |                           |                       |                                   |                       | (49)              | <b>(49)</b>              |
| Actuarial (gains) / losses on pension assets / liabilities                                                                                                                                           |                      |                    |                         |                           |                       |                                   | <b>0</b>              | 76,050            | <b>76,050</b>            |
| <b>Total Comprehensive Income and Expenditure</b>                                                                                                                                                    | <b>11,129</b>        | <b>0</b>           | <b>90,174</b>           | <b>0</b>                  | <b>0</b>              | <b>0</b>                          | <b>101,303</b>        | <b>78,755</b>     | <b>180,058</b>           |
| <b>Adjustments between accounting basis &amp; funding basis under regulations</b>                                                                                                                    |                      |                    |                         |                           |                       |                                   |                       |                   |                          |
|                                                                                                                                                                                                      |                      |                    |                         |                           |                       |                                   |                       | <b>0</b>          | <b>0</b>                 |
| Amortisation of Intangible Fixed Assets                                                                                                                                                              | (308)                |                    |                         |                           |                       |                                   | <b>(308)</b>          | 308               | <b>0</b>                 |
| Depreciation and Impairment of Fixed Assets                                                                                                                                                          | (31,439)             |                    | (24,508)                |                           |                       |                                   | <b>(55,947)</b>       | 55,947            | <b>0</b>                 |
| Movement on Market Value of Investment Properties                                                                                                                                                    | (4,625)              |                    | (138)                   |                           |                       |                                   | <b>(4,763)</b>        | 4,763             | <b>0</b>                 |
| Assets Transferred to CAPITA                                                                                                                                                                         | (313)                |                    |                         |                           |                       |                                   | <b>(313)</b>          | 313               | <b>0</b>                 |
| Capital Grants and Contributions Applied                                                                                                                                                             | 45,883               |                    | 2,568                   |                           |                       |                                   | <b>48,451</b>         | (48,451)          | <b>0</b>                 |
| Capital Grants and Contributions Unapplied                                                                                                                                                           | 519                  |                    |                         |                           |                       | (519)                             | <b>0</b>              | 0                 | <b>0</b>                 |
| Revenue Expenditure Funded from Capital Under Statute                                                                                                                                                | (4,391)              |                    |                         |                           |                       |                                   | <b>(4,391)</b>        | 4,391             | <b>0</b>                 |
| Short-term Accumulating Compensated Absences Account                                                                                                                                                 | (31)                 |                    |                         |                           |                       |                                   | <b>(31)</b>           | 31                | <b>0</b>                 |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements            | (733)                |                    |                         |                           |                       |                                   | <b>(733)</b>          | 733               | <b>0</b>                 |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement                                                                          | (25,596)             |                    | (2,584)                 |                           |                       |                                   | <b>(28,180)</b>       | 28,180            | <b>0</b>                 |
| Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners                                                                   | 21,127               |                    | 2,133                   |                           |                       |                                   | <b>23,260</b>         | (23,260)          | <b>0</b>                 |
| HRA Self Financing                                                                                                                                                                                   |                      |                    | (73,847)                |                           |                       |                                   | <b>(73,847)</b>       | 73,847            | <b>0</b>                 |
| Capitalisation Directive                                                                                                                                                                             | 4,591                |                    |                         |                           |                       |                                   | <b>4,591</b>          | (4,591)           | <b>0</b>                 |
| Statutory Provision for the Financing of Capital Investment                                                                                                                                          | 10,825               |                    |                         |                           |                       |                                   | <b>10,825</b>         | (10,825)          | <b>0</b>                 |
| Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool                                                                                                         | (1,319)              |                    |                         | 1,319                     |                       |                                   | <b>0</b>              | 0                 | <b>0</b>                 |
| Capital expenditure charged in-year to the General Fund Balance                                                                                                                                      | 6,281                |                    | 6,459                   |                           |                       |                                   | <b>12,740</b>         | (12,740)          | <b>0</b>                 |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements | (2,084)              |                    |                         |                           |                       |                                   | <b>(2,084)</b>        | 2,084             | <b>0</b>                 |
| Transfers to/(from) Major Repairs Reserve                                                                                                                                                            |                      |                    | (68)                    |                           | 68                    |                                   | <b>0</b>              | 0                 | <b>0</b>                 |
| Major Repairs Allowance                                                                                                                                                                              |                      |                    |                         |                           | (13,164)              |                                   | <b>(13,164)</b>       | 13,164            | <b>0</b>                 |
| Financing of HRA Assets                                                                                                                                                                              |                      |                    |                         |                           | 13,096                |                                   | <b>13,096</b>         | (13,096)          | <b>0</b>                 |
| Removal of HRA Effective Interest Rate Calculation                                                                                                                                                   |                      |                    | 43                      |                           |                       |                                   | <b>43</b>             | (43)              | <b>0</b>                 |
| Amortisation of Item 8 Discount                                                                                                                                                                      |                      |                    | (84)                    |                           |                       |                                   | <b>(84)</b>           | 84                | <b>0</b>                 |
| Net (loss) / gain on sale of Fxed Assets                                                                                                                                                             | (39,557)             |                    |                         |                           |                       |                                   | <b>(39,557)</b>       | 0                 | <b>(39,557)</b>          |
| Capital Receipts not matched by Disposal of Assets                                                                                                                                                   | (67)                 |                    | 67                      |                           |                       |                                   | <b>0</b>              | 0                 | <b>0</b>                 |
| Capital Receipts in Year                                                                                                                                                                             |                      |                    |                         | (9,209)                   |                       |                                   | <b>(9,209)</b>        | 0                 | <b>(9,209)</b>           |
| Non-current Asset Disposals                                                                                                                                                                          |                      |                    |                         |                           |                       |                                   | <b>0</b>              | 48,771            | <b>48,771</b>            |
| Capital Receipts Financing of New Capital Expenditure                                                                                                                                                |                      |                    |                         | 4,835                     |                       |                                   | <b>4,835</b>          | (4,835)           | <b>0</b>                 |
|                                                                                                                                                                                                      | <b>(21,237)</b>      | <b>0</b>           | <b>(89,959)</b>         | <b>(3,055)</b>            | <b>0</b>              | <b>(519)</b>                      | <b>(114,770)</b>      | <b>114,775</b>    | <b>5</b>                 |
| Net (Increase)/Decrease before Transfers to Earmarked Reserves                                                                                                                                       | (10,108)             | 0                  | 215                     | (3,055)                   | 0                     | (519)                             | <b>(13,467)</b>       | <b>193,530</b>    | <b>180,063</b>           |
| Transfers to/(from) Earmarked Reserves (Note 10)                                                                                                                                                     | 3,972                | (4,397)            | (1,213)                 | 0                         | 0                     | 1,637                             | <b>(1)</b>            | (4)               | <b>(5)</b>               |
| (Increase)/Decrease movement in Year                                                                                                                                                                 | (6,136)              | (4,397)            | (998)                   | (3,055)                   | 0                     | 1,118                             | <b>(13,468)</b>       | 193,526           | <b>180,058</b>           |
| <b>Balance at 31 March 2012</b>                                                                                                                                                                      | <b>(23,530)</b>      | <b>(28,987)</b>    | <b>(2,621)</b>          | <b>(4,796)</b>            | <b>0</b>              | <b>(10,061)</b>                   | <b>(69,995)</b>       | <b>(772,135)</b>  | <b>(842,130)</b>         |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 12. Financing and Investment Income and Expenditure

| <u>2011/12</u><br>£000's |                       | <u>2012/13</u><br>£000's |
|--------------------------|-----------------------|--------------------------|
| 1,498                    | Temporary Investments | 800                      |
| 45                       | HRA Cash Balances     | 35                       |
| 1,279                    | Other                 | 1,411                    |
| <u>2,822</u>             |                       | <u>2,246</u>             |

| <u>2011/12</u><br>£000's |                                                | <u>2012/13</u><br>£000's |
|--------------------------|------------------------------------------------|--------------------------|
| 8,804                    | Interest on External Loans                     | 9,679                    |
| 572                      | Payments to HCC in respect of Transferred Debt | 566                      |
| 286                      | Interest on Funds held                         | 210                      |
| 4,584                    | PFI Schemes                                    | 4,905                    |
| 99                       | Finance Leases                                 | 46                       |
| <u>14,345</u>            |                                                | <u>15,406</u>            |

### 13. Property Plant and Equipment

Fixed assets are shown at a current valuation of £1,213.7M, a decrease of £59.9M. The basis of valuation is explained in more detail in **Note 1u (Accounting Policies)**. The values are shown as at 31 March 2013.

#### a) Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – Currently the Major Repairs Allowance is used as a proxy for Depreciation.
- Other Land and Buildings – 30 to 70 years.
- Vehicles, Plant, Furniture & Equipment – 5 to 15 years.
- Infrastructure – 25 to 40 years.

#### b) Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

The movement in Property, Plant and Equipment for both the current and previous year are shown below and comes about due to changes to asset valuations, disposals of existing fixed assets, new acquisitions and enhancements to assets funded by capital expenditure.

#### c) Disposals

The £43.3M (2011/12 £39.6M) loss on disposal of non-current assets, shown within the Comprehensive Income and Expenditure Statement, includes transfers of ownership from the Council to Academy Schools and Foundation Trust Schools of approximately £47.0M (2011/12 £41.6M). With the move for schools to convert to academies this is likely to continue.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Movement in Property, Plant & Equipment (PP&E) 2012/13

|                                                                                                        | Council<br>Dwellings | Other<br>Land &<br>Buildings | Vehicles,<br>Plant and<br>Equipment | Infrastructure  | Community<br>Assets | Surplus<br>Assets | PP&E Under<br>Construction | Total            | PFI<br>Assets<br>Included<br>in PP&E |
|--------------------------------------------------------------------------------------------------------|----------------------|------------------------------|-------------------------------------|-----------------|---------------------|-------------------|----------------------------|------------------|--------------------------------------|
|                                                                                                        | £000's               | £000's                       | £000's                              | £000's          | £000's              | £000's            | £000's                     | £000's           | £000's                               |
| <b>Cost or Valuation</b>                                                                               |                      |                              |                                     |                 |                     |                   |                            |                  |                                      |
| At 1 April 2012                                                                                        | 478,570              | 713,079                      | 28,059                              | 143,144         | 2,029               | 9,429             | 38,698                     | <b>1,413,008</b> | 78,467                               |
| Additions                                                                                              | 23,991               | 18,960                       | 9,431                               | 9,372           |                     |                   | 8,143                      | <b>69,897</b>    | 5,443                                |
| Revaluation Increases/(decreases)<br>recognised in the Revaluation<br>Reserve                          |                      | 11,347                       |                                     |                 |                     | (2)               |                            | <b>11,345</b>    |                                      |
| Revaluation Increases/(decreases)<br>recognised in the Surplus/Deficit on<br>the Provision of Services | (10,547)             | (34,287)                     |                                     |                 |                     | (95)              | (163)                      | <b>(45,092)</b>  |                                      |
| Derecognition-Disposals                                                                                | (5,066)              | (51,392)                     |                                     |                 | (10)                | (428)             | 0                          | <b>(56,896)</b>  |                                      |
| Derecognitions- Fully Depreciated                                                                      |                      |                              | (4,078)                             |                 |                     |                   |                            | <b>(4,078)</b>   |                                      |
| Other Reclassifications                                                                                | (835)                | 41,200                       | 13                                  |                 | (961)               | 245               | (41,355)                   | <b>(1,693)</b>   |                                      |
| <b>At 31 March 2013</b>                                                                                | <b>486,113</b>       | <b>698,907</b>               | <b>33,425</b>                       | <b>152,516</b>  | <b>1,058</b>        | <b>9,149</b>      | <b>5,323</b>               | <b>1,386,491</b> | <b>83,910</b>                        |
| <b>Accumulated Depreciation and<br/>Impairment</b>                                                     |                      |                              |                                     |                 |                     |                   |                            |                  |                                      |
| At 1 April 2012                                                                                        |                      | (108,939)                    | (11,574)                            | (17,681)        | (41)                | (1,167)           |                            | <b>(139,402)</b> | (6,035)                              |
| Depreciation Charge                                                                                    | (16,138)             | (17,394)                     | (3,100)                             | (3,193)         |                     | (221)             |                            | <b>(40,046)</b>  | (2,358)                              |
| Derecognition-Disposals                                                                                |                      | 2,559                        | 4,078                               |                 |                     |                   |                            | <b>6,637</b>     |                                      |
| <b>At 31 March 2013</b>                                                                                | <b>(16,138)</b>      | <b>(123,774)</b>             | <b>(10,595)</b>                     | <b>(20,874)</b> | <b>(41)</b>         | <b>(1,388)</b>    | <b>0</b>                   | <b>(172,810)</b> | <b>(8,393)</b>                       |
| <b>Net Book Value</b>                                                                                  |                      |                              |                                     |                 |                     |                   |                            |                  |                                      |
| <b>At 31 March 2013</b>                                                                                | <b>469,975</b>       | <b>575,133</b>               | <b>22,830</b>                       | <b>131,642</b>  | <b>1,017</b>        | <b>7,761</b>      | <b>5,323</b>               | <b>1,213,681</b> | <b>75,517</b>                        |
| <b>At 31 March 2012</b>                                                                                | <b>478,570</b>       | <b>604,140</b>               | <b>16,485</b>                       | <b>125,463</b>  | <b>1,988</b>        | <b>8,262</b>      | <b>38,698</b>              | <b>1,273,606</b> | <b>72,432</b>                        |

|                                               | Council<br>Dwellings | Other Land<br>and<br>Buildings | Vehicles,<br>Plant and<br>Equipment | Infrastructure | Community<br>Assets | Surplus<br>Assets | PP&E Under<br>Construction | Total            |
|-----------------------------------------------|----------------------|--------------------------------|-------------------------------------|----------------|---------------------|-------------------|----------------------------|------------------|
|                                               | £000's               | £000's                         | £000's                              | £000's         | £000's              | £000's            | £000's                     | £000's           |
| <b>Carried at Historic Cost</b>               |                      | 193                            | 22,830                              | 131,642        | 1,017               |                   | 5,323                      | 161,005          |
| <b>Valued at Fair Value in:</b>               |                      |                                |                                     |                |                     |                   |                            |                  |
| 2012/13                                       | 469,975              | 98,527                         |                                     |                |                     |                   |                            | 568,502          |
| 2011/12                                       |                      | 374,139                        |                                     |                |                     | 215               |                            | 374,354          |
| 2010/11                                       |                      | 13,167                         |                                     |                |                     |                   |                            | 13,167           |
| 2009/10                                       |                      | 84,343                         |                                     |                |                     | 7,546             |                            | 91,889           |
| 2008/09                                       |                      | 4,028                          |                                     |                |                     |                   |                            | 4,028            |
| 2007/08                                       |                      | 736                            |                                     |                |                     |                   |                            | 736              |
| <b>Net Book Value as at 31<br/>March 2013</b> | <b>469,975</b>       | <b>575,133</b>                 | <b>22,830</b>                       | <b>131,642</b> | <b>1,017</b>        | <b>7,761</b>      | <b>5,323</b>               | <b>1,213,681</b> |



## NOTES TO THE CORE FINANCIAL STATEMENTS

| <b>Movement in Property, Plant &amp; Equipment (PP&amp;E) 2011/12</b>                            |                          |                                   |                                      |                       |                         |                       |                                    |                  |                                        |
|--------------------------------------------------------------------------------------------------|--------------------------|-----------------------------------|--------------------------------------|-----------------------|-------------------------|-----------------------|------------------------------------|------------------|----------------------------------------|
|                                                                                                  | <b>Council Dwellings</b> | <b>Other Land &amp; Buildings</b> | <b>Vehicles, Plant and Equipment</b> | <b>Infrastructure</b> | <b>Community Assets</b> | <b>Surplus Assets</b> | <b>PP&amp;E Under Construction</b> | <b>Total</b>     | <b>PFI Assets Included in PP&amp;E</b> |
|                                                                                                  | <b>£000's</b>            | <b>£000's</b>                     | <b>£000's</b>                        | <b>£000's</b>         | <b>£000's</b>           | <b>£000's</b>         | <b>£000's</b>                      | <b>£000's</b>    | <b>£000's</b>                          |
| <b>Cost or Valuation</b>                                                                         |                          |                                   |                                      |                       |                         |                       |                                    |                  |                                        |
| At 31 March 2011                                                                                 | 496,642                  | 739,459                           | 23,642                               | 131,882               | 0                       | 10,349                | 13,999                             | <b>1,415,973</b> | 74,659                                 |
| Additions                                                                                        | 22,123                   | 29,249                            | 4,970                                | 11,262                | 0                       | 0                     | 31,251                             | <b>98,855</b>    | 3,808                                  |
| Donations                                                                                        |                          |                                   |                                      |                       |                         |                       |                                    | <b>0</b>         |                                        |
| Revaluation Increases/(decreases) recognised in the Revaluation Reserve                          |                          | (2,065)                           |                                      | 0                     | 157                     | (846)                 |                                    | <b>(2,754)</b>   |                                        |
| Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (24,100)                 | (3,638)                           | (11)                                 | 0                     | 0                       | (2,831)               | (630)                              | <b>(31,210)</b>  |                                        |
| Derecognition-Disposals                                                                          | (2,999)                  | (44,955)                          |                                      | 0                     | 0                       | 0                     |                                    | <b>(47,954)</b>  |                                        |
| Derecognitions- Fully Depreciated                                                                |                          |                                   | (542)                                |                       |                         |                       |                                    | <b>(542)</b>     |                                        |
| Other Reclassifications                                                                          |                          | (4,971)                           |                                      | 0                     | 1,872                   | 2,757                 | (5,922)                            | <b>(6,264)</b>   |                                        |
| <b>At 31 March 2012</b>                                                                          | <b>491,666</b>           | <b>713,079</b>                    | <b>28,059</b>                        | <b>143,144</b>        | <b>2,029</b>            | <b>9,429</b>          | <b>38,698</b>                      | <b>1,426,104</b> | <b>78,467</b>                          |
| <b>Accumulated Depreciation and Impairment</b>                                                   |                          |                                   |                                      |                       |                         |                       |                                    |                  |                                        |
| At 31 March 2011                                                                                 | 0                        | (93,549)                          | (9,050)                              | (14,705)              | 0                       | (648)                 | 0                                  | <b>(117,952)</b> | (3,805)                                |
| Depreciation Charge                                                                              | (13,096)                 | (17,966)                          | (3,066)                              | (2,976)               | (41)                    | (519)                 |                                    | <b>(37,664)</b>  | (2,230)                                |
| Derecognition-Disposals                                                                          |                          | 2,576                             | 542                                  |                       |                         |                       |                                    | <b>3,118</b>     |                                        |
| <b>At 31 March 2012</b>                                                                          | <b>(13,096)</b>          | <b>(108,939)</b>                  | <b>(11,574)</b>                      | <b>(17,681)</b>       | <b>(41)</b>             | <b>(1,167)</b>        | <b>0</b>                           | <b>(152,498)</b> | <b>(6,035)</b>                         |
| <b>Net Book Value</b>                                                                            |                          |                                   |                                      |                       |                         |                       |                                    |                  |                                        |
| <b>At 31 March 2012</b>                                                                          | <b>478,570</b>           | <b>604,140</b>                    | <b>16,485</b>                        | <b>125,463</b>        | <b>1,988</b>            | <b>8,262</b>          | <b>38,698</b>                      | <b>1,273,606</b> | <b>72,432</b>                          |
| <b>At 31 March 2011</b>                                                                          | <b>496,642</b>           | <b>645,909</b>                    | <b>14,592</b>                        | <b>117,177</b>        | <b>0</b>                | <b>9,701</b>          | <b>13,999</b>                      | <b>1,298,020</b> | <b>70,854</b>                          |

### Capital Commitments

At 31 March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years budgeted to cost £57.7M. Similar commitments at 31 March 2012 were £58.4M. The major commitments are:

|                                           | <b>£000's</b> |
|-------------------------------------------|---------------|
| HRA - modern facilities                   | 33,732        |
| HRA - safe, wind & weather tight          | 9,805         |
| HRA - well maintained communal facilities | 3,804         |
| HRA - warm & energy efficient             | 2,807         |
| Accommodation Strategy                    | 1,578         |
| Southampton New Arts Centre               | 1,068         |
| Platform for Prosperity                   | 567           |
| Sembell House Refurbishment               | 528           |
| HRA - estate regeneration                 | 479           |
| Other Various                             | 3,355         |
| <b>Total</b>                              | <b>57,723</b> |

### 14. Heritage Assets

As noted in set out in our Accounting Policies, **Note 1m (Accounting Policies)**, the Council's Heritage Assets are broadly held in the Council's Museums. The Council has four collections of Heritage Assets which are held in support of the primary objective of the Council's Museums, i.e. increasing the knowledge and understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment.

In addition to Historic Buildings and Ancient Monuments (including the City Walls), the Council has four main collections:

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Archives;
- Works of Art;
- Archaeology; and
- Local and Maritime Collections.

It is not possible to ascribe meaningful values to the Archive, Archaeology and Local and Maritime Collections. A number of Museum Assets within the Asset Register have been reclassified from Property, Plant and Equipment to Heritage Assets including the Tudor House Museum which has undergone extensive restoration.

| <b>Reconciliation of the Carrying Value of Heritage Assets Held by the Council</b>              |                         |                                                             |                         |
|-------------------------------------------------------------------------------------------------|-------------------------|-------------------------------------------------------------|-------------------------|
|                                                                                                 | <b>Works<br/>of Art</b> | <b>Historic<br/>Buildings<br/>and Ancient<br/>Monuments</b> | <b>Total<br/>Assets</b> |
|                                                                                                 | <b>£000's</b>           | <b>£000's</b>                                               | <b>£000's</b>           |
| <b>Cost or Valuation</b>                                                                        |                         |                                                             |                         |
| 31 March 2011                                                                                   | 190,000                 | 5,341                                                       | 195,341                 |
| Additions                                                                                       |                         | 1,647                                                       | 1,647                   |
| Disposals                                                                                       |                         |                                                             | 0                       |
| Revaluations                                                                                    |                         |                                                             | 0                       |
| Impairment Losses/(reversals) recognised in the Revaluation Reserve                             |                         |                                                             | 0                       |
| Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services |                         |                                                             | 0                       |
| Cumulative Depreciation                                                                         |                         | (342)                                                       | (342)                   |
| <b>31 March 2012</b>                                                                            | <b>190,000</b>          | <b>6,646</b>                                                | <b>196,646</b>          |
| <b>Cost or Valuation</b>                                                                        |                         |                                                             |                         |
| 1 April 2012                                                                                    | 190,000                 | 6,988                                                       | 196,988                 |
| Additions                                                                                       |                         | 112                                                         | 112                     |
| Disposals                                                                                       |                         |                                                             | 0                       |
| Revaluations                                                                                    |                         |                                                             | 0                       |
| Impairment Losses/(reversals) recognised in the Revaluation Reserve                             |                         |                                                             | 0                       |
| Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services |                         |                                                             | 0                       |
| Cumulative Depreciation                                                                         |                         | (384)                                                       | (384)                   |
| <b>31 March 2013</b>                                                                            | <b>190,000</b>          | <b>6,716</b>                                                | <b>196,716</b>          |

### a) Archives

This consists of a catalogue of which there are over 10,000 accessioned items listed and described. These "items" range from individual documents to huge collections of material, e.g. 1.25 million cards in the Central Index of Merchant Seaman. It is estimated that the Archives take up approximately 2 linear miles of shelving.

### b) Works of Art

The art collection which includes paintings (both oil and watercolour), sketches, and sculptures, is designated i.e. officially recognised as being significant, and numbers approximately 3,500 items most of which have been acquired through donation. The Art Collection was valued a few years ago, for insurance purposes, at approximately £190M which is the value that they have been recognised in the Balance Sheet.

### c) Archaeology

The archaeology collections are also designated. The main component of these collections are the excavation archives which result from all archaeological investigations carried out within the city boundary, from full scale excavations to watching briefs to building surveys. These archives consist not only of objects but also paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such "site archives" have been deposited.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Local and Maritime Collections

Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are between two and three hundred thousand items in the collections. About 10% of these items are on databases or spread sheets, the rest are still only on paper records.

### e) Additions and Disposals of Heritage Assets

There were £0.1M (£1.6M 2011/12) of Heritage Asset additions and no disposals in 2012/13 (no disposals 2011/12).

## 15. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

| <u>2011/12</u><br>£000's |                                                | <u>2012/13</u><br>£000's |
|--------------------------|------------------------------------------------|--------------------------|
| (7,133)                  | Rental Income                                  | (7,062)                  |
| 3,107                    | Operating Expenditure                          | 2,973                    |
| <b>(4,026)</b>           | <b>Net (Gains) / Losses</b>                    | <b>(4,089)</b>           |
| 4,763                    | Net (gains)/losses from fair value adjustments | (2,692)                  |
| <b>737</b>               | <b>Net (Income) / Expenditure</b>              | <b>(6,781)</b>           |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

|                                                  | <u>2011/12</u><br>£000's | <u>2012/13</u><br>£000's |
|--------------------------------------------------|--------------------------|--------------------------|
| Balance at start of year                         | <b>130,625</b>           | <b>123,812</b>           |
| Additions:                                       |                          |                          |
| Purchases                                        | 9                        | 0                        |
| Subsequent Expenditure                           | 0                        | 24                       |
| Disposals                                        | (3,393)                  | (5,930)                  |
| Net gains / (losses) from fair value adjustments | (4,763)                  | 2,692                    |
| Transfers                                        |                          |                          |
| (to) / from Property, Plant and Equipment        | 1,334                    | (18)                     |
| <b>Balance at End of Year</b>                    | <b>123,812</b>           | <b>120,580</b>           |

## 16. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generated software.

Expenditure on intangible assets to date generally relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset and is charged to service line(s) in the Comprehensive Income and Expenditure Statement (from the year following acquisition).

## NOTES TO THE CORE FINANCIAL STATEMENTS

| <b>Purchased Software</b>                       |                          |                          |
|-------------------------------------------------|--------------------------|--------------------------|
|                                                 | <b>31 March<br/>2012</b> | <b>31 March<br/>2013</b> |
|                                                 | <b>£000's</b>            | <b>£000's</b>            |
| Gross carrying amount                           | 1,845                    | 2,790                    |
| Accumulated amortisation                        | (557)                    | (865)                    |
| <b>Net Carrying Amount at Start of the Year</b> | <b>1,288</b>             | <b>1,925</b>             |
| Purchases                                       | 945                      | 223                      |
| Amortisation for the period                     | (308)                    | (761)                    |
| <b>Net Carrying Amount at End of the Year</b>   | <b>1,925</b>             | <b>1,387</b>             |

### 17. Assets Held for Sale

Surplus Assets that have been marketed for sale and are expected to be disposed of within the next 12 months:

|                                                | <b>2011/12<br/>£000's</b> | <b>2012/13<br/>£000's</b> |
|------------------------------------------------|---------------------------|---------------------------|
| <b>Balance at Start of Year</b>                | <b>0</b>                  | <b>4,931</b>              |
| Assets newly classified as held for sale from: |                           |                           |
| Property, Plant and Equipment                  | 4,931                     | 1,711                     |
| Intangible Assets                              |                           | 0                         |
| Additions                                      |                           | 279                       |
| Revaluation Gains                              |                           | 1,735                     |
| Revaluation Losses                             |                           | (225)                     |
| Impairment losses to CIES                      |                           | (715)                     |
| <b>Balance at End of Year</b>                  | <b>4,931</b>              | <b>7,716</b>              |

### 18. Financial Instruments

#### a) Financial Instruments Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straight forward trade receivables and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council's borrowing, service concession arrangements (PFI and finance leases), and investment transactions are classified as financial instruments.

#### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board (PWLB) and commercial lenders,
- Short-term loans from other local authorities,
- Overdraft with Co-operative bank,
- Finance leases on land and buildings,

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Private Finance Initiative contracts detailed in **Note 37 (PFI and Similar Contracts)**, and
- Trade payables for goods and services received.

### Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- Cash,
- Bank accounts,
- Fixed term deposits with banks and building societies,
- Loans to other local authorities, and
- Trade receivables for goods and services delivered (have been measured at cost on the Balance Sheet as these are considered immaterial).

Available for sale financial assets (those that are quoted in an active market) comprising:

- Money market funds and other collective investment schemes,
- Certificates of deposit issued by banks and building societies,
- Treasury bills and gilts issued by the UK Government, and
- Bonds issued by multilateral development banks.

Balances in money market funds and call accounts at 31 March 2013 are shown under 'cash and cash equivalents' in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value.

The Council does not have any investments required to be measured at Fair Value through Profit and Loss.

### b) Financial Instruments Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following tables:

| <b>Financial Liabilities</b>             | <b>Long Term</b> |                 | <b>Short Term</b> |                 | <b>Total</b>    |                 |
|------------------------------------------|------------------|-----------------|-------------------|-----------------|-----------------|-----------------|
|                                          | <b>31 March</b>  | <b>31 March</b> | <b>31 March</b>   | <b>31 March</b> | <b>31 March</b> | <b>31 March</b> |
|                                          | <b>2012</b>      | <b>2013</b>     | <b>2012</b>       | <b>2013</b>     | <b>2012</b>     | <b>2013</b>     |
|                                          | <b>£000's</b>    | <b>£000's</b>   | <b>£000's</b>     | <b>£000's</b>   | <b>£000's</b>   | <b>£000's</b>   |
| Loans at amortised cost:                 |                  |                 |                   |                 |                 |                 |
| - Principal sum borrowed                 | 267,320          | 254,815         | 32,909            | 55,178          | 300,229         | 309,993         |
| - Accrued interest                       | 0                | 0               | 1,509             | 1,427           | 1,509           | 1,427           |
| - EIR adjustments                        | 87               | 0               | 142               | 87              | 229             | 87              |
| <b>Total Borrowing</b>                   | <b>267,407</b>   | <b>254,815</b>  | <b>34,560</b>     | <b>56,692</b>   | <b>301,967</b>  | <b>311,507</b>  |
| Loans at amortised cost:                 |                  |                 |                   |                 |                 |                 |
| - Bank Overdraft                         |                  |                 | 7,891             | 5,361           | 7,891           | 5,361           |
| <b>Total Cash Overdrawn</b>              | <b>0</b>         | <b>0</b>        | <b>7,891</b>      | <b>5,361</b>    | <b>7,891</b>    | <b>5,361</b>    |
| Liabilities at amortised cost:           |                  |                 |                   |                 |                 |                 |
| - Finance leases                         | 846              | 147             |                   |                 | 846             | 147             |
| - PFI arrangements                       | 50,620           | 54,300          |                   |                 | 50,620          | 54,300          |
| <b>Total Long-term Creditors</b>         | <b>51,466</b>    | <b>54,447</b>   | <b>0</b>          | <b>0</b>        | <b>51,466</b>   | <b>54,447</b>   |
| Liabilities at amortised cost:           |                  |                 |                   |                 |                 |                 |
| - Deferred Liabilities                   | 16,976           | 16,297          | 707               | 679             | 17,683          | 16,976          |
| <b>Total Other Long-term Liabilities</b> | <b>16,976</b>    | <b>16,297</b>   | <b>707</b>        | <b>679</b>      | <b>17,683</b>   | <b>16,976</b>   |
| Liabilities at amortised cost:           |                  |                 |                   |                 |                 |                 |
| - Finance leases                         |                  |                 | 905               | 699             | 905             | 699             |
| - PFI arrangements                       |                  |                 | 1,603             | 1,764           | 1,603           | 1,764           |
| - Trade payables                         |                  |                 | 8,690             | 9,262           | 8,690           | 9,262           |
| <b>Included in Creditors</b>             | <b>0</b>         | <b>0</b>        | <b>11,198</b>     | <b>11,725</b>   | <b>11,198</b>   | <b>11,725</b>   |
| <b>Total Financial Liabilities</b>       | <b>335,849</b>   | <b>325,559</b>  | <b>54,356</b>     | <b>74,457</b>   | <b>390,205</b>  | <b>400,016</b>  |

## NOTES TO THE CORE FINANCIAL STATEMENTS

|                                        | Long Term    |              | Short Term    |               | Total         |               |
|----------------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|
|                                        | 31 March     | 31 March     | 31 March      | 31 March      | 31 March      | 31 March      |
|                                        | 2012         | 2013         | 2012          | 2013          | 2012          | 2013          |
| Financial Assets                       | £000's       | £000's       | £000's        | £000's        | £000's        | £000's        |
| Loans and receivables:                 |              |              |               |               |               |               |
| - Principal at amortised cost          |              |              | 10,000        | 14,000        | 10,000        | 14,000        |
| - Accrued interest                     |              |              | 155           | 46            | 155           | 46            |
| Available for sale investments:        |              |              |               |               | 0             | 0             |
| - Principal at amortised cost          | 3036         | 3,036        | 3,000         | 1,000         | 6,036         | 4,036         |
| - Accrued interest                     |              |              | 168           | 140           | 168           | 140           |
| - Fair value adjustments               | 442          | 651          | 60            | 2             | 502           | 653           |
| At fair value through profit & loss:   |              |              |               |               | 0             | 0             |
| - Investments held for trading         |              |              |               |               | 0             | 0             |
| <b>Total Investments</b>               | <b>3,478</b> | <b>3,687</b> | <b>13,383</b> | <b>15,188</b> | <b>16,861</b> | <b>18,875</b> |
| Loans and receivables:                 |              |              |               |               |               |               |
| - Cash                                 |              |              | 139           | 137           | 139           | 137           |
| - Cash equivalent at a mortised cost   |              |              | 52,305        | 50,748        | 52,305        | 50,748        |
| - Accrued interest                     |              |              | 30            | 32            | 30            | 32            |
| Available for sale investments:        |              |              |               |               | 0             | 0             |
| - Cash equivalent at a mortised cost   |              |              |               |               | 0             | 0             |
| <b>Total Cash and Cash Equivalents</b> | <b>0</b>     | <b>0</b>     | <b>52,474</b> | <b>50,917</b> | <b>52,474</b> | <b>50,917</b> |
| Loans and receivables:                 |              |              |               |               |               |               |
| - Trade receivables                    |              |              | 10,681        | 10,285        | 10,681        | 10,285        |
| - Loans made for service purposes      | 32           | 26           |               |               | 32            | 26            |
| - Accrued interest                     |              |              |               |               | 0             | 0             |
| <b>Included in Debtors</b>             | <b>32</b>    | <b>26</b>    | <b>10,681</b> | <b>10,285</b> | <b>10,713</b> | <b>10,311</b> |
| <b>Total Financial Assets</b>          | <b>3,510</b> | <b>3,713</b> | <b>76,538</b> | <b>76,390</b> | <b>80,048</b> | <b>80,103</b> |

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This would include accrued interest on long term liabilities and investments that is payable/receivable in 2013/14.

### Soft Loans

Where loans are advanced at below market rates in support of the Council's service priorities they are classed as 'Soft Loans'. The Code of Practice sets out specific accounting requirements for soft loans. The Council does not have any material soft loans.

### c) Financial Instruments – Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

|                                                           | 2012/13               |                  |                | 2011/12         |                 |
|-----------------------------------------------------------|-----------------------|------------------|----------------|-----------------|-----------------|
|                                                           | Financial Liabilities | Financial Assets |                | Total           | Total           |
|                                                           | Amortised cost        | Loans and        | Available-for- |                 |                 |
| £000's                                                    | Receivables           | sale Assets      | £000's         | £000's          |                 |
| Interest expense                                          | (15,270)              |                  |                | (15,270)        | (14,285)        |
| Losses on derecognition                                   | (136)                 |                  |                | (136)           | (60)            |
| Impairment Losses                                         |                       |                  |                |                 | 0               |
| <b>Interest Payable and Similar Charges</b>               | <b>(15,406)</b>       | <b>0</b>         | <b>0</b>       | <b>(15,406)</b> | <b>(14,345)</b> |
| Interest income                                           |                       | 2,157            |                | 2,157           | 2,733           |
| Gains on derecognition                                    | 89                    |                  |                | 89              | 89              |
| <b>Interest and Investment Income</b>                     | <b>89</b>             | <b>2,157</b>     | <b>0</b>       | <b>2,246</b>    | <b>2,822</b>    |
| Gains on revaluation                                      |                       |                  | 212            | 212             | 138             |
| Losses on revaluation                                     |                       |                  | (58)           | (58)            | (89)            |
| Amounts recycled to the I&E Account after impairment      |                       |                  |                | 0               |                 |
| <b>Surplus Arising on Revaluation of Financial Assets</b> |                       |                  | <b>154</b>     | <b>154</b>      | <b>49</b>       |
| <b>Net Gain / (Loss) for the Year</b>                     | <b>(15,317)</b>       | <b>2,157</b>     | <b>154</b>     | <b>(13,006)</b> | <b>(11,474)</b> |



## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Financial Instruments – Fair Values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2013, using the following assumptions:

- PWLB loans have been discounted at the published interest rates for new certainty rate loans arranged on 31 March.
- Other long-term loans and investments have been discounted at the market rates for similar instruments on 31 March.
- No early repayment or impairment is recognised.
- The fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount.

In the case of short term instruments and deferred liabilities, (deemed debt, PFI, finance leases), the Council deems the carrying amount to be a reasonable approximation of the fair value. See **Note 36 (Leases)** and **Note 37 (PFI and Similar Contracts)**.

#### Financial Liabilities

The fair value of financial liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date.

#### Financial Assets

Long term investments consist of a £3M (nominal value) bond investment which is carried in the Balance Sheet at its fair value rather than its cost and a small number of gilts (£0.04M) carried at cost. The fair value is higher because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

| <u>Carrying Amount</u>       | <u>Fair Value</u>    |                                    | <u>Carrying Amount</u> | <u>Fair Value</u>    |
|------------------------------|----------------------|------------------------------------|------------------------|----------------------|
| <u>31 March 2012</u>         | <u>31 March 2012</u> |                                    | <u>31 March 2013</u>   | <u>31 March 2013</u> |
| £000's                       | £000's               |                                    | £000's                 | £000's               |
| <b>Financial Liabilities</b> |                      |                                    |                        |                      |
| 309,858                      | 345,758              | Loans Outstanding *                | 316,868                | 356,805              |
| 17,683                       | 17,683               | Deferred Liabilities               | 16,976                 | 16,976               |
| 53,974                       | 53,974               | PFI/Finance Lease Liabilities      | 56,910                 | 56,910               |
| 8,690                        | 8,690                | Trade Payables (Creditors)         | 9,262                  | 9,262                |
| <b>390,205</b>               | <b>426,105</b>       | <b>Total Financial Liabilities</b> | <b>400,016</b>         | <b>439,953</b>       |
| <b>Financial Assets</b>      |                      |                                    |                        |                      |
| 3,478                        | 3,480                | Long Term Investments              | 3,687                  | 3,689                |
| 65,857                       | 65,857               | Short Term investments *           | 66,105                 | 66,105               |
| 10,713                       | 7,287                | Trade Receivables (Debtors) *      | 10,311                 | 6,870                |
| <b>80,048</b>                | <b>76,624</b>        | <b>Total Financial Assets</b>      | <b>80,103</b>          | <b>76,664</b>        |

\* Prior year comparatives for Loans Outstanding and Short Term Investments have been restated to include Bank Overdrafts and Petty Cash balances respectively.  
Trade Receivables restated as per Debtors restatement see **Note 20**

### e) Financial Instruments – Risks

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code of Capital Finance for Local Authorities (both updated in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the DCLG Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management

## NOTES TO THE CORE FINANCIAL STATEMENTS

Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity. The main risks covered are:

- **Credit Risk** – The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party.
- **Liquidity Risk** – The possibility that the Council might not have the cash available to make contracted payments on time.
- **Market Risk** – The possibility financial loss will materialise because of changes in market variables such as interest rates or equity prices.

### f) Credit Risk

#### Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, and other local authorities without credit ratings. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

The strategy states that a maximum limit of £15M can be invested with a single counterparty subject to this being no more than 15% of total investments and in the case of money market funds being no more than 0.5% of any one individual fund. However, due to uncertainty in the Eurozone this was restricted to 0.25% of any one fund from December 2011. The Council also sets a total group investment limit for institutions that are part of the same banking group. No more than 60% of total investments up to a limit of £50M can be invested for periods over one year.

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments in banks and building societies of £69M cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement for 2012/13, approved by Full Council on 15 February 2012. The 2012/13 Treasury Strategy can be seen as Item 72 on the Council Meetings Agenda found via the following web link:

<http://www.southampton.gov.uk/modernGov/documents/s7802/TM%20Strategy%20Report.pdf>

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2013, and confirms that all investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

| <b>Outstanding Investments as at 31 March 2013</b> |                                                                                        |                                                                                  |                                |                             |                             |                             |                              |                                 |              |               |
|----------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|---------------------------------|--------------|---------------|
| Counterparty                                       | <u>Credit Rating</u><br><u>Criteria Met When</u><br><u>Investment</u><br><u>Placed</u> | <u>Credit Rating</u><br><u>Criteria Met</u><br><u>on 31 March</u><br><u>2013</u> | <u>Under 1</u><br><u>Month</u> | <u>1-3</u><br><u>Months</u> | <u>3-6</u><br><u>Months</u> | <u>6-9</u><br><u>Months</u> | <u>9-12</u><br><u>Months</u> | <u>Over 12</u><br><u>Months</u> | <u>Total</u> |               |
|                                                    | YES/NO                                                                                 | YES/NO                                                                           | £000's                         | £000's                      | £000's                      | £000's                      | £000's                       | £000's                          | £000's       | £000's        |
| <b>UK</b>                                          |                                                                                        |                                                                                  |                                |                             |                             |                             |                              |                                 |              |               |
| Bank Deposits                                      | YES                                                                                    | YES                                                                              | 27,073                         | 5,000                       |                             | 4,000                       | 3,000                        |                                 |              | 39,073        |
| Building Societies                                 | YES                                                                                    | YES                                                                              |                                |                             |                             |                             | 3,000                        |                                 |              | 3,000         |
| Gov't & Local<br>Authority Deposits                | YES                                                                                    | YES                                                                              |                                |                             |                             |                             |                              |                                 |              | 0             |
| Money Market Funds                                 | YES                                                                                    | YES                                                                              | 23,675                         |                             |                             |                             |                              |                                 |              | 23,675        |
| Bonds                                              |                                                                                        |                                                                                  |                                |                             |                             |                             | 0                            | 3,036                           |              | 3,036         |
| <b>Total Investments</b>                           |                                                                                        |                                                                                  | <b>50,748</b>                  | <b>5,000</b>                | <b>0</b>                    | <b>4,000</b>                | <b>6,000</b>                 | <b>3,036</b>                    |              | <b>68,784</b> |

The above analysis shows that all deposits outstanding as at 31 March 2013 met the Council's credit rating criteria on the 31 March 2013.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Trade Receivables

The following analysis summarises the Council's potential maximum exposure credit risk, based on experience on the level of default on trade debtors, adjusted for current market conditions. As per the Code of Practice requirements, the disclosure below includes details only of debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions, (e.g. Council Tax and NNDR payments), are excluded from this disclosure note, as they have not arisen from contractual trading activities.

| <b>Trade Debtors and Impairment Provision</b>        |                                            |                                            |
|------------------------------------------------------|--------------------------------------------|--------------------------------------------|
|                                                      | <b>Outstanding</b><br><b>31 March 2012</b> | <b>Outstanding</b><br><b>31 March 2013</b> |
|                                                      | <b>£000's</b>                              | <b>£000's</b>                              |
| <b>General Fund</b>                                  |                                            |                                            |
| Trade Debtors *                                      | 6,988                                      | 6,355                                      |
| Trade Debtors Impairment Provision *                 | (2,081)                                    | (1,799)                                    |
| <b>HRA</b>                                           |                                            |                                            |
| Trade Debtors                                        | 3,693                                      | 3,930                                      |
| Trade Debtors Impairment Provision                   | (1,345)                                    | (1,642)                                    |
| * Comparatives restated see <b>Note 20 (Debtors)</b> |                                            |                                            |

## g) Liquidity Risk

The Council has ready access to borrowing at favourable rates from the PWLB and other Local Authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The maturity analysis of the nominal value of the Council's debt at 31 March 2013 was as follows:

| <b>Outstanding</b><br><b>31 March 2012</b> | <b>% of Total</b><br><b>Debt</b><br><b>Portfolio</b> | <b>Total Borrowing</b>       | <b>Outstanding</b><br><b>31 March 2013</b> | <b>% of Total</b><br><b>Debt</b><br><b>Portfolio</b> |
|--------------------------------------------|------------------------------------------------------|------------------------------|--------------------------------------------|------------------------------------------------------|
| <b>£000's</b>                              | <b>%</b>                                             | <b>Source of Loan</b>        | <b>£000's</b>                              | <b>%</b>                                             |
| 290,825                                    | 97                                                   | Public Works Loan Board      | 267,320                                    | 86                                                   |
| 9,404                                      | 3                                                    | Other Financial Institutions | 42,673                                     | 14                                                   |
| <b>300,229</b>                             | <b>100</b>                                           |                              | <b>309,993</b>                             | <b>100</b>                                           |
| <b>Analysis of Loans by Maturity</b>       |                                                      |                              |                                            |                                                      |
| 32,909                                     | 11                                                   | Less than 1 Year             | 55,178                                     | 18                                                   |
| 12,505                                     | 4                                                    | Between 1 and 2 years        | 11,505                                     | 4                                                    |
| 34,515                                     | 11                                                   | Between 2 and 5 years        | 34,515                                     | 11                                                   |
| 81,453                                     | 28                                                   | Between 5 and 10 years       | 69,948                                     | 23                                                   |
| 0                                          |                                                      | Between 10 and 15 years      | 0                                          | 0                                                    |
| 0                                          | 0                                                    | Between 20 and 25 years      | 0                                          | 0                                                    |
| 10,000                                     | 3                                                    | Between 25 and 30 years      | 5,000                                      | 2                                                    |
| 5,000                                      | 2                                                    | Between 30 and 35 years      | 10,000                                     | 3                                                    |
| 25,000                                     | 8                                                    | Between 35 and 40 years      | 42,000                                     | 13                                                   |
| 47,900                                     | 16                                                   | Between 40 and 45 years      | 50,600                                     | 16                                                   |
| 50,947                                     | 17                                                   | Over 45 years                | 31,247                                     | 10                                                   |
| <b>300,229</b>                             | <b>100</b>                                           |                              | <b>309,993</b>                             | <b>100</b>                                           |

\*Please note that the authority has £9M of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council's long term liabilities (which include borrowing detailed in the previous table) are shown in the table below:

| <b><u>Loans and Other Long term Liabilities Outstanding (Nominal Value)</u></b> |                             |                             |
|---------------------------------------------------------------------------------|-----------------------------|-----------------------------|
|                                                                                 | <b><u>Outstanding</u></b>   | <b><u>Outstanding</u></b>   |
|                                                                                 | <b><u>31 March 2012</u></b> | <b><u>31 March 2013</u></b> |
| <b>Source</b>                                                                   | <b>£000's</b>               | <b>£000's</b>               |
| Public Works Loan Board                                                         | 290,825                     | 267,320                     |
| Market Debt                                                                     | 9,000                       | 9,000                       |
| Temporary Borrowing                                                             | 404                         | 33,673                      |
| Deferred Liabilities                                                            | 17,683                      | 16,976                      |
| PFI / Finance Lease Liabilities                                                 | 53,974                      | 56,910                      |
| <b>Total</b>                                                                    | <b><u>371,886</u></b>       | <b><u>383,879</u></b>       |

### h) Market Risk

#### Interest Rate Risk

The Council is exposed to risks in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – The interest expense will rise.
- Borrowings at fixed rates – The fair value of the liabilities borrowings will fall.
- Investments at variable rates – The interest income credited will rise.
- Investments at fixed rates – The fair value of the assets will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure, within the Comprehensive Income and Expenditure Statement.

The Treasury Management Strategy aims to mitigate these risks by setting an upper limit on its exposure to fixed and variable interest rates. At 31 March 2013, 14.2% of the debt portfolio was held in variable rate instruments.

If interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

|                                                                                                                        | <b>£000's</b> |
|------------------------------------------------------------------------------------------------------------------------|---------------|
| Increase in interest payable on variable rate borrowings                                                               | 440           |
| Increase in interest payable on variable rate investments                                                              |               |
| Increase in government grant receivable for financing costs                                                            |               |
| <b>Impact on the Provision of Services (Surplus / Deficit)</b>                                                         | <b>440</b>    |
| Share of overall impact debited/credited to HRA                                                                        | 195           |
| Decrease in fair value of fixed rate investment assets                                                                 |               |
| <b>Impact on Other Comprehensive Income and Expenditure</b>                                                            | <b>0</b>      |
| Decrease in fair value of fixed rate borrowings/liabilities <i>(no impact on Comprehensive Income and Expenditure)</i> | (35,570)      |

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the 'Fair Value' disclosure note.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Price Risk

The market prices of the Council's fixed rate bond investments and its units in collective investment schemes are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The Council does not invest in equity shares and therefore is not subject to any price risk, (i.e. the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments).

## Foreign Exchange Risk

The Council has no financial asset or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

## i) Unusable Reserve - Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) was established on 1 April 2007 when Financial Reporting Standards 25, 26 and 29 relating to Financial Instruments were adopted into the SORP (2007 SORP). The FIAA account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council also uses the Account to manage premiums and discounts paid on the early redemption of loans. Premiums and discounts are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out in the MiRS.

Over time, the expense is posted back to the General Fund and HRA in accordance with statutory arrangements for spreading the impact on council tax and Housing rent. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2013 will be charged over the next eight years.

The transactions reflected in the FIAA for 2012/13 are as follows:

| <u>2011/12</u><br>£000's |                                                                                                                                                                                  | <u>2012/13</u><br>£000's |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| 624                      | Balance Brought Forward                                                                                                                                                          | (150)                    |
| (717)                    | Premiums incurred in year charged to I&E                                                                                                                                         | 0                        |
| (89)                     | Proportion of Discounts received in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements                            | (89)                     |
| 60                       | Proportion of Premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements                             | 136                      |
| <u>(746)</u>             | Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs in the year in accordance with statutory requirements | <u>47</u>                |
| (28)                     | HRA Item 8 adjustments                                                                                                                                                           | 0                        |
| <u><u>(150)</u></u>      | <b>Balance Carried forward</b>                                                                                                                                                   | <u><u>(103)</u></u>      |

During 2008/09 the Council restructured some of its debt portfolio with the PWLB. When loans are repaid before their maturity dates there may be a premium charged or discount received which will depend on the interest rate of the loan being repaid and current loan interest rates on offer. The treatment of the premiums and discount varies according to whether a loan has been extinguished or modified, (i.e. a new loan has been taken which is considered to be an exchange for the loan that has been repaid).

Where the restructuring results in an 'extinguishment', regulations allow the impact on the General Fund balance to be spread over future years. Premiums and discounts are spread over the lesser of the unexpired term of the repaid loan or ten financial years.

## 19. Inventories

A summary of stocks, stores and work in progress is shown below. Work in progress is work undertaken on a job, which has not yet been completed or charged for. Work in progress in respect of other Council services is eliminated on consolidation of the accounts.

## NOTES TO THE CORE FINANCIAL STATEMENTS

|                        | <u>Raw Materials &amp; Consumables</u> |                | <u>WIP</u>     |                | <u>Finished Goods</u> |                | <u>Total</u>   |                |
|------------------------|----------------------------------------|----------------|----------------|----------------|-----------------------|----------------|----------------|----------------|
|                        | <u>2011/12</u>                         | <u>2012/13</u> | <u>2011/12</u> | <u>2012/13</u> | <u>2011/12</u>        | <u>2012/13</u> | <u>2011/12</u> | <u>2012/13</u> |
|                        | £000's                                 | £000's         | £000's         | £000's         | £000's                | £000's         | £000's         | £000's         |
| Opening Balance        | 914                                    | 669            | 0              | 0              | 136                   | 130            | 1,050          | 799            |
| Additions / Purchases  | 2,655                                  | 734            |                |                | 191                   | 150            | 2,846          | 884            |
| Revaluations           | (8)                                    | (1)            |                |                |                       |                | (8)            | (1)            |
| Disposals / Usage      | (2,748)                                | (719)          |                |                | (124)                 | (140)          | (2,872)        | (859)          |
| Write Offs             | (144)                                  | 18             |                |                | (73)                  | (31)           | (217)          | (13)           |
| <b>Closing Balance</b> | <b>669</b>                             | <b>701</b>     | <b>0</b>       | <b>0</b>       | <b>130</b>            | <b>109</b>     | <b>799</b>     | <b>810</b>     |

## 20. Debtors

### a) Short Term Debtors

The Short Term Debtor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2013.

Inter-Portfolio Debtors and Creditors cancel each other out when the Balance Sheet is produced.

| <u>31 March</u><br><u>2012</u> | <u>Debtors</u>                                 | <u>31 March</u><br><u>2013</u> |
|--------------------------------|------------------------------------------------|--------------------------------|
| £000's                         |                                                | £000's                         |
|                                | <b>Government</b>                              |                                |
| 461                            | Department of Communities & Local Government   | 1,913                          |
| 2,616                          | Department of Work and Pensions                | 3,775                          |
| 4,711                          | HM Revenue & Customs (VAT)                     | 2,806                          |
|                                | Homes and Community Agency                     | 5                              |
| 4,913                          | Heritage Lottery Fund                          | 884                            |
| 375                            | Other Departments                              | 1,319                          |
| <u>13,076</u>                  |                                                | <u>10,702</u>                  |
|                                | <b>Taxpayers</b>                               |                                |
| 6,917                          | Council Tax                                    | 7,090                          |
| (4,922)                        | Council Tax Impairment                         | (5,645)                        |
| <u>1,995</u>                   |                                                | <u>1,445</u>                   |
|                                | <b>Public Sector Organisations</b>             |                                |
| 1,634                          | Hampshire County Council                       | 2,251                          |
| 1,247                          | Southampton City Primary Care Trust *          | 3,939                          |
| 1,062                          | Other Local Authorities and Public Bodies      | 700                            |
| <u>3,943</u>                   |                                                | <u>6,890</u>                   |
|                                | <b>General Fund - Other Debtors</b>            |                                |
| 6,216                          | Housing Benefit                                | 6,290                          |
| (4,011)                        | Housing Benefit Impairment Provision           | (4,274)                        |
| 415                            | CAPITA                                         | 5,066                          |
| 57                             | Landfill Allowance Trading Scheme (LATS)       |                                |
| 6,988                          | Trade Debtors *                                | 6,355                          |
| (2,081)                        | Trade Debtors Impairment Provision *           | (1,799)                        |
| 9,640                          | Sundry Debtors                                 | 8,973                          |
| (1,128)                        | Sundry Debtors Impairment Provision *          | (1,197)                        |
| <u>16,096</u>                  |                                                | <u>19,414</u>                  |
|                                | <b>Housing Revenue Account - Other Debtors</b> |                                |
| 3,693                          | Trade Debtors                                  | 3,930                          |
| (1,345)                        | Trade Debtors - Impairment Provision           | (1,642)                        |
| 3,144                          | Sundry Debtors                                 | 2,375                          |
| (613)                          | Sundry Debtors - Impairment Provision          | (604)                          |
| <u>4,879</u>                   |                                                | <u>4,059</u>                   |
| <u><b>39,989</b></u>           | <b>Total Debtors</b>                           | <u><b>42,510</b></u>           |

\* Comparatives restated for consistency



## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Long Term Debtors

This is made up of the following and analysed in the table below:

- **Mortgages** – These are loans outstanding to borrowers either for the purchase of Council dwellings, or for the purchase and improvement of private properties under part XIV of the Housing Act 1985. Loans are also made to Housing Associations for the construction and improvement of their properties.
- **IT Assets transferred to Capita** – A balance for Deferred Consideration (within Long Term Debtors) was established, in 2007/08, with the Net Book Value of the assets (£3.3M). The deferred consideration (total cost including financing charges) is being written down to zero over the ten year life of the contract with the debit entry being to the Comprehensive Income and Expenditure Statement (£423,600). This is then reversed out through the MiRS. As the Council has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the ten year contract by a reduction in the contract payments, the notional interest related to the value is also included in Long Term Debtors (£94,060). Therefore the net reduction in Long term debtors is £329,546. More information relating to the contract with Capita is included in **Note 1aa (Accounting Policies)**.
- **Capita Prepayment** – The Council made a prepayment of approximately £17.1M to Capita in 2012/13, allowing them to achieve financing savings, the benefit of which flows through to the Council in 2013/14. The prepayment will be written down over the remaining life of the Contract. The balance carried forward as at 31 March 2013 is approximately £16.0M, the 2013/14 write down of £5.0M being shown within short term debtors.
- **Other** – The major proportion of this balance is for the Assisted Car Purchase scheme which allows loans to be advanced to members of staff to assist in the purchase of vehicles where the possession and use of a car is required as part of their job.

Some loans are interest free where the loan has been made to employees who left the old car lease scheme. Other loans are charged at 2% above base rate, which is set at the beginning of each financial year.

| <u>31 March</u><br><u>2012</u><br>£000's |                                 | <u>31 March</u><br><u>2013</u><br>£000's |
|------------------------------------------|---------------------------------|------------------------------------------|
|                                          | <b>Mortgages</b>                |                                          |
| 32                                       | Sale of Council Houses          | 26                                       |
|                                          | <b>Other</b>                    |                                          |
| 1,826                                    | IT Assets transferred to Capita | 1,497                                    |
| 0                                        | Capita Prepayment               | 11,024                                   |
| 143                                      | Other                           | 105                                      |
| <u>2,001</u>                             |                                 | <u>12,652</u>                            |

## 21. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and will also include bank overdrafts that are repayable on demand and that are integral to the authority's cash management. Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

|                    | <u>31 March</u><br><u>2012</u><br>£000's | <u>31 March</u><br><u>2013</u><br>£000's |
|--------------------|------------------------------------------|------------------------------------------|
| Bank Accounts      | (7,891)                                  | (5,361)                                  |
|                    | (7,891)                                  | (5,361)                                  |
| Money Market Funds | 43,329                                   | 33,788                                   |
| Call Accounts      | 9,006                                    | 16,992                                   |
| Petty Cash         | 139                                      | 137                                      |
|                    | <u>52,474</u>                            | <u>50,917</u>                            |
| <b>Total</b>       | <u>44,583</u>                            | <u>45,556</u>                            |

## NOTES TO THE CORE FINANCIAL STATEMENTS

Although the balance shown suggests that the bank accounts were overdrawn by over £5.3M, the Council's actual bank account balance at the Bank was £1.5M overdrawn at 31 March 2013. The overdraft was due to an unexpected payment, which was cleared the following working day. The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn by £5.3M because future income receipts will cover any outstanding year end payment commitments. Alternatively the Council can withdraw from Money Market Funds and Call Accounts, (as detailed in the above table), or access temporary borrowing on the Money Markets if required.

### 22. Creditors

The Creditor balances represent the estimated outstanding liabilities as at 31 March 2013.

National Insurance and PAYE is the amount of the deductions from the Wages and Salaries of City Council staff, which are not paid over to HMRC by 31 March 2013.

Inter-Portfolio Debtors and Creditors cancel each other out when the Balance Sheet is produced.

| <u>31 March</u><br><u>2012</u> | <u>Creditors</u>                                           | <u>31 March</u><br><u>2013</u> |
|--------------------------------|------------------------------------------------------------|--------------------------------|
| £000's                         |                                                            | £000's                         |
|                                | <b>Government</b>                                          |                                |
| 1,481                          | Department of Communities & Local Government *             | 20                             |
| 1,853                          | Department for Education                                   | 11                             |
| 3,285                          | HM Revenue & Customs (PAYE & National Insurance)           | 3,083                          |
| 922                            | Teachers Superannuation                                    | 840                            |
| 2,090                          | Public Works Loans Board (PWLB)                            | 7,148                          |
| 441                            | Other Departments                                          | 652                            |
| <u>10,072</u>                  |                                                            | <u>11,754</u>                  |
|                                | <b>Taxpayers</b>                                           |                                |
| 633                            | Council Tax / Business Rates (prepayments)                 | 580                            |
| <u>633</u>                     |                                                            | <u>580</u>                     |
|                                | <b>Public Sector Organisations</b>                         |                                |
| 3,309                          | Hampshire County Council                                   | 1,903                          |
| 1,843                          | Hampshire County Council (Local Government Superannuation) | 3,412                          |
| 1,306                          | Southampton University Hospitals                           | 136                            |
| 475                            | Other Local Authorities and Public Bodies                  | 988                            |
| <u>6,933</u>                   |                                                            | <u>6,439</u>                   |
|                                | <b>General Fund - Other Creditors</b>                      |                                |
| 324                            | Building Control Competition A/C                           | 330                            |
| 57                             | Landfill Allowance Trading Scheme (LATS)                   | 0                              |
| 905                            | Finance Creditor (Leasing))                                | 699                            |
| 1,603                          | Finance Creditor (PFI and Hampshire Waste Contract)        | 1,764                          |
| 2,551                          | Accumulated Absences Account                               | 2,382                          |
| 3,616                          | CAPITA                                                     | 1,910                          |
| 26,862                         | Sundry Creditors *                                         | 27,332                         |
| 7,611                          | Trade Creditors                                            | 7,956                          |
| <u>43,529</u>                  |                                                            | <u>42,373</u>                  |
|                                | <b>Housing Revenue Account - Other Creditors</b>           |                                |
| 727                            | Sundry Creditors                                           | 908                            |
| 1,079                          | Trade Creditors                                            | 1,306                          |
| <u>1,806</u>                   |                                                            | <u>2,214</u>                   |
| <u>62,973</u>                  | <b>Total Creditors</b>                                     | <u>63,360</u>                  |

Comparatives amended by £556,000 restated as Reserves See **Note 5**

### 23. Provisions

Provisions are amounts set aside each year for specific future expenses, the value of which cannot yet be accurately determined. The Provisions as shown in the balance sheet are analysed in the following table:

## NOTES TO THE CORE FINANCIAL STATEMENTS

|                         | <u>Balance at</u><br><u>31 March</u><br><u>2012</u><br><br>£000's | <u>Additional</u><br><u>Provisions</u><br><u>Made in Year</u><br><br>£000's | <u>Amounts</u><br><u>Used in</u><br><u>Year</u><br><br>£000's | <u>Balance at 31</u><br><u>March 2013</u><br><br>£000's |
|-------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------|
| <u>General Fund</u>     |                                                                   |                                                                             |                                                               |                                                         |
| Equal Pay               | 330                                                               | 129                                                                         | (459)                                                         | 0                                                       |
| General Insurance Funds | 6,835                                                             | 983                                                                         | (1,512)                                                       | 6,306                                                   |
| Itchen Bridge Repairs   | 260                                                               | 200                                                                         |                                                               | 460                                                     |
| Other Provisions        | 165                                                               | 116                                                                         |                                                               | 281                                                     |
|                         | <b>7,590</b>                                                      | <b>1,428</b>                                                                | <b>(1,971)</b>                                                | <b>7,047</b>                                            |
| HRA                     | 84                                                                |                                                                             | (63)                                                          | 21                                                      |
| <b>Total</b>            | <b>7,674</b>                                                      | <b>1,428</b>                                                                | <b>(2,034)</b>                                                | <b>7,068</b>                                            |

### a) Equal Pay Provision

The Council received a number of Equal Pay claims and in the 2009/10 Financial Statements raised an Equal Pay Provision of £12M to meet any liabilities, which may have arisen from the litigation process which was treated as an exceptional item within the Comprehensive Income and Expenditure Statement. In addition, the Council applied for and received a Capitalisation Direction in 2009/10 which enabled them to treat the Equal Pay Provision as Capital expenditure.

£5.5M of the £12M provision was utilised in 2010/11 and a further £0.5M in 2011/12. Existing claims were reviewed in 2011/12 and indicated a required carried forward provision of approximately £0.3M. Therefore, £5.7M was reversed and treated as an exceptional item within the 2011/12 Comprehensive Income and Expenditure Statement. This was subsequently transferred into the CAA through the MiRS as the original provision was capitalised.

The impact on the Minimum Revenue Provision of the reduced Capitalisation, i.e. reduced Capital Financing Requirement, has been appropriately reflected in the 2012/13 Financial Statements.

Any future potential Equal Pay claims will be financed either by use of Capital Receipts, or the Pay Reserve. (See **Note 41a** (Contingent Liabilities) for further details).

### b) Insurance Provisions

The Insurance Funds are used to meet claims that fall within the policy excess or deductible, i.e. where the Council has taken advantage of 'self-insurance'. All liability and property claims settled below £125,000 and £40,000 respectively are met from the internal insurance funds. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured etc), claims experience and outstanding liabilities.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2013 amounted to £2.7M with a closing fund balance of £6.3M. With regard to the outstanding provision figure, the Council's insurers allocate a claim provision figure in respect of each and every claim received. This figure represents their initial estimate of the potential cost of the claim and is amended as necessary until the claim is settled. Liability claims represent the vast majority of the total outstanding provision figure however, unlike property claims there is no commitment on the Council to pay the claim. The merits of each individual claim are investigated and claims will only be paid where it is deemed that the Council has been negligent and is legally liable to pay compensation. The provision figure against a particular claim will also be reviewed periodically by the claims handler when further information becomes available regarding the merits of the case, extent of injury, value of loss etc.

The fund position is fluid as claims are settled and new claims received however, the insurance funds are monitored on a monthly basis. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement process and ultimately the decisions of the Courts. No assumptions have been made in respect of future events and no reimbursement is expected.

### c) Other Provisions

All other provisions are individually insignificant.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 24. Usable Reserves

Movements in the Council's usable reserves are detailed in the Transfers to/from Earmarked Reserve Statement **Note 10 (Transfer to /from) Earmarked Reserves)** and **Note 11 (Adjustments Between Accounting Basis and Funding Basis Under Regulations)**.

### 25. Unusable Reserves

#### a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost,
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the CAA.

| <u>2011/12</u><br>£000's |                                                                                                                           | <u>2012/13</u><br>£000's |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------------|
| 307,280                  | Balance Brought Forward                                                                                                   | 298,068                  |
| 4,742                    | Upward revaluations of assets                                                                                             | 26,402                   |
| (7,496)                  | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services      | (13,548)                 |
| 304,526                  | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | 310,922                  |
| (2,430)                  | Difference between fair value depreciation and historical cost depreciation                                               | (2,482)                  |
| (4,028)                  | Accumulated Revaluations on Disposals                                                                                     | (3,826)                  |
| <u>298,068</u>           | <b>Balance Carried Forward</b>                                                                                            | <u>304,614</u>           |

#### b) Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost, or
- Disposed of and the gains are realised.

| <u>2011/12</u><br>£000's |                                   | <u>2012/13</u><br>£000's |
|--------------------------|-----------------------------------|--------------------------|
| 423                      | Balance Brought Forward           | 472                      |
| 49                       | Upward Revaluation of Investments | 154                      |
| <u>472</u>               | <b>Balance Carried Forward</b>    | <u>626</u>               |

#### c) Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those

## NOTES TO THE CORE FINANCIAL STATEMENTS

assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement, (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

**Note 11 (Adjustments Between Accounting Basis and Funding Basis Under Regulations)** provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| <u>2011/12</u><br>£000's |                                                            | <u>2012/13</u><br>£000's |
|--------------------------|------------------------------------------------------------|--------------------------|
| 959,905                  | Balance per 2011/12 Financial Statements                   | 859,401                  |
| 0                        | Prior Year Restatement                                     | 29                       |
| <u>0</u>                 | Restated Balance Brought Forward                           | <u>859,430</u>           |
|                          | <b>Capital Financing</b>                                   |                          |
| 4,835                    | Usable Capital Receipts                                    | 11,393                   |
| 48,480                   | Capital Grants & Contributions                             | 36,210                   |
| 13,096                   | HRA Depreciation (formerly Major Repairs Allowance)        | 16,206                   |
| 12,740                   | Revenue Contributions                                      | 9,111                    |
|                          | <b>Other Movements</b>                                     |                          |
| (4,391)                  | Revenue Expenditure Funded from Capital under Statute      | (13,367)                 |
| 4,591                    | Capitalisation                                             | 0                        |
| 0                        | Repayment of Temporary Financing                           | 2,560                    |
| (73,847)                 | HRA Self Financing                                         | 0                        |
|                          | Net gains/losses from fair value adjustments on Investment |                          |
| (4,763)                  | Properties                                                 | 2,692                    |
| (313)                    | Deferred Considerations                                    | (330)                    |
| (69,419)                 | Depreciation & Impairment                                  | (86,653)                 |
| (48,771)                 | Disposals                                                  | (60,267)                 |
| 2,430                    | Historic Cost Depreciation Adjustment                      | 2,482                    |
| 4,028                    | Accumulated Revaluations on Disposals                      | 3,826                    |
| 10,825                   | MRP                                                        | 20,396                   |
| 4                        | Other                                                      | (2)                      |
| <u><u>859,430</u></u>    | <b>Balance Carried Forward</b>                             | <u><u>803,687</u></u>    |

### d) Financial Instrument Adjustment Account

A balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments, mainly as a result of debt structure. Further details can be found in **Note 18 i) (Financial Instruments)**.

### e) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them.

The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

## NOTES TO THE CORE FINANCIAL STATEMENTS

| <u>2011/12</u>          |                                                                    | <u>2012/13</u>          |
|-------------------------|--------------------------------------------------------------------|-------------------------|
| <b>£000's</b>           |                                                                    | <b>£000's</b>           |
| (303,550)               | Balance Brought Forward                                            | (384,520)               |
| (16,950)                | Current Service Cost                                               | (16,020)                |
| (2,330)                 | Past Service Costs (added years)                                   | (1,050)                 |
| (41,080)                | Interest Costs                                                     | (41,580)                |
| 32,180                  | Return on Assets                                                   | 30,730                  |
| 23,260                  | Payments to Pension Fund                                           | 20,140                  |
| (76,050)                | Actuarial Losses (Surplus) on Fund<br>Curtailments and Settlements | (25,900)                |
| <b><u>(384,520)</u></b> | <b>Balance Carried Forward</b>                                     | <b><u>(418,200)</u></b> |

### f) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| <u>2011/12</u>      |                                                                                                                                                                                                                   | <u>2012/13</u>      |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| <b>£000's</b>       |                                                                                                                                                                                                                   | <b>£000's</b>       |
| 3,499               | Balance Brought Forward                                                                                                                                                                                           | 1,415               |
| (2,084)             | Amount by which council tax income credited to the<br>Comprehensive Income and Expenditure Statement is different<br>from council tax income calculated for the year in accordance<br>with statutory requirements | (100)               |
| <b><u>1,415</u></b> | <b>Balance Carried Forward</b>                                                                                                                                                                                    | <b><u>1,315</u></b> |

### g) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences, for teaching staff, earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| <u>2011/12</u>        |                                                                                | <u>2012/13</u>        |
|-----------------------|--------------------------------------------------------------------------------|-----------------------|
| <b>£000's</b>         |                                                                                | <b>£000's</b>         |
| (2,520)               | Balance Brought Forward                                                        | (2,551)               |
| 2,520                 | Settlement or cancellation of accrual made at the end of the<br>preceding year | 2,551                 |
| (2,551)               | Amounts accrued at the end of the current year                                 | (2,382)               |
| <b><u>(2,551)</u></b> | <b>Balance Carried Forward</b>                                                 | <b><u>(2,382)</u></b> |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 26. Notes to Cash Flow Statement

### a) Reconciliation of Net Surplus or (Deficit) on the Provision of Services to Net Cash Flows from Operating Activities

| <u>2011/12</u>  |                                                                                                                                        | <u>2012/13</u> |                 |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|
| £000's          |                                                                                                                                        | £000's         | £000's          |
| (100,747)       | <b>Net Surplus or (Deficit) on the Provision of Services</b>                                                                           |                | (64,459)        |
|                 | <b>Adjust net surplus or deficit on the provision of services for non cash movements</b>                                               |                |                 |
| 37,901          | Depreciation                                                                                                                           | 40,085         |                 |
| 31,210          | Impairment and downward valuations                                                                                                     | 45,807         |                 |
| 308             | Amortisation                                                                                                                           | 761            |                 |
| (95)            | Adjustments for effective interest rates                                                                                               | (140)          |                 |
| 314             | Net PFI Debtor Adjustments                                                                                                             | 329            |                 |
| 1,798           | Increase/(Decrease) in Interest Creditors                                                                                              | (25)           |                 |
| (20,813)        | Increase/(Decrease) in Creditors                                                                                                       | (4,520)        |                 |
| (66)            | (Increase)/Decrease in Interest and Dividend Debtors                                                                                   | 137            |                 |
| 10,869          | (Increase)/Decrease in Debtors                                                                                                         | (15,154)       |                 |
| 251             | (Increase)/Decrease in Inventories                                                                                                     | (11)           |                 |
| 4,920           | Pension Liability                                                                                                                      | 7,780          |                 |
| (1,737)         | Contributions to/(from) Provisions                                                                                                     | (276)          |                 |
| (6,217)         | Provision for Equal Pay                                                                                                                | (330)          |                 |
| 48,771          | Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)                   | 60,267         |                 |
| 4,763           | Movement in Investment Property Values                                                                                                 | (2,692)        |                 |
| (18)            | Other Items                                                                                                                            | (33)           |                 |
| <u>112,159</u>  |                                                                                                                                        |                | <u>131,985</u>  |
|                 | <b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b> |                |                 |
| (47,333)        | Capital Grants credited to surplus or deficit on the provision of services                                                             | (35,319)       |                 |
|                 | Proceeds from the sale of short and long term investments                                                                              | 3,000          |                 |
| (9,464)         | Proceeds from the sale of property plant and equipment, investment property and intangible assets                                      | (17,099)       |                 |
| <u>(56,797)</u> |                                                                                                                                        |                | <u>(49,418)</u> |
| <u>(45,385)</u> | <b>Net Cash Flows from Operating Activities</b>                                                                                        |                | <u>18,108</u>   |

### b) Operating Activities – Interest

| <u>2011/12</u> |                                                                                                                 | <u>2012/13</u> |
|----------------|-----------------------------------------------------------------------------------------------------------------|----------------|
| £000's         |                                                                                                                 | £000's         |
|                | <b>Operating activities within the cashflow statement include the following cash flows relating to interest</b> |                |
| 1,437          | Interest Received                                                                                               | 944            |
| (12,489)       | Interest Paid                                                                                                   | (15,441)       |

### c) Cash Flows from Investing Activities

| <u>2011/12</u>  |                                                                                                   | <u>2012/13</u>  |
|-----------------|---------------------------------------------------------------------------------------------------|-----------------|
| £000's          |                                                                                                   | £000's          |
|                 | <b>Cash Flows from Investing Activities</b>                                                       |                 |
| (97,719)        | Property, Plant and Equipment Purchased                                                           | (65,263)        |
| (97,300)        | Purchase of short term investments                                                                | (119,806)       |
| 9,575           | Proceeds from the sale of property plant and equipment, investment property and intangible assets | 17,098          |
| 116,600         | Proceeds from short-term and long-term investments                                                | 114,806         |
| 44,248          | Other Receipts from Investing Activities - Capital Grants & Contributions Received                | 25,250          |
| <u>(24,596)</u> | <b>Total Cash Flows from Investing Activities</b>                                                 | <u>(27,915)</u> |



## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Cash Flows from Financing Activities

| <u>2011/12</u> |                                                                                                                              | <u>2012/13</u> |
|----------------|------------------------------------------------------------------------------------------------------------------------------|----------------|
| £000's         |                                                                                                                              | £000's         |
|                | <b>Cash Flows from Financing Activities</b>                                                                                  |                |
| 309,267        | Cash receipts of short and long term borrowing                                                                               | 50,000         |
| 14,645         | Billing Authorities - Council Tax and NNDR adjustments                                                                       | (800)          |
| (233,458)      | Repayment of Short-Term and Long-Term Borrowing                                                                              | (35,912)       |
| (3,137)        | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (2,508)        |
| <u>87,317</u>  | <b>Total Cash Flows from Financing Activities</b>                                                                            | <u>10,780</u>  |

### e) Make-up of Cash and Cash Equivalents

| <u>2011/12</u> |                                                 | <u>2012/13</u> |
|----------------|-------------------------------------------------|----------------|
| £000's         |                                                 | £000's         |
|                | <b>Makeup of Cash and Cash Equivalents</b>      |                |
| 139            | Cash and Bank Balances                          | 137            |
| 52,335         | Cash Investments - regarded as cash equivalents | 50,780         |
| (7,891)        | Bank Overdraft                                  | (5,361)        |
| <u>44,583</u>  |                                                 | <u>45,556</u>  |

## 27. Acquired and Discontinued Operations

The Code of Practice requires the City Council to disclose any material operations, which have been acquired or discontinued during the year. There were no material changes during 2012/13 and therefore no separate disclosure is required.

## 28. Agency Services

Under a number of statutory powers, the Council is permitted to undertake work on behalf of other bodies. Under such arrangements all expenditure, including administration costs, would be reimbursed by the entity concerned.

The collection of Council Tax and NNDR Income is in substance an agency arrangement:

Cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council Tax payers.

Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government. Any amounts not paid at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

## 29. Road Charging Schemes under the Transport Act 2000

Local Authorities are required to disclose details of the expenditure and income in relation to road charging schemes and workplace charging levies. The Council does not currently have any such schemes which fall under the Transport Act 2000.

## 30. Members Allowances

The total of members allowances paid in 2012/13 was £698,000, (£672,000 in 2011/12) as detailed in the table below. In February 2011 Councillors agreed through their political groups to take a voluntary 5.5% reduction in their basic and special responsibility allowance, totalling £36,750. The Labour Group has

## NOTES TO THE CORE FINANCIAL STATEMENTS

chosen to use their reduction to benefit local charities and the charities concerned are Southampton Women's Aid, Southampton Advice & Representation Centre (SARC) and Nuffield Theatre Trust

|              | <u>31 March</u><br><u>2012</u><br>£000's | <u>31 March</u><br><u>2013</u><br>£000's |
|--------------|------------------------------------------|------------------------------------------|
| Salaries     | 536                                      | 534                                      |
| Allowances   | 134                                      | 161                                      |
| Expenses     | 2                                        | 3                                        |
| <b>Total</b> | <b>672</b>                               | <b>698</b>                               |

### 31. Officers' Remuneration

The number of employees whose remuneration, including redundancy payments but excluding pension contributions, was £50,000 or more is shown in the table below. This amount was increased in 2003/04 from £40,000 and has not been updated since.

| <u>Band £</u>     | <u>Number of Employees</u> |              |              |                |              |              |
|-------------------|----------------------------|--------------|--------------|----------------|--------------|--------------|
|                   | <u>2011/12</u>             |              |              | <u>2012/13</u> |              |              |
|                   | <u>Schools</u>             | <u>Other</u> | <u>Total</u> | <u>Schools</u> | <u>Other</u> | <u>Total</u> |
| 50,000 - 54,999   | 43                         | 43           | 86           | 39             | 19           | 58           |
| 55,000 - 59,999   | 33                         | 20           | 53           | 31             | 7            | 38           |
| 60,000 - 64,999   | 22                         | 9            | 31           | 24             | 3            | 27           |
| 65,000 - 69,999   | 11                         | 10           | 21           | 11             | 9            | 20           |
| 70,000 - 74,999   | 6                          | 8            | 14           | 4              | 5            | 9            |
| 75,000 - 79,999   | 3                          | 8            | 11           | 4              | 4            | 8            |
| 80,000 - 84,999   | 2                          | 6            | 8            | 2              | 4            | 6            |
| 85,000 - 89,999   | 3                          | 5            | 8            | 3              | 2            | 5            |
| 90,000 - 94,999   | 0                          | 5            | 5            | 1              | 1            | 2            |
| 95,000 - 99,999   | 0                          | 0            | 0            | 0              | 2            | 2            |
| 100,000 - 104,999 | 2                          | 1            | 3            | 1              | 0            | 1            |
| 105,000 - 109,999 | 0                          | 3            | 3            | 0              | 0            | 0            |
| 110,000 - 114,999 | 0                          | 1            | 1            | 1              | 0            | 1            |
| 115,000 - 119,999 | 0                          | 5            | 5            | 0              | 1            | 1            |
| 125,000 - 129,999 | 1                          | 0            | 1            | 0              | 0            | 0            |
| 135,000 - 139,999 | 0                          | 2            | 2            | 0              | 0            | 0            |
| 145,000 - 149,999 | 0                          | 2            | 2            | 1              | 1            | 2            |
| 160,000 - 164,999 | 0                          | 1            | 1            | 0              | 0            | 0            |
| 165,000 - 169,999 | 0                          | 1            | 1            | 0              | 0            | 0            |
| 210,000 - 214,999 | 0                          | 0            | 0            | 0              | 1            | 1            |
|                   | <b>126</b>                 | <b>130</b>   | <b>256</b>   | <b>122</b>     | <b>59</b>    | <b>181</b>   |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## a) Senior Officer's Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from, (and supplemented by), the overarching requirements of Regulation 7 of the Accounts and Audit (England) Regulations 2011. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2011/12.

| <u>2012/13</u>                                                                                           |                                                 |                           |                                        |                         |                                                                   |                                            |                                                                   |
|----------------------------------------------------------------------------------------------------------|-------------------------------------------------|---------------------------|----------------------------------------|-------------------------|-------------------------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------|
| <u>Post Holder</u>                                                                                       | <u>Salary (including fees &amp; allowances)</u> | <u>Expense Allowances</u> | <u>Compensation for loss of office</u> | <u>Benefits in Kind</u> | <u>Total Remuneration excluding pension contributions 2012/13</u> | <u>Pensions contributions (see Note 8)</u> | <u>Total Remuneration including pension contributions 2012/13</u> |
|                                                                                                          | £                                               | £                         | £                                      | £                       | £                                                                 | £                                          | £                                                                 |
| <b>Chief Executive until 28/03/2013</b><br>- Alistair Neill                                              | 149,530                                         | 698                       | -                                      | -                       | 150,228                                                           | 19,588                                     | 169,817                                                           |
| <b>Interim Chief Executive from 01/03/2012</b><br>- Dawn Baxendale                                       | 11,446                                          | -                         | -                                      | -                       | 11,446                                                            | 1,499                                      | 12,946                                                            |
| <b>Director of Environment &amp; Economy until 28/02/2013</b><br>- Dawn Baxendale (see note 1)           | 108,097                                         | -                         | -                                      | -                       | 108,097                                                           | 14,161                                     | 122,258                                                           |
| <b>Director of Children's Services &amp; Learning until 30/04/2013</b><br>- Clive Webster (see note 2)   | 116,482                                         | 1,037                     | 94,234                                 | -                       | 211,753                                                           | 15,259                                     | 227,012                                                           |
| <b>Director of Corporate Services</b><br>- Mark Heath (see note 3)                                       | 92,287                                          | 172                       | -                                      | -                       | 92,459                                                            | 13,326                                     | 105,785                                                           |
| <b>Head of Legal, HR &amp; Democratic Services</b><br>- Richard Ivory (see note 3)                       | 23,900                                          | 188                       | -                                      | -                       | 24,088                                                            | 3,131                                      | 27,219                                                            |
| <b>Director of Environment (Interim) until 30/04/2012</b><br>- Frances Martin (see Note 4)               | 9,217                                           | -                         | -                                      | -                       | 9,217                                                             | 1,207                                      | 10,425                                                            |
| <b>Director of Health &amp; Adult Social Care until 30/04/2012</b><br>- Penny Furness-Smith (see Note 5) | 10,294                                          | -                         | -                                      | -                       | 10,294                                                            | 1,348                                      | 11,642                                                            |
| <b>Head of Finance &amp; IT (CFO)</b><br>- Andrew Lowe                                                   | 97,799                                          | 707                       | -                                      | -                       | 98,507                                                            | 12,812                                     | 111,319                                                           |
|                                                                                                          | <b>619,053</b>                                  | <b>2,802</b>              | <b>94,234</b>                          | <b>0</b>                | <b>716,089</b>                                                    | <b>82,332</b>                              | <b>798,421</b>                                                    |

### Note 1

This role has been undertaken in March 2013 by John Tunney via an external company. Payment for March was £10,200 excluding VAT.

### Note 2

Director of Children's Services & Learning post deleted. Compensation for loss of office for Clive Webster is accounted for and disclosed in 2012/13 and hence is disclosed here despite being received by the employee in 2013/14.

### Note 3

Mark Heath was on an unpaid sabbatical period from June 2012 to mid August 2012. The statutory Monitoring Officer role transferred to the Head of Legal, HR & Democratic Services for this period and therefore the remuneration for the Head of Legal, HR & Democratic Services between June 2012 and mid August 2012 is disclosed here.

### Note 4

Frances Martin returned to her substantive post in May 2012. This post was covered by Stuart Love from 02/04/2012 to 30/06/2012 as a shared director with Isle of Wight Council. Southampton City Council contributed £14,797.50 towards the cost of Stuart Love's salary and on-costs. Full details of his remuneration can be found in the Isle of Wight Council Statement of Accounts 2012/13. Subsequently the Director of Environment post was merged with the Director of Economic Development post to create a new Director of Environment & Economy post.

### Note 5

Director of Health & Adult Social Care post deleted. Compensation for loss of office for Penny Furness-Smith was accounted for in 2011/12 and disclosed in the 2011/12 Statement of Accounts. This post was covered by Margaret Geary from 01/05/2012 to 31/03/2013 as a shared director with Portsmouth City Council. Southampton City Council contributed £72,685.58 towards the cost of Margaret Geary's salary and on-costs. Full details of her remuneration can be found in the Portsmouth City Council Statement of Accounts 2012/13.

### Note 6

Director of Children's Services & Learning post was merged with the Director of Health & Adult Social Care post to create a new Director of People post from April 2013. As of April 2013 this post is filled by Alison Elliott.

### Note 7

There were no bonuses paid.

### Note 8

In 2012/13 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

# NOTES TO THE CORE FINANCIAL STATEMENTS

2011/12

| <u>Post Holder</u>                                                                                          | <u>Salary<br/>(including fees<br/>&amp; allowances)</u> | <u>Expense<br/>Allowances</u> | <u>Compensation<br/>for loss of<br/>office</u> | <u>Benefits in<br/>Kind</u> | <u>Total<br/>Remuneration<br/>excluding<br/>pension<br/>contributions<br/>2011/12</u> | <u>Pensions<br/>contributions<br/>(see Note 8)</u> | <u>Total<br/>Remuneration<br/>including<br/>pension<br/>contributions<br/>2011/12</u> |
|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------|------------------------------------------------|-----------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------|---------------------------------------------------------------------------------------|
|                                                                                                             | £                                                       | £                             | £                                              | £                           | £                                                                                     | £                                                  | £                                                                                     |
| <b>Chief Executive</b><br>- Alistair Neill                                                                  | 165,753                                                 | 1,452                         | -                                              | -                           | 167,205                                                                               | 21,714                                             | 188,919                                                                               |
| <b>Director of Children's Services &amp; Learning</b><br>- Clive Webster                                    | 119,301                                                 | 574                           | -                                              | -                           | 119,875                                                                               | 15,628                                             | 135,503                                                                               |
| <b>Director of Communications</b><br>until 31/12/2011<br>- Ben White (see Note 1)                           | 61,217                                                  | -                             | -                                              | -                           | 61,217                                                                                | 8,019                                              | 69,236                                                                                |
| <b>Director of Corporate Services</b><br>- Mark Heath                                                       | 116,033                                                 | 122                           | -                                              | -                           | 116,155                                                                               | 15,200                                             | 131,355                                                                               |
| <b>Director of Economic Development</b><br>- Dawn Baxendale                                                 | 116,033                                                 | -                             | -                                              | -                           | 116,033                                                                               | 15,200                                             | 131,233                                                                               |
| <b>Director of Environment</b><br>until 30/06/2011<br>- Lorraine Brown (see Note 2)                         | 32,678                                                  | 31                            | -                                              | 224                         | 32,933                                                                                | 4,281                                              | 37,214                                                                                |
| <b>Director of Environment</b><br>from 01/07/2011<br>- Frances Martin                                       | 83,130                                                  | -                             | -                                              | -                           | 83,130                                                                                | 10,890                                             | 94,020                                                                                |
| <b>Director of Health &amp; Adult Social Care</b><br>until 30/04/2012<br>- Penny Furness-Smith (see Note 3) | 125,516                                                 | -                             | 34,044                                         | -                           | 159,560                                                                               | 109,064                                            | 268,624                                                                               |
| <b>Director of Neighbourhoods</b><br>until 15/07/2011<br>- Nick Murphy (see Note 4)                         | 41,645                                                  | 622                           | 9,600                                          | -                           | 51,867                                                                                | 88,751                                             | 140,618                                                                               |
| <b>Acting Director of Resources (CFO)</b><br>until 15/05/2011<br>- Rob Carr (see Note 5)                    | 13,725                                                  | 300                           | -                                              | -                           | 14,025                                                                                | 1,997                                              | 16,022                                                                                |
| <b>Head of Finance &amp; IT (CFO)</b><br>from 01/05/2011<br>- Andrew Lowe (see Note 6)                      | 80,117                                                  | 112                           | -                                              | -                           | 80,229                                                                                | 10,495                                             | 90,724                                                                                |
|                                                                                                             | <b>955,148</b>                                          | <b>3,213</b>                  | <b>43,644</b>                                  | <b>224</b>                  | <b>1,002,229</b>                                                                      | <b>301,239</b>                                     | <b>1,303,468</b>                                                                      |

**Note 1**

Director of Communications post was deleted from 31/12/2011.

**Note 2**

Compensation for loss of office for Lorraine Brown is accounted for and disclosed in 2010/11, however this was not received by the employee until 2011/12.

**Note 3**

Compensation for loss of office for Penny Furness-Smith is accounted for in 2011/12 and hence is disclosed here despite being received by the employee in 2012/13. Payment to LGPS of £92,621

**Note 4**

Director of Neighbourhoods post deleted. Payment to LGPS of £83,934.

**Note 5**

Director of Resources post deleted.

**Note 6**

Head of Finance & IT post assumed the Chief Financial Officer role and responsibilities from May 2011.

**Note 7**

There were no bonuses paid.

**Note 8**

In 2011/12 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Exit Packages

Details of exit packages for the past two years are shown in the table below.

| <u>Exit Package Cost Band (including special payments)</u> | <u>Number of compulsory Redundancies</u> |                | <u>Number of Other Departures agreed</u> |                | <u>Total Number of packages by Cost Band</u> |                | <u>Total Cost of Exit Packages in each Band</u> |                  |
|------------------------------------------------------------|------------------------------------------|----------------|------------------------------------------|----------------|----------------------------------------------|----------------|-------------------------------------------------|------------------|
|                                                            | <u>2011/12</u>                           | <u>2012/13</u> | <u>2011/12</u>                           | <u>2012/13</u> | <u>2011/12</u>                               | <u>2012/13</u> | <u>2011/12</u>                                  | <u>2012/13</u>   |
| £0-£20,000                                                 | 48                                       | 35             | 79                                       | 71             | 127                                          | 106            | 1,053,020                                       | 735,953          |
| £20,001-£40,000                                            | 7                                        | 3              | 53                                       | 5              | 60                                           | 8              | 1,761,767                                       | 217,242          |
| £40,001-£60,000                                            | 2                                        | 0              | 20                                       | 4              | 22                                           | 4              | 1,063,666                                       | 200,145          |
| £60,001-£80,000                                            | 3                                        | 0              | 9                                        | 0              | 12                                           | 0              | 805,898                                         | 0                |
| £80,001-£100,000                                           | 1                                        | 1              | 6                                        | 2              | 7                                            | 3              | 636,707                                         | 279,757          |
| £100,001-£150,000                                          | 0                                        | 1              | 8                                        | 1              | 8                                            | 2              | 986,787                                         | 232,475          |
| £150,000+                                                  | 0                                        | 0              | 2                                        | 0              | 2                                            | 0              | 426,394                                         | 0                |
| <b>Total</b>                                               | <b>61</b>                                | <b>40</b>      | <b>177</b>                               | <b>83</b>      | <b>238</b>                                   | <b>123</b>     | <b>6,734,239</b>                                | <b>1,665,571</b> |

### 32. External Audit Costs

The Council's appointed auditors are Ernst & Young. The Council incurred the following fees relating to external audit and inspection.

| <u>2011/12</u><br>£000's                     | <u>2012/13</u><br>£000's |
|----------------------------------------------|--------------------------|
| 290 Statutory Audit & Inspection             | 197                      |
| 81 Certification of Grant Claims and Returns | 42                       |
| 2 Other Services                             | 2                        |
| <u>373</u>                                   | <u>241</u>               |

### 33. Dedicated Schools Grants

The Council's expenditure on schools is funded by grant provided by the Department for Education (DfE) and the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2012/13 are as follows:

| <u>Details of the Deployment of DSG Receivable for 2012/13 are as Follows:</u> |                                      |                                            |                        |
|--------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------|------------------------|
|                                                                                | <u>Central Expenditure</u><br>£000's | <u>Individual Schools Budget</u><br>£000's | <u>Total</u><br>£000's |
| Final DSG for 2012/13 before Academy recoupment                                |                                      |                                            | 148,411                |
| Academy figure recouped for 2012/13                                            |                                      |                                            | (21,651)               |
| <b>Total DSG after Academy Recoupment for 2012/13</b>                          |                                      |                                            | <b>126,760</b>         |
| Brought forward from 2011/12                                                   |                                      |                                            | 506                    |
| Carry forward to 2013/14 agreed in advance                                     |                                      |                                            | 0                      |
| Agreed initial budgeted distribution in 2012/13                                | <b>11,818</b>                        | <b>115,448</b>                             | <b>127,266</b>         |
| In year adjustments                                                            |                                      |                                            | 0                      |
| <b>Final Budgeted Distribution for 2012/13</b>                                 | <b>11,818</b>                        | <b>115,448</b>                             | <b>127,266</b>         |
| Less Actual central expenditure                                                | (11,719)                             |                                            | (11,719)               |
| Less Actual ISB deployed to schools                                            |                                      | (114,580)                                  | (114,580)              |
| Plus Local authority contribution for 2012/13                                  | 0                                    | 0                                          | 0                      |
| <b>Carry Forward to 2013/14</b>                                                | <b>99</b>                            | <b>868</b>                                 | <b>967</b>             |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 34. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions with related parties. This was introduced to bring local authorities in line with the private sector. For the City Council a "Related Party" is considered to be:

- Central Government and other local authorities,
- Any joint venture with another public body,
- Any subsidiary or associated company,
- Elected Members,
- Senior Officers, and
- The Council's pension fund.

During the year major transactions with related parties arose with; Hampshire Pension Fund and Teachers Pensions Agency as disclosed in **Note 40 (Defined Benefit Pension Schemes)**; Hampshire Police Authority precept of £9.8M and Hampshire Fire & Rescue Authority precept of £4.1M, shown in the **Collection Fund Accounts**, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants.

For the elected members and Senior Officers it also includes members of their close family, their households and any company, trust etc in which they have a controlling interest. Elected members and Senior Officers were requested to disclose any related party transactions which are as follows:

- The Interim Chief Executive's husband is the Group Director of Neighbourhood Services for Raglan Housing Association. The Council made revenue payments (Supporting People Grant) of approximately £186,000 to Raglan Housing Association in 2012/13. The Interim Chief Executive was not involved in the decision making process for these transactions.
- The Head of Skills, Regeneration and Partnerships, Environment and Economy Directorate, is a Trustee for both the Solent EBP (Enterprise Business Partnership) and Wheatsheaf Trust, to which the Council has made revenue payments of approximately £140,000 and £104,000 respectively. The Head of Skills, Regeneration and Partnerships Environment and Economy Directorate, was not involved in the decision making process for these transactions.

### Amounts Due to or from Related Parties

As at 31 March 2013, significant monies outstanding from related parties were:

| <u>2011/12</u>       | <u>Money Owed to SCC</u>                           | <u>2012/13</u>      |
|----------------------|----------------------------------------------------|---------------------|
| <b>£000's</b>        |                                                    | <b>£000's</b>       |
| 4,711                | HM Revenues & Customs (VAT)                        | 2,806               |
| 2,616                | Department for Works & Pensions (Housing Benefits) | 3,775               |
| 461                  | Department of Communities and Local Government     | 1,913               |
| 4,913                | Heritage Lottery Fund                              | 884                 |
| <b><u>12,701</u></b> | <b>Balance Carried forward</b>                     | <b><u>9,378</u></b> |

There are no doubtful debts included within these figures. In contrast the Council owed money in respect:

| <u>2011/12</u>      | <u>Money Owed by SCC</u>                       | <u>2012/13</u>      |
|---------------------|------------------------------------------------|---------------------|
| <b>£000's</b>       |                                                | <b>£000's</b>       |
| 3,285               | National Insurance & PAYE                      | 3,083               |
| 1,843               | Local Government Superannuation                | 3,412               |
| 922                 | Teacher's Superannuation                       | 840                 |
| 1,853               | Department for Education                       | 11                  |
| 1,927               | Department of Communities and Local Government | 20                  |
| <b><u>9,830</u></b> | <b>Balance Carried forward</b>                 | <b><u>7,366</u></b> |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 35. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

| <b><u>CAPITAL EXPENDITURE AND FINANCING</u></b>                                        |                       |                        |
|----------------------------------------------------------------------------------------|-----------------------|------------------------|
|                                                                                        | <b><u>2011/12</u></b> | <b><u>2012/13</u></b>  |
|                                                                                        | <b>£000's</b>         | <b>£000's</b>          |
| <b>Opening Capital Financing Requirement</b>                                           | <b>360,124</b>        | <b>445,277</b>         |
| <b>Capital Investment</b>                                                              |                       |                        |
| Intangible assets                                                                      | 945                   | 223                    |
| Property Plant & Equipment                                                             | 96,703                | 64,845                 |
| PFI Scheme - Street Lighting                                                           | 3,808                 | 5,443                  |
| Revenue Expenditure Funded from Capital under Statute                                  | 4,391                 | 13,367                 |
| Equal Pay Provision - Reversal                                                         | (5,746)               | 0                      |
| Capitalisation - Redundancy                                                            | 1,156                 | 0                      |
| Repayment of Temporary Financing                                                       |                       | (2,560)                |
| HRA Self Financing                                                                     | 73,847                | 0                      |
| <b>Sources of Finance</b>                                                              |                       |                        |
| Capital Receipts                                                                       | (4,835)               | (11,393)               |
| Government grants & other contributions                                                | (48,451)              | (36,210)               |
| HRA Depreciation (formerly Major Repairs Allowance)                                    | (13,096)              | (16,206)               |
| Direct Revenue Financing                                                               | (12,740)              | (9,111)                |
| MRP                                                                                    | (10,825)              | (20,396)               |
| Other Adjustments                                                                      | (4)                   | (3)                    |
| <b>Closing Capital Financing Requirement</b>                                           | <b><u>445,277</u></b> | <b><u>433,276</u></b>  |
| <b>Explanation of Movements in Year</b>                                                |                       |                        |
| Previous Year Adjustment - Grants and Conts                                            |                       | (30)                   |
| Increase in underlying need to borrow (unsupported by Government financial assistance) | 22,917                | 5,540                  |
| Equal Pay Capitalisation - No longer required                                          | (5,746)               | 0                      |
| Capitalisation - Redundancy                                                            | 1,156                 | 0                      |
| Repayment of Temporary Financing                                                       |                       | (2,560)                |
| MRP                                                                                    | (10,825)              | (20,396)               |
| PFI Schemes                                                                            | 3,808                 | 5,443                  |
| HRA Self Financing                                                                     | 73,847                | 0                      |
| Other Adjustments                                                                      | (4)                   | 2                      |
| <b>Increase / (Decrease) in Capital Financing Requirement</b>                          | <b><u>85,153</u></b>  | <b><u>(12,001)</u></b> |

### 36. Leases

#### a) Council as Lessee

##### Finance Leases

The Council has acquired a number of Plant and Equipment Assets under finance leases. The assets acquired under these leases are carried as Plant and Equipment in the Balance Sheet at the following net amounts:

|                                          | <b><u>31 March</u></b> | <b><u>31 March</u></b> |
|------------------------------------------|------------------------|------------------------|
|                                          | <b>2012</b>            | <b>2013</b>            |
|                                          | <b>£000's</b>          | <b>£000's</b>          |
| Other Land and Buildings                 |                        |                        |
| Vehicles, Plant, Furniture and Equipment | 2,072                  | 1,146                  |
|                                          | <b><u>2,072</u></b>    | <b><u>1,146</u></b>    |



## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

|                                                                          | <b>31 March</b><br><b>2012</b><br><b>£000's</b> | <b>31 March</b><br><b>2013</b><br><b>£000's</b> |
|--------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Finance Lease liabilities (net present value of minimum lease payments): |                                                 |                                                 |
| Current                                                                  | 905                                             | 699                                             |
| Non Current                                                              | 846                                             | 147                                             |
| Finance Costs payable in future years                                    | 55                                              | 10                                              |
| <b>Minimum Lease Payments</b>                                            | <b>1,806</b>                                    | <b>855</b>                                      |

The minimum lease payments will be payable over the following periods:

|                                                                          | <b>Minimum Lease Payments</b>                   |                                                 | <b>Finance Lease Liabilities</b>                |                                                 |
|--------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
|                                                                          | <b>31 March</b><br><b>2012</b><br><b>£000's</b> | <b>31 March</b><br><b>2013</b><br><b>£000's</b> | <b>31 March</b><br><b>2012</b><br><b>£000's</b> | <b>31 March</b><br><b>2013</b><br><b>£000's</b> |
| Finance Lease liabilities (net present value of minimum lease payments): |                                                 |                                                 |                                                 |                                                 |
| Not later than one year                                                  | 951                                             | 706                                             | 1,018                                           | 699                                             |
| Later than one year and not later than five years                        | 854                                             | 149                                             | 1,749                                           | 147                                             |
| Later than five years                                                    | 1                                               | 0                                               | 2                                               | 0                                               |
| <b>Minimum Lease Payments</b>                                            | <b>1,806</b>                                    | <b>855</b>                                      | <b>2,769</b>                                    | <b>846</b>                                      |

There were no material contingent rents payable on the above Finance Leases by the Council in either 2011/12 or 2012/13.

### Operating Leases

The Council has acquired various vehicles and equipment by entering into operating leases, with typical lives of five years, and also has commitments in respect of leases on Castle Way and Southbrook Rise.

The future minimum lease payments due under non-cancellable leases in future years are:

|                                                   | <b>Vehicles &amp;</b><br><b>Equipment</b>       | <b>Land &amp;</b><br><b>Buildings</b>           | <b>Total</b>                                    | <b>Vehicles &amp;</b><br><b>Equipment</b>       | <b>Land &amp;</b><br><b>Buildings</b>           | <b>Total</b>                                    |
|---------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
|                                                   | <b>31 March</b><br><b>2012</b><br><b>£000's</b> | <b>31 March</b><br><b>2012</b><br><b>£000's</b> | <b>31 March</b><br><b>2012</b><br><b>£000's</b> | <b>31 March</b><br><b>2013</b><br><b>£000's</b> | <b>31 March</b><br><b>2013</b><br><b>£000's</b> | <b>31 March</b><br><b>2013</b><br><b>£000's</b> |
| Not later than one year                           | 45                                              | 267                                             | 312                                             | 14                                              | 104                                             | 118                                             |
| Later than one year and not later than five years | 21                                              | 104                                             | 125                                             | 7                                               | 0                                               | 7                                               |
| Later than five years                             | 0                                               | 0                                               | 0                                               | 0                                               | 0                                               | 0                                               |
|                                                   | <b>66</b>                                       | <b>371</b>                                      | <b>437</b>                                      | <b>21</b>                                       | <b>104</b>                                      | <b>125</b>                                      |

### b) Council as a Lessor

#### Finance Leases

The Council has not entered into any Finance Leases whereby they are the lessor.

#### Operating Leases

The Council leases property and equipment under operating leases for the following purposes:

- For the provision of community services, such as tourism services and community centres;

## NOTES TO THE CORE FINANCIAL STATEMENTS

- For economic development purposes to provide suitable affordable accommodation for local businesses; and
- For Investment purposes

The future minimum lease payments receivable under non-cancellable leases in future years are:

|                                                   | <u>31 March</u><br><u>2012</u><br>£000's | <u>31 March</u><br><u>2013</u><br>£000's |
|---------------------------------------------------|------------------------------------------|------------------------------------------|
| Not later than one year                           | 7,860                                    | 6,932                                    |
| Later than one year and not later than five years | 25,008                                   | 22,057                                   |
| Later than five years                             | 1,697,925                                | 1,630,762                                |
|                                                   | <u>1,730,793</u>                         | <u>1,659,751</u>                         |

The amounts in the above table include "market value" property ground rents which have all been treated as operating leases even where the period of the lease exceeds 150 years.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There are no contingent rents receivables by the Council at 31 March 2013 and 31 March 2012.

### 37. PFI and Similar Contracts

The Council is currently involved with five PFI and Similar Contracts, three of which require to be accounted for on Balance Sheet in accordance with our Accounting Policy (PFI schools, Hampshire Waste Management Contract, PFI Street Lighting) and two which are not (Northlands & Oak Lodge Nursing Homes run by BUPA Care Homes Limited).

#### a) On Balance Sheet

##### PFI Schools

A PFI project was approved by the government to significantly improve the quality of the buildings in three of the City's secondary schools and also to provide additional places in two of them. The works were procured under the PFI whereby a consortium of private sector companies, known as Pyramid Schools (Southampton) Ltd, designed, built, financed and now operate the schools. The contract start date was 29 October 2001 and will terminate on 31 August 2031. The estimated capital value of these schemes is £37M.

The consortium provides building related services such as cleaning, care-taking and repairs, but teaching and curriculum related staff continue to be employed directly by the Council. The Council started to pay an annual fee to the consortium following the completion of the first school during the 2005/06 financial year. The fee, known as the 'Unitary Charge,' covers both the running costs of the school buildings and the cost of building the schools. All three schools are open.

The cost of the project is being met partly through additional grant from Central Government and partly through existing budgets, (either from budgets delegated to the schools concerned or controlled by the Council).

##### Hampshire Waste Contract

At the end of the 1980s it became evident that Hampshire was facing a waste disposal crisis. Landfill space was rapidly running out, incinerators build in the 1970's were not going to meet EU emission regulations and waste levels were continuing to rise.

In 1995 the Hampshire Waste Strategy was adopted which led to Project Integra, which is a unique partnership between the Council, Hampshire County Council, Portsmouth City Council, the 11 District Councils, and Veolia Environmental Services.

In 1996 the Council (11.48%) entered into a tri-partite arrangement with Hampshire County Council (77%) and Portsmouth City Council (11.52%), in respect of the provision of Waste Management Services from Veolia Environment Services. Although this arrangement was entered into pre PFI it requires to be accounted for as an on Balance Sheet PFI type arrangement under IFRIC 12 Service Concessions.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Broadly the services contract involved the building and running of three Energy Recovery Facilities and two Material Recycling Facilities and the provision of Waste Management Services within Hampshire for a 25 year period. Southampton and Portsmouth City Councils have worked with Hampshire County Council, as the lead authority, to calculate the fair value of the Assets built for the servicing of the Waste Management Contract. The Council has accounted for its share of the Assets (11.48%) on the basis of its share of the Annual Unitary Charge.

### PFI Street Lighting

From 1 April 2010, the Council entered into a 25 year PFI contract with Tay Valley Lighting to provide the city's street lighting services. Over the initial five years of the contract, the contractor will replace all life expired apparatus with new energy-efficient apparatus. This 'core investment programme' has a capital value of £26M and includes the replacement of 17,000 of the city's 28,000 street lights and associated apparatus. The contractor will also be responsible for the operation and maintenance to agreed performance standards of all apparatus (new and existing) for the life of the contract. The Council pays a single fee to the contractor for these services (capital investment, operation and maintenance). Payment of this 'unitary charge' is funded partly through a PFI annuity grant received from central government and partly through existing Council budgets for street lighting.

### b) Off Balance Sheet

#### BUPA Care Homes (Northlands, & Oak Lodge Nursing Homes)

The purpose of these Public Private Partnership (PPP) projects is to increase the number of nursing care beds within the city and in turn secure under a block contract the Council's accessibility to the beds. The private sector partner for this PPP is BUPA Care Homes Ltd. The Council has agreed to lease the land on which the nursing homes have been built to BUPA for nil consideration for the duration of 50 years.

BUPA manage both the property and service provision. The Council is not involved in direct service management or providing any staff. The Council has block contracts for 25 years (Northlands – July 2005 – July 2030 and Oak Lodge Feb 2011 – Feb 2035), to purchase beds, (Northlands 72 of 101, and Oak Lodge 40 of 71) at the Nursing Homes annually. Payment is made monthly to BUPA, based on the 'Unitary Charge', which is the price per bed per week.

A review of these arrangements indicates that they do not require to be accounted for as On Balance Sheet PFI schemes as the Council does not control the residual interest of the Assets (Nursing Homes) at the end of the 25 year service concession period.

The PFI and IFRIC 12 Service Concessions that are included within Fixed Asset Balances are as follows:

|                                              | <u>PFI - Schools</u> | <u>Hampshire Waste</u>    | <u>PFI - Street</u>       | <u>Total</u>   |
|----------------------------------------------|----------------------|---------------------------|---------------------------|----------------|
|                                              | £000's               | <u>Contract</u><br>£000's | <u>Lighting</u><br>£000's | £000's         |
| <b>Cost or Valuation</b>                     |                      |                           |                           |                |
| At 1 April 2012                              | 58,379               | 13,966                    | 6,122                     | 78,467         |
| Additions                                    |                      |                           | 5,443                     | 5,443          |
| Disposals                                    |                      |                           |                           | 0              |
| Revaluations                                 |                      |                           |                           | 0              |
| Impairments                                  |                      |                           |                           | 0              |
| <b>At 31 March 2013</b>                      | <b>58,379</b>        | <b>13,966</b>             | <b>11,565</b>             | <b>83,910</b>  |
| <b>Depreciation &amp; Impairment</b>         |                      |                           |                           |                |
| At 1 April 2012                              | (2,654)              | (3,304)                   | (77)                      | (6,035)        |
| Depreciation Charge for the Year             | (1,327)              | (827)                     | (204)                     | (2,358)        |
| Disposals                                    |                      |                           |                           | 0              |
| Revaluations                                 |                      |                           |                           | 0              |
| Impairments                                  |                      |                           |                           | 0              |
| <b>At 31 March 2013</b>                      | <b>(3,981)</b>       | <b>(4,131)</b>            | <b>(281)</b>              | <b>(8,393)</b> |
| <b>Balance Sheet amount at 31 March 2013</b> | <b>54,398</b>        | <b>9,835</b>              | <b>11,284</b>             | <b>75,517</b>  |
| <b>Balance Sheet amount at 31 March 2012</b> | <b>55,725</b>        | <b>10,662</b>             | <b>6,045</b>              | <b>72,432</b>  |

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Finance Creditor associated with the above schemes within the Balance Sheet is as follows:

|                                                 | <u>PFI - Schools</u> | <u>Hampshire Waste</u>           | <u>PFI - Street</u>              | <u>Total</u>  |
|-------------------------------------------------|----------------------|----------------------------------|----------------------------------|---------------|
|                                                 | <u>£000's</u>        | <u>Contract</u><br><u>£000's</u> | <u>Lighting</u><br><u>£000's</u> | <u>£000's</u> |
| Balance 1 April 2012                            | 36,143               | 11,323                           | 4,756                            | 52,222        |
| New Schemes in 2012/13                          |                      |                                  | 5,443                            | 5,443         |
| Repayments                                      | (449)                | (581)                            | (573)                            | (1,603)       |
| <b>Balance 31 March 2013</b>                    | <b>35,694</b>        | <b>10,742</b>                    | <b>9,626</b>                     | <b>56,062</b> |
| <b>Due within 1 Year</b>                        |                      |                                  |                                  |               |
| Balance 1 April 2012                            | 449                  | 581                              | 573                              | 1,603         |
| Repayments                                      | (449)                | (581)                            | (573)                            | (1,603)       |
| Due within 1 Year                               | 750                  | 627                              | 387                              | 1,764         |
| <b>Balance 31 March 2013</b>                    | <b>750</b>           | <b>627</b>                       | <b>387</b>                       | <b>1,764</b>  |
| <b>Long Term Creditor Balance 31 March 2013</b> | <b>34,944</b>        | <b>10,115</b>                    | <b>9,239</b>                     | <b>54,298</b> |

The Future Obligations in respect of the three on Balance Sheet PFI / IFRIC 12 Service Concessions are as follows:

|                              | <u>PFI - Schools</u> |                 |                | <u>Hampshire Waste</u> |                 |                | <u>PFI - Street Lighting</u> |                 |                | <u>Total</u>   |
|------------------------------|----------------------|-----------------|----------------|------------------------|-----------------|----------------|------------------------------|-----------------|----------------|----------------|
|                              | <u>Liability</u>     | <u>Interest</u> | <u>Service</u> | <u>Liability</u>       | <u>Interest</u> | <u>Service</u> | <u>Liability</u>             | <u>Interest</u> | <u>Service</u> | <u>£000's</u>  |
|                              | <u>Charges</u>       | <u>Charges</u>  | <u>Charges</u> | <u>Charges</u>         | <u>Charges</u>  | <u>Charges</u> | <u>Charges</u>               | <u>Charges</u>  |                |                |
| <u>£000's</u>                | <u>£000's</u>        | <u>£000's</u>   | <u>£000's</u>  | <u>£000's</u>          | <u>£000's</u>   | <u>£000's</u>  | <u>£000's</u>                | <u>£000's</u>   | <u>£000's</u>  |                |
| within 1 year                | 750                  | 3,033           | 2,496          | 627                    | 859             | 5,601          | 387                          | 1,662           | 1,129          | 16,544         |
| within 2 to 5 years          | 4,182                | 11,335          | 10,305         | 3,051                  | 2,894           | 23,609         | 900                          | 10,073          | 4,596          | 70,945         |
| within 6 to 10 years         | 7,271                | 11,959          | 14,597         | 5,334                  | 2,023           | 32,485         | 2,525                        | 11,957          | 6,367          | 94,518         |
| within 11 to 15 years        | 11,405               | 8,161           | 16,150         | 1,730                  | 197             | 17,148         | 5,080                        | 9,987           | 7,268          | 77,126         |
| within 16 to 20 years        | 12,087               | 2,377           | 11,118         |                        |                 |                | 9,399                        | 6,206           | 8,296          | 49,483         |
| within 21 to 25 years        |                      |                 |                |                        |                 |                | 5,589                        | 794             | 3,638          | 10,021         |
| <b>Balance 31 March 2013</b> | <b>35,695</b>        | <b>36,865</b>   | <b>54,666</b>  | <b>10,742</b>          | <b>5,973</b>    | <b>78,843</b>  | <b>23,880</b>                | <b>40,679</b>   | <b>31,294</b>  | <b>318,637</b> |

The Future Obligations in respect of the two Off Balance Sheet Public Private Partnerships (PPP) arrangements are as follows:

|                              | <u>BUPA Care Homes</u> |                  | <u>Total</u>  |
|------------------------------|------------------------|------------------|---------------|
|                              | <u>Northlands</u>      | <u>Oak Lodge</u> | <u>£000's</u> |
|                              | <u>£000's</u>          | <u>£000's</u>    |               |
| within 1 year                | 2,432                  | 1,409            | 3,841         |
| within 2 to 5 years          | 9,729                  | 5,334            | 15,063        |
| within 6 to 10 years         | 12,161                 | 6,667            | 18,828        |
| within 11 to 15 years        | 12,161                 | 6,667            | 18,828        |
| within 16 to 20 years        | 5,667                  | 6,667            | 12,334        |
| within 21 to 25 years        |                        | 2,467            | 2,467         |
| <b>Balance 31 March 2013</b> | <b>42,150</b>          | <b>29,211</b>    | <b>71,361</b> |

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Payments made in 2012/13 in respect of PFI and IFRIC 12 Service Concessions were as follows:

|                     | <u>Liability</u> | <u>Interest</u> | <u>Service</u><br><u>Charges</u> | <u>Total</u>  |
|---------------------|------------------|-----------------|----------------------------------|---------------|
|                     | £000's           | £000's          | £000's                           | £000's        |
| PFI Schools         | 449              | 3,071           | 3,209                            | 6,729         |
| Hampshire Waste     | 581              | 906             | 5,485                            | 6,972         |
| PFI Street Lighting | 573              | 928             | 1,099                            | 2,600         |
| BUPA Care Homes     |                  |                 |                                  |               |
| Northlands          |                  |                 | 2,432                            | 2,432         |
| Oak Lodge           |                  |                 | 1,399                            | 1,399         |
| <b>Totals</b>       | <b>1,603</b>     | <b>4,905</b>    | <b>13,624</b>                    | <b>20,132</b> |

### 38. Termination Benefits

The Council terminated the contracts of a number of employees in 2012/13 incurring liabilities of £1.7M (£6.7M 2011/12) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. See **Note 31 (Officers Remuneration)** for the number of exit packages and the total cost per band. Of this total £94,234 is payable in 2012/13 (£220,199 2011/12) to Senior Officers as disclosed in **Note 31a**.

### 39. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teacher's Pension scheme, administered by Capita Teacher's Pensions. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the scheme is unfunded and Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purpose of this Financial Statements, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/13 the City Council paid £7.0M to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £7.5M and 14.1%. There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and are detailed in **Note 40** below.

### 40. Defined Benefit Pension Schemes

#### a) Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

- **The Local Government Pension Scheme** – Administered locally by Hampshire County Council Pension Fund, this is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- **The Teachers' Pension Scheme** – Administered by Capita Teachers' Pensions this is a defined benefit scheme that is unfunded. Teachers' Pensions use a notional fund basis for calculating employers' contribution rate paid by local education authorities. However, there is no accumulation of investment assets built up to meet pension liabilities. As a result scheme liabilities cannot be

## NOTES TO THE CORE FINANCIAL STATEMENTS

attributed to individual local authorities on a consistent and reasonable basis and so in accordance with IAS19, pension costs are recorded as if the scheme was a defined contribution scheme.

### b) Transactions Relating to Post-employment Benefits

In 2012/13, the Council paid an employer's contribution of £20.1M (2011/12 - £23.3M) 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.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £20.1M.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund via the MiRS. The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the MiRS during the year.

|                                                                                                     | <u>Local Government Pension Scheme</u> |                | <u>Discretionary Benefits Arrangements</u> |                | <u>Totals</u>  |                |
|-----------------------------------------------------------------------------------------------------|----------------------------------------|----------------|--------------------------------------------|----------------|----------------|----------------|
|                                                                                                     | <u>2011/12</u>                         | <u>2012/13</u> | <u>2011/12</u>                             | <u>2012/13</u> | <u>2011/12</u> | <u>2012/13</u> |
|                                                                                                     | <u>£000's</u>                          | <u>£000's</u>  | <u>£000's</u>                              | <u>£000's</u>  | <u>£000's</u>  | <u>£000's</u>  |
| <b>Comprehensive Income and Expenditure Statement</b>                                               |                                        |                |                                            |                |                |                |
| <i>Cost of Services</i>                                                                             |                                        |                |                                            |                |                |                |
| Current service costs                                                                               | 16,950                                 | 16,020         | 0                                          | 0              | 16,950         | 16,020         |
| Past service costs                                                                                  | 2,330                                  | 1,050          | 0                                          | 0              | 2,330          | 1,050          |
| Settlements and curtailments                                                                        |                                        |                |                                            |                |                |                |
| <i>Financing and Investment Income and Expenditure</i>                                              |                                        |                |                                            |                |                |                |
| Interest Cost                                                                                       | 39,280                                 | 39,970         | 1,800                                      | 1,610          | 41,080         | 41,580         |
| Expected return on assets in the scheme                                                             | (32,180)                               | (30,730)       | 0                                          | 0              | (32,180)       | (30,730)       |
| <b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services</b> | <b>26,380</b>                          | <b>26,310</b>  | <b>1,800</b>                               | <b>1,610</b>   | <b>28,180</b>  | <b>27,920</b>  |
| <b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>  |                                        |                |                                            |                |                |                |
| Actuarial (Gains) and Losses                                                                        | 73,170                                 | 22,170         | 2,880                                      | 3,730          | 76,050         | 25,900         |
| <b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>  | <b>99,550</b>                          | <b>48,480</b>  | <b>4,680</b>                               | <b>5,340</b>   | <b>104,230</b> | <b>53,820</b>  |
| <b>Movement in Reserves Statement</b>                                                               |                                        |                |                                            |                |                |                |
| Reversal of net charges made for retirement benefits in accordance with the Code                    | (26,380)                               | (26,310)       | (1,800)                                    | (1,610)        | (28,180)       | (27,920)       |
| <b>Actual amount charged against the General Fund Balance for Pensions in the Year:</b>             |                                        |                |                                            |                |                |                |
| Employers' contributions payable to scheme                                                          | <b>20,970</b>                          | <b>17,770</b>  |                                            |                | <b>20,970</b>  | <b>17,770</b>  |
| Retirement benefits payable to pensioners                                                           |                                        |                | <b>2,290</b>                               | <b>2,370</b>   | <b>2,290</b>   | <b>2,370</b>   |

### c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2013 are as follows:

|                                                             | <u>2008/09</u>   | <u>2009/10</u>   | <u>2010/11</u>   | <u>2011/12</u>   | <u>2012/13</u>   |
|-------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
|                                                             | <u>£000's</u>    | <u>£000's</u>    | <u>£000's</u>    | <u>£000's</u>    | <u>£000's</u>    |
| Present value of funded Liabilities in scheme (LGPS)        | (571,440)        | (791,560)        | (726,930)        | (832,180)        | (937,560)        |
| Present value of unfunded liabilities (Teachers & LGPS)     | (34,740)         | (38,680)         | (33,900)         | (36,290)         | (39,260)         |
| Total present value of liabilities                          | (606,180)        | (830,240)        | (760,830)        | (868,470)        | (976,820)        |
| Fair value of Share of Assets in the Fund (as per Accounts) | 308,210          | 421,250          | 457,280          | 483,950          | 558,620          |
| <b>Net Asset / (Liability)</b>                              | <b>(297,970)</b> | <b>(408,990)</b> | <b>(303,550)</b> | <b>(384,520)</b> | <b>(418,200)</b> |

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The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £418.2M (2011/12 £384.5M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

### d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2010 this has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2013.

Movements in liabilities and assets for the year are shown in the following tables:

| <u>Reconciliation of Present Value of Scheme Liabilities</u> |                             |                        |                         |
|--------------------------------------------------------------|-----------------------------|------------------------|-------------------------|
| <u>Unfunded</u>                                              | <u>Funded</u>               | <u>Unfunded</u>        | <u>Funded</u>           |
| <u>2011/12</u>                                               | <u>Liabilities</u>          | <u>2012/13</u>         | <u>Liabilities</u>      |
| <u>£000's</u>                                                | <u>2011/12</u>              | <u>£000's</u>          | <u>2012/13</u>          |
|                                                              | <u>£000's</u>               |                        | <u>£000's</u>           |
| (33,900)                                                     | (726,930)                   | (36,290)               | (832,180)               |
|                                                              | (16,950)                    |                        | (16,020)                |
| (1,800)                                                      | (39,280)                    | (1,610)                | (39,970)                |
|                                                              | (6,320)                     |                        | (5,750)                 |
| (2,880)                                                      | (64,920)                    | (3,730)                | (64,150)                |
| 2,290                                                        | 24,550                      | 2,370                  | 21,560                  |
| -                                                            | (2,330)                     |                        | (1,050)                 |
| <b><u>(36,290)</u></b>                                       | <b><u>(832,180)</u></b>     | <b><u>(39,260)</u></b> | <b><u>(937,560)</u></b> |
|                                                              | Closing Balance at 31 March |                        |                         |

| <u>Reconciliation of Fair Value of Schemes Assets</u> |                                    |                       |
|-------------------------------------------------------|------------------------------------|-----------------------|
| <u>2011/12</u>                                        |                                    | <u>2012/13</u>        |
| <u>£000's</u>                                         |                                    | <u>£000's</u>         |
| 457,280                                               | Opening Balance at 1 April         | 483,950               |
| 32,180                                                | Expected Rate of Return            | 30,730                |
| (8,250)                                               | Actuarial (Losses)/ Gain on assets | 41,980                |
| 20,970                                                | Contributions                      | 17,770                |
| 6,320                                                 | Contributions by participants      | 5,750                 |
| (24,550)                                              | Net benefits paid out              | (21,560)              |
| <b><u>483,950</u></b>                                 | <b>Closing Balance 31 March</b>    | <b><u>558,620</u></b> |

### e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:



## NOTES TO THE CORE FINANCIAL STATEMENTS

|                                                                                            | <u>2011/12</u> | <u>2012/13</u> |
|--------------------------------------------------------------------------------------------|----------------|----------------|
| Mortality assumptions:                                                                     |                |                |
| Longevity at 65 for current pensioners:                                                    |                |                |
| Men                                                                                        | 23.9           | 24.0           |
| Women                                                                                      | 24.9           | 25.0           |
| Longevity at 65 for future pensioners (currently aged 45):                                 |                |                |
| Men                                                                                        | 25.6           | 25.7           |
| Women                                                                                      | 26.8           | 26.9           |
| RPI Inflation                                                                              | 3.6%           | 3.7%           |
| CPI Inflation                                                                              | 2.6%           | 2.8%           |
| Rate of general long-term increase in salaries                                             | 5.1%           | 4.7%           |
| Rate of increase in pensions in payment                                                    | 2.6%           | 2.8%           |
| Rate of increase to deferred pensions                                                      | 2.6%           | 2.8%           |
| Discount rate                                                                              | 4.8%           | 4.5%           |
| Commutation:                                                                               |                |                |
| Take-up option to convert maximum amount permitted pre 1 April 2010 pension entitlements   | 25.0%          | 25.0%          |
| Take-up option to convert maximum amount permitted post 31 March 2010 pension entitlements | 75.0%          | 75.0%          |

### f) Expected Return on Assets

The Council employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the asset allocation for the fund at 31 March 2013.

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return for IAS19 purposes:

|                  | Long-Term Rate of<br>Return Expected at<br>31 March 2011 | Asset Split<br>at 31<br>March<br>2011 | Long-Term Rate of<br>Return Expected at<br>31 March 2012 | Asset Split<br>at 31<br>March<br>2012 |
|------------------|----------------------------------------------------------|---------------------------------------|----------------------------------------------------------|---------------------------------------|
|                  | (% pa)                                                   | (%)                                   | (% pa)                                                   | (%)                                   |
| Equities         | 8.1                                                      | 55.1                                  | 7.8                                                      | 57.6                                  |
| Property         | 7.6                                                      | 7.7                                   | 7.3                                                      | 7.8                                   |
| Government Bonds | 3.1                                                      | 27.0                                  | 2.8                                                      | 24.9                                  |
| Corporate Bonds  | 3.7                                                      | 1.5                                   | 3.8                                                      | 1.3                                   |
| Cash             | 1.8                                                      | 4.1                                   | 0.9                                                      | 2.3                                   |
| Other Assets     | 8.1                                                      | 4.6                                   | 7.8                                                      | 6.1                                   |
| <b>Total</b>     | <b>6.4</b>                                               | <b>100.0</b>                          | <b>6.3</b>                                               | <b>100.0</b>                          |

### g) Actuarial Gain / Losses Relating to Pensions

The actuarial gains identified as movements on the pensions Reserve in 2012/13 and are analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2013:

## NOTES TO THE CORE FINANCIAL STATEMENTS

|                                                             | <u>Actuarial Gain/(Loss) for Year</u> |        |                 |        |                |       |                 |       |                 |                             |
|-------------------------------------------------------------|---------------------------------------|--------|-----------------|--------|----------------|-------|-----------------|-------|-----------------|-----------------------------|
|                                                             | <u>2008/09</u>                        |        | <u>2009/10</u>  |        | <u>2010/11</u> |       | <u>2011/12</u>  |       | <u>2012/13</u>  |                             |
|                                                             | £000's                                | %      | £000's          | %      | £000's         | %     | £000's          | %     | £000's          | %                           |
| Difference between the expected and actual return on assets | (102,840)                             | (33.4) | 85,600          | 20.3   | (920)          | (0.2) | (8,250)         | (1.7) | 41,980          | 7.5 of scheme assets        |
| Experience gains and losses on pension liabilities          | (2,060)                               | (0.3)  | 6,610           | 0.8    | 3,240          | 0.4   | (8,440)         | (1.0) | 620             | 0.1 of scheme liabilities   |
| underlying the present value of pension liabilities         | (23,340)                              | (3.9)  | (187,060)       | (22.5) | 12,660         | 1.7   | (59,360)        | (6.8) | (68,500)        | (7.0) of scheme liabilities |
|                                                             | <u>(128,240)</u>                      |        | <u>(94,850)</u> |        | <u>14,980</u>  |       | <u>(76,050)</u> |       | <u>(25,900)</u> |                             |

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £299.4M.

Further information can be found in the actuary's valuation report and Hampshire County Council's Pension Fund Annual Report, which are available from the County Treasurer, The Castle, Winchester, Hampshire, SO23 8UB.

### 41. Contingent Liabilities/ Assets

Contingent Liabilities are potential liabilities which are not currently legally enforceable but may become so on the happening of a future event.

#### a) Equal Pay Claims

The Council included a provision, in the 2009/10 Financial Statements (which has been fully utilised), for the estimated cost of compensation payments arising from the 1997 Single Status Agreement, which are currently under negotiation in relation to a specific group of outstanding equal pay claims (see **Note 23a (Provisions)** for further details). However, the Council recognises the potential that further equal pay claims may arise, some of which may lead to additional compensation agreements or to employees taking employment tribunal action. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

#### b) Health and Safety - Asbestos

The Council has a legal duty under Health and Safety legislation to protect its employees, contractors, tenants and other people from the effects of inhaling asbestos. In 1997/98, an asbestos policy was implemented which created an asbestos unit. In establishing the policy, costs were identified on the most up-to-date information available. Given the nature of the problem, it is possible that further costs will arise in the future, which at this stage cannot be ascertained.

#### c) Municipal Mutual Insurance

The Scheme of Arrangement was enacted in 2012/13. The impact on the Council as a scheme creditor is not clear and the consequential impact on future funding for unknown claims incurred but not reported between 1974 and 1992. The initial 15% levy rate calculated at £0.2M is covered by amounts contained within the Insurance provision.

#### d) Land Charges

Southampton City Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of £1,622 plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is £233,261 plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### e) Non Residential Care Charging policy

A recent review of the Councils' Non Residential Care Charging policy, has highlighted that, the previous policy did not fully adhere to the national guidelines as set out by the Department of Health. It is possible that the Council has overcharged clients, in respect of their contributions for the cost of their Non residential care services over the past six years, and will be required to refund them where this has been the case. No provision has been made in the 2012/13 Financial Statements for the estimated cost of refunding these clients, as the issue of liability / cost has not yet been established.

### 42. Interest in Companies

The Council reviews annually any interests in Companies and Other Entities for any Financial Relationships which under the Code's classification would require the Council to produce Group Accounts.

In 2012/13 there were no relationships which would require the Council to produce Group Accounts.

### 43. Capital Grants and Contributions Receipts in Advance

Capital Grants and Contributions with outstanding conditions are credited to the Capital Grants and Contributions Receipts in Advance in accordance with the requirements of the Code.

| <u>2011/12</u>       |                                            | <u>2012/13</u>       |
|----------------------|--------------------------------------------|----------------------|
| £000's               |                                            | £000's               |
| 33,256               | Balance Brought Forward                    | 36,165               |
| 36,218               | Amounts Received in Year                   | 16,330               |
| <u>(33,309)</u>      | Amounts Applied to Finance Capital in year | <u>(28,918)</u>      |
| <u><b>36,165</b></u> | <b>Balance Carried forward</b>             | <u><b>23,577</b></u> |

Capital Grants and Contributions have been credited to the Comprehensive Income and Expenditure Statement as follows:

| <u>2011/12</u>       |                                                          | <u>2012/13</u> |                      |
|----------------------|----------------------------------------------------------|----------------|----------------------|
| £000's               |                                                          | £000's         | £000's               |
|                      | <b>Grants</b>                                            |                |                      |
|                      | Department for Children, Schools and Families            |                |                      |
| 17,891               | Framework Academies                                      | 4,755          |                      |
| 0                    | General Sure Start                                       | 584            |                      |
| 4,143                | Basic Need Grant                                         | 9,243          |                      |
| 1,400                | Standards Fund                                           | 0              |                      |
| 1,493                | Targeted Capital Fund                                    | 0              |                      |
| 1,347                | Schools Devolved Formula Grant                           | 1,446          |                      |
|                      | Capital Maintenance Grant                                | 2,219          |                      |
|                      | Primary Capital Programme                                | 4,023          |                      |
| 1,185                | Other                                                    | 976            |                      |
|                      |                                                          |                | <u>23,246</u>        |
| 721                  | Department of Health                                     |                | 1,473                |
| 1,732                | Department for Communities and Local Government          |                | 967                  |
| 6                    | Department for Environment, Food and Rural Affairs       |                | 0                    |
| 5,840                | Heritage Lottery Fund                                    |                | 134                  |
| 3,661                | Learning Skills Council                                  |                | 0                    |
| 4,253                | Department for Transport                                 |                | 4,716                |
| 0                    | Department for Business Innovation & Skills              |                | 747                  |
| 0                    | Arts Council                                             |                | 431                  |
| <u>43,672</u>        |                                                          |                | <u>31,714</u>        |
| <b>3,661</b>         | <b>Contributions</b>                                     |                | <b>3,605</b>         |
| <u><b>47,333</b></u> | <b>Total</b>                                             |                | <u><b>35,319</b></u> |
| <b>43,670</b>        | <b>Credited to Capital Grants and Contributions CIES</b> |                | <b>24,657</b>        |
| <b>3,663</b>         | <b>Credited to Cost of Services</b>                      |                | <b>10,662</b>        |
| <u><b>47,333</b></u> | <b>Total</b>                                             |                | <u><b>35,319</b></u> |

## NOTES TO THE CORE FINANCIAL STATEMENTS

General Government Grants (Revenue) have been credited to the Comprehensive Income and Expenditure Statement as follows:

| <u>2011/12</u><br>£000's |                                                  | <u>2012/13</u><br>£000's |
|--------------------------|--------------------------------------------------|--------------------------|
|                          | <b>General Government Grants</b>                 |                          |
| 24,758                   | Revenue Support Grant                            | 1,892                    |
| 1,088                    | Local Services Support Grant                     | 1,017                    |
| 10,558                   | Early Intervention Grant                         | 10,985                   |
| 2,253                    | Housing and Council Tax Benefit Grant            | 2,156                    |
| 5,185                    | Learning Disability and Health Reform Allocation | 5,329                    |
| 2,065                    | Council Tax Freeze Grant                         | 2,080                    |
| 944                      | DCLG New Homes Bonus Scheme                      | 1,714                    |
|                          | DCLG - Weekly Collection Support Scheme          | 1,097                    |
|                          | Academies Topslice Refund 11-12                  | 328                      |
| 43                       | Other                                            | 5                        |
| <b>46,894</b>            |                                                  | <b>26,603</b>            |

### 44. Pooled Budgets

Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service Bodies, local authorities and other agencies in order to improve and co-ordinate services. Each partnership makes a contribution to a pooled budget, with the aim of focussing services and activities for a client group. Funds contributed are those normally used for the services represented in the pooled budget and allow the organisation involved to act in a more cohesive way. From 1 April 2004 the Council has been required to maintain memorandum accounts in respect of pooled fund accounts and the tables below show pooled funds with income/expenditure in excess of £1M.

#### a) Residual, Domiciliary Care & Continuing Care Services

Partnership between Southampton City Council and Southampton City Primary Care Trust to commission residential, domiciliary care and continuing care services for former residents of a Locally Based Hospital Unit in Southampton.

| <u>2011/12</u><br>£000's |                                         | <u>2012/13</u><br>£000's |
|--------------------------|-----------------------------------------|--------------------------|
|                          | <b>Locality Based Hospital Units</b>    |                          |
|                          | <b>Funding - Contributions / Grants</b> |                          |
| (14)                     | Brought Forward                         | (2)                      |
| (1,631)                  | Southampton City Council                | (1,693)                  |
| (1,712)                  | Southampton City Primary Care Trust     | (1,777)                  |
| <b>(3,357)</b>           |                                         | <b>(3,472)</b>           |
| 3,355                    | <b>Expenditure</b>                      | 3,466                    |
| <b>(2)</b>               | <b>Carried Forward</b>                  | <b>(6)</b>               |

#### b) Drug Services

Partnership between Southampton City Council and Southampton City Primary Care Trust with the aim of reducing the harm caused by drugs by increasing the effectiveness of the drug treatment services in Southampton so that targets can be reached and an increased number of people access treatment within nationally set waiting times.

| <u>2011/12</u><br>£000's |                                         | <u>2012/13</u><br>£000's |
|--------------------------|-----------------------------------------|--------------------------|
|                          | <b>Drug Services</b>                    |                          |
|                          | <b>Funding - Contributions / Grants</b> |                          |
| (177)                    | Brought Forward                         | (382)                    |
| (193)                    | Southampton City Council                | (99)                     |
| (2,376)                  | Southampton City Primary Care Trust     | (2,300)                  |
| <b>(2,746)</b>           |                                         | <b>(2,781)</b>           |
| 2,364                    | <b>Expenditure</b>                      | 2,281                    |
| <b>(382)</b>             | <b>Carried Forward</b>                  | <b>(500)</b>             |

Southampton City Primary Care Trust becomes the Clinical Commissioning Group (CCG) from 1 April 2013.

## HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sales of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to, or from the Council Tax payer.

Transactions relating to the HRA have been separated into two statements:

- The HRA Comprehensive Income and Expenditure Statement
- The Statement of Movement on the HRA Balance

### Comprehensive Income and Expenditure Statement

| <u>2011/12</u>  |                                                                                                                         | <u>Notes</u> | <u>2012/13</u>  |
|-----------------|-------------------------------------------------------------------------------------------------------------------------|--------------|-----------------|
| £000's          | <u>Expenditure</u>                                                                                                      |              | £000's          |
| 14,594          | Repairs and Maintenance                                                                                                 |              | 13,939          |
| 15,744          | Supervision and Management                                                                                              |              | 15,070          |
| 4,043           | Rents, Rates, Taxes and Other Charges                                                                                   |              | 4,672           |
| 7,493           | Negative Housing Revenue Account Subsidy Payable                                                                        | 8            | 0               |
| 37,672          | Depreciation Revaluation and Impairment of non-current assets                                                           | 10           | 26,482          |
| 50              | Debt management costs                                                                                                   |              | 48              |
| 438             | Movement in the allowance for bad debts                                                                                 |              | 540             |
| 73,847          | Exceptional Item - Council Housing Self -Financing Settlement                                                           | 1            | 0               |
| <b>153,881</b>  | <b>Total Expenditure</b>                                                                                                |              | <b>60,751</b>   |
|                 | <b>Income</b>                                                                                                           |              |                 |
| (60,889)        | Dwellings Rent                                                                                                          | 2            | (65,151)        |
| (1,252)         | Non-Dwelling Rents                                                                                                      |              | (1,257)         |
| (4,913)         | Tenant Charges for Services & Facilities                                                                                |              | (5,570)         |
| 147             | Contributions Towards Expenditure                                                                                       |              | 481             |
| <b>(66,907)</b> | <b>Total Income</b>                                                                                                     |              | <b>(71,497)</b> |
|                 | Net Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement                       |              | (10,746)        |
| 86,974          |                                                                                                                         |              | (10,746)        |
| 355             | HRA services' share of Corporate and Democratic Core                                                                    |              | 368             |
| <b>87,329</b>   | <b>Net Expenditure/ (Income) for HRA Services</b>                                                                       |              | <b>(10,378)</b> |
|                 | <b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b> |              |                 |
| 0               | Gain or (loss) on the sale of HRA non-current assets                                                                    |              | 0               |
| (67)            | Capital Receipts not matched by Disposal of Assets                                                                      |              | (83)            |
| 138             | Investment Property Revaluation Movements                                                                               | 10           | (69)            |
| 2,936           | Interest payable and similar charges                                                                                    |              | 5,717           |
| (47)            | Interest and investment income                                                                                          | 7            | (35)            |
| 816             | Pensions interest cost and expected return on pension assets                                                            | 13           | 1,141           |
| (931)           | Capital grants and contributions receivable                                                                             |              | (1,352)         |
| <b>90,174</b>   | <b>(Surplus) / Deficit for the Year on HRA Services</b>                                                                 |              | <b>(5,059)</b>  |

## HOUSING REVENUE ACCOUNT

### Statement of Movement on the HRA Balance

| <u>2011/12</u><br>£000's |                                                                                                     | £000's  | <u>2012/13</u><br>£000's | £000's  |
|--------------------------|-----------------------------------------------------------------------------------------------------|---------|--------------------------|---------|
| (1,623)                  | Balance on the HRA at the end of the previous year                                                  |         |                          | (2,621) |
| 90,174                   | (Surplus) or deficit for the year on the HRA Income and Expenditure Account                         | (5,059) |                          |         |
| (89,959)                 | Adjustments between accounting basis and funding basis under statute                                | 6,760   |                          |         |
| 215                      | (Increase) or decrease in the Housing Revenue Account balance before transfers to or from reserves. |         | 1,701                    |         |
| (1,213)                  | Transfer to / (from) reserves                                                                       |         | (2,369)                  |         |
| (998)                    | (Increase) / decrease in year on the HRA                                                            |         |                          | (668)   |
| (2,621)                  | <b>Housing Revenue Account Surplus Carried Forward</b>                                              |         |                          | (3,289) |

### Note to Statement of Movement on the HRA Balance

| <u>2011/12</u><br>£000's |                                                                                                                              | £000's | <u>2012/13</u><br>£000's | £000's   |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------|--------|--------------------------|----------|
|                          | <b>Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>   |        |                          |          |
| 67                       | Capital Receipts not matched by Disposal of Assets                                                                           |        | 83                       |          |
| 2,568                    | Capital grants and contributions applied                                                                                     |        | 992                      |          |
| 43                       | Removal of HRA Effective Interest Rate Calculation                                                                           |        | 0                        |          |
| (84)                     | Amortisation of Item 8 Discount                                                                                              |        | (13)                     |          |
| (24,646)                 | Impairment and Revaluation of Fixed Assets                                                                                   |        | (10,206)                 |          |
| 0                        | Gain or loss on sale of HRA fixed assets                                                                                     |        | 0                        |          |
| (2,584)                  | Net Charges made for retirement benefits in accordance with IAS 19                                                           |        | (2,936)                  |          |
| (73,847)                 | Exceptional Item - Council Housing Self -Financing Settlement                                                                |        | 0                        |          |
| (98,483)                 |                                                                                                                              |        |                          | (12,080) |
|                          | <b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b> |        |                          |          |
| (68)                     | Transfer to / (from) Major Repairs Reserve                                                                                   |        | 0                        |          |
| 2,133                    | Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners                     |        | 2,118                    |          |
|                          | Loan Principal Repayments                                                                                                    |        | 10,434                   |          |
| 6,459                    | Capital Expenditure funded by the HRA                                                                                        |        | 6,288                    |          |
| 8,524                    |                                                                                                                              |        |                          | 18,840   |
| (89,959)                 | <b>Net Additional Amount Required by Statute to be Debited or (Credited) to the HRA Balance for the Year</b>                 |        |                          | 6,760    |

# HOUSING REVENUE ACCOUNT

## 1. Exceptional Items

On 26 March 2012 the authority applied to PWLB for loans totalling £73.8M to fund the HRA self financing buy-out. On 28 March 2012 the authority paid £73.8M to DCLG in full and final settlement for the HRA Self Financing buy-out. The Sum of £73.8M was included as an exceptional item in the 2011/12 accounts and there is no comparable item in the 2012/13 accounts.

## 2. Council House Rents

At 31 March 2013, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 5.63% (31 March 2012 – 5.66%). The total arrears were £3.0M (31 March 2012 - £2.8M). Rents written off during the year amounted to £243,000 (last year £324,000).

The main sources of rent income after allowing for voids of £1.07M (last year £1.05M) are set out in the following table:

| <u>2011/12</u><br>£000's |                     | <u>2012/13</u><br>£000's |
|--------------------------|---------------------|--------------------------|
| 24,064                   | Rent met by Tenants | 25,551                   |
| 36,825                   | Rent Rebates        | 39,600                   |
| <u>60,889</u>            |                     | <u>65,151</u>            |

## 3. Housing Stock

During the year 1.32% (2.32% for 2011/12) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent for 2012/13 was £75.00 a week (£69.73 for 2011/12). The stock at the year-end was made up as follows:

| <u>2011/12</u> |                        | <u>2012/13</u> |
|----------------|------------------------|----------------|
| 16,952         | Stock at 1st April     | 16,876         |
| (28)           | Less: Sales            | (83)           |
| 37             | Plus: LA New Build     | 16             |
| (85)           | Other/Demolitions      | (2)            |
| <u>16,876</u>  | Stock at 31st March    | <u>16,807</u>  |
|                | <u>Consisting of :</u> |                |
| 5,451          | Houses                 | 5,417          |
| 11,409         | Flats                  | 11,374         |
| 16             | Bungalows              | 16             |
| <u>16,876</u>  |                        | <u>16,807</u>  |

## 4. Major Repairs Reserve

| <u>Total</u><br><u>2011/12</u><br>£000's |                        | <u>Land</u><br><u>2012/13</u><br>£000's | <u>Dwellings</u><br><u>2012/13</u><br>£000's | <u>Other</u><br><u>2012/13</u><br>£000's | <u>Total</u><br><u>2012/13</u><br>£000's |
|------------------------------------------|------------------------|-----------------------------------------|----------------------------------------------|------------------------------------------|------------------------------------------|
| 0                                        | Opening Balance        | 0                                       | 0                                            | 0                                        | 0                                        |
| (13,164)                                 | Receipts in Year       | 0                                       | (16,138)                                     | (68)                                     | (16,206)                                 |
| 13,164                                   | Payments in Year       | 0                                       | 16,138                                       | 68                                       | 16,206                                   |
| <u>0</u>                                 | <b>Closing Balance</b> | <u>0</u>                                | <u>0</u>                                     | <u>0</u>                                 | <u>0</u>                                 |



# HOUSING REVENUE ACCOUNT

## 5. Capital Expenditure

Capital expenditure and how it was financed is analysed in the following tables:

| <u>Capital Spending</u>                      |                                                 |                |
|----------------------------------------------|-------------------------------------------------|----------------|
| <u>2011/12</u>                               |                                                 | <u>2012/13</u> |
| £000's                                       |                                                 | £000's         |
| 22,123                                       | Housing Stock                                   | 24,270         |
| 73,847                                       | Council Housing - Self Financing Settlement     | 0              |
| <u>95,970</u>                                | <b>Total Capital Expenditure</b>                | <u>24,270</u>  |
| <u>Capital Expenditure Source of Finance</u> |                                                 |                |
| £000's                                       |                                                 | £000's         |
| 0                                            | Capital Receipts                                | 784            |
| 73,847                                       | Unsupported Borrowing                           | 0              |
| 2,222                                        | Grants                                          | 569            |
| 13,096                                       | Depreciation (formerly Major Repairs Allowance) | 16,206         |
| 346                                          | Contributions                                   | 423            |
| 6,459                                        | Direct Revenue Funding                          | 6,288          |
| <u>95,970</u>                                | <b>Total Financing</b>                          | <u>24,270</u>  |

## 6. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts and how they have been utilised in the year. In 2005/06 the government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the government then distributes to local authorities and housing associations on the basis of need. In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules have changed to allow local authorities to retain receipts that exceed a predetermined set level. This predetermined level is known as the share cap (2012/13 £340,178). Once the share cap has been achieved any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts that fall within the share cap are still subject to updated pooling arrangements that return a predetermined proportion to the government. In 2012/13 the Council had £1.27M of receipts that can be utilised on new build affordable housing projects.

| <u>2011/12</u> |                                           | <u>2012/13</u> |
|----------------|-------------------------------------------|----------------|
| £000's         |                                           | £000's         |
| 716            | Opening Balance at 1st April              | 1,864          |
|                | Receipts in Year:-                        |                |
|                | Sale of Assets                            |                |
| 1,861          | Council Housing                           | 3,211          |
| 1,136          | Land, Buildings & Equipment               | 2,529          |
| 21             | Repayment of Advances                     | 18             |
| <u>3,734</u>   |                                           | <u>7,622</u>   |
| (67)           | Allowable deduction arising from Disposal | (83)           |
| <u>3,667</u>   |                                           | <u>7,539</u>   |
|                | Application in Year:-                     |                |
| (496)          | Inter Portfolio Transfer                  | (340)          |
| 0              | Financing of new HRA Capital Expenditure  | (784)          |
| (1,319)        | Pooled Receipts                           | (827)          |
| 12             | Other Adjustments                         |                |
| <u>1,864</u>   | Closing Balance at 31st March             | <u>5,588</u>   |

## 7. Interest Received

During 2012/13 the Housing Revenue Account received interest amounting to £35,000, (2011/12 £46,000). The main sources of this income are detailed in the table below.

## HOUSING REVENUE ACCOUNT

| <u>2011/12</u><br>£000's |                                    | <u>2012/13</u><br>£000's |
|--------------------------|------------------------------------|--------------------------|
| 1                        | Council House Mortgages            | 0                        |
| 46                       | Interest on Other Funds & Balances | 35                       |
| <u>47</u>                |                                    | <u>35</u>                |

### 8. General Housing Subsidy

Until 2011/12 the Government paid a General Housing Subsidy to the Housing Revenue Account. This was based on a notional account representing the Government's assessment of what the Council should be collecting and spending. With effect from 1 April 2004 Rent Rebate Subsidy was removed from the HRA and was charged to the General Fund. The HRA therefore only received General Housing Subsidy. Under the self financing regime introduced in 2012/13 General Housing Subsidy is no longer paid and therefore this does not appear as an item in the 2012/13 accounts.

### 9. Impairment Allowance for Bad Debts

The table below shows a breakdown of the amount that has been set aside for the provision of bad debts:

| <u>2011/12</u><br>£000's |                          | <u>2012/13</u><br>£000's |
|--------------------------|--------------------------|--------------------------|
| 613                      | MRC Bad Debt Provision   | 604                      |
| 1,345                    | Rents Bad Debt Provision | 1,642                    |
| <u>1,958</u>             |                          | <u>2,246</u>             |

### 10. Fixed Assets

The Department of the Environment, Transport and the Regions (DETR) Guidance of Stock Valuation requires that the housing stock be valued as Existing Use Value – Social Housing (EUV-SH), and the guidance prescribes the regional adjustment factors that valuers are expected to use to convert a vacant possession beacon valuation to an EUV-SH valuation. The basis of valuation is explained in more detail in **Note 1u (Accounting Policies)**.

The vacant possession value of Council Housing within the Council's HRA as at 1 April 2012 was £1.27M, which is the Council's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation. The difference between the two shows the economic cost to the Government of providing Council housing at less than open market value. The value is based on stock as at the 31 March 2013.

Stock valuation information is based as at 1 April of each year and as part of resource accounting requirements, the value is uplifted to represent the value at the 31 March by the Southampton land registry index.

# HOUSING REVENUE ACCOUNT

| <b>Movements in Fixed Assets During 2012/13</b> |                                            |                                         |                                              |                                 |                   |              |                 |
|-------------------------------------------------|--------------------------------------------|-----------------------------------------|----------------------------------------------|---------------------------------|-------------------|--------------|-----------------|
|                                                 | <b>Property, Plant and Equipment (PPE)</b> |                                         |                                              | <b>Assets Held<br/>for Sale</b> | <b>Investment</b> | <b>Total</b> |                 |
|                                                 | <b>Council<br/>Dwellings</b>               | <b>Other Land<br/>and<br/>Buildings</b> | <b>Vehicles, Plant<br/>and<br/>Equipment</b> | <b>Total PPE</b>                |                   |              | <b>Total</b>    |
|                                                 | £000's                                     | £000's                                  | £000's                                       | £000's                          | £000's            | £000's       | £000's          |
| <b>Cost or Valuation</b>                        |                                            |                                         |                                              |                                 |                   |              |                 |
| At 1 April 2012                                 | 478,570                                    | 4,485                                   | 648                                          | 483,703                         | 0                 | 7,791        | 491,494         |
| Additions                                       | 23,991                                     |                                         |                                              | 23,991                          | 279               |              | 24,270          |
| Disposals                                       | (5,066)                                    | (700)                                   |                                              | (5,766)                         |                   | (425)        | (6,191)         |
| Reclassifications                               | (835)                                      |                                         |                                              | (835)                           | 1,049             | (249)        | (35)            |
| Revaluations                                    | 5,306                                      | 408                                     |                                              | 5,714                           |                   | 69           | 5,783           |
| Impairments                                     | (15,853)                                   | (137)                                   |                                              | (15,990)                        |                   |              | (15,990)        |
| <b>At 31 March 2013</b>                         | <b>486,113</b>                             | <b>4,056</b>                            | <b>648</b>                                   | <b>490,817</b>                  | <b>1,328</b>      | <b>7,186</b> | <b>499,331</b>  |
| <b>Depreciation and Impairment</b>              |                                            |                                         |                                              |                                 |                   |              |                 |
| At 1 April 2012                                 |                                            | 0                                       | (375)                                        | (375)                           | 0                 | 0            | (375)           |
| Depreciation charge for year                    | (16,138)                                   |                                         | (68)                                         | (16,206)                        |                   |              | (16,206)        |
| Disposals                                       |                                            |                                         |                                              | 0                               |                   |              | 0               |
| Reclassifications                               |                                            |                                         |                                              | 0                               |                   |              | 0               |
| Revaluations                                    |                                            |                                         |                                              | 0                               |                   |              | 0               |
| Impairments                                     |                                            |                                         |                                              | 0                               |                   |              | 0               |
| <b>At 31 March 2013</b>                         | <b>(16,138)</b>                            | <b>0</b>                                | <b>(443)</b>                                 | <b>(16,581)</b>                 | <b>0</b>          | <b>0</b>     | <b>(16,581)</b> |
| <b>Balance Sheet amount at 31 March 2013</b>    | <b>469,975</b>                             | <b>4,056</b>                            | <b>205</b>                                   | <b>474,236</b>                  | <b>1,328</b>      | <b>7,186</b> | <b>482,750</b>  |
| <b>Balance Sheet amount at 31 March 2012</b>    | <b>478,570</b>                             | <b>4,485</b>                            | <b>273</b>                                   | <b>483,328</b>                  | <b>0</b>          | <b>7,791</b> | <b>491,119</b>  |
| <b>Nature of Asset Holding</b>                  |                                            |                                         |                                              |                                 |                   |              |                 |
| Owned                                           | 469,975                                    | 4,056                                   | 205                                          | 474,236                         | 1,328             | 7,186        | 482,750         |
| Finance Lease                                   |                                            |                                         |                                              |                                 |                   |              | 0               |
| PFI                                             |                                            |                                         |                                              |                                 |                   |              | 0               |
|                                                 | <b>469,975</b>                             | <b>4,056</b>                            | <b>205</b>                                   | <b>474,236</b>                  | <b>1,328</b>      | <b>7,186</b> | <b>482,750</b>  |

## 11. Minimum Revenue Provision (MRP)

A voluntary MRP payment of £10.4M was made in 2012/13.

## 12. Direct Revenue Financing Reserve

The table below shows the balances available to support HRA capital expenditure.

| <u>2011/12</u><br>£000's |                                                  | <u>2012/13</u><br>£000's |
|--------------------------|--------------------------------------------------|--------------------------|
|                          | <b>Direct Revenue Financing Reserve</b>          |                          |
| (2,303)                  | Direct Revenue Financing Balance Brought Forward | (2,728)                  |
| (6,884)                  | Contribution From Revenue In Year                | (3,560)                  |
| 6,459                    | Applied for Capital                              | 6,288                    |
| <u>(2,728)</u>           | <b>Balance Carried Forward</b>                   | <u>0</u>                 |

## 13. Pensions

Under IAS19 the Council has the option to charge part of the pension costs to the HRA. It was decided to implement this option from the 1 April 2005. The table below shows the total HRA share of contributions to and from the Pension Reserve and breaks the figure down to show the type of contribution to or from the reserve.

# HOUSING REVENUE ACCOUNT

|                                            | <u>Local Government Pension Scheme</u> |                     | <u>2012/13</u> |                     |
|--------------------------------------------|----------------------------------------|---------------------|----------------|---------------------|
|                                            | <u>2011/12</u>                         |                     | <u>£000's</u>  | <u>£000's</u>       |
|                                            | <u>£000's</u>                          | <u>£000's</u>       |                |                     |
| <b>Income and Expenditure Account</b>      |                                        |                     |                |                     |
| Net Cost of Service                        |                                        |                     |                |                     |
| Current service costs                      |                                        | 1,554               |                | 1,685               |
| Past service costs                         |                                        | 214                 |                | 110                 |
| <i>Net Operating Expenditure</i>           |                                        |                     |                |                     |
| Interest Cost                              | 3,767                                  |                     | 4,374          |                     |
| Expected return on assets in the scheme    | <u>(2,951)</u>                         | 816                 | <u>(3,233)</u> | 1,141               |
| <b>Amounts to be Met from HRA</b>          |                                        |                     |                |                     |
| Movement on pensions reserve               |                                        | (451)               |                | (818)               |
| <b>Actual Amount Charged Against HRA</b>   |                                        |                     |                |                     |
| Employer's contributions payable to scheme |                                        | <u><u>2,133</u></u> |                | <u><u>2,118</u></u> |

## 14. Item 8 Credit and Debit (General) Determination

The Item 8 Debit and Credit Determination sets out the entries to be accounted for within the Housing Revenue Account and are required by legislation under the local Government and Housing Act 1989. The Table below summarises the Item 8 Credits and Debits made to the Housing Revenue Account.

| <u>Item 8 Credit and Debit (General) Determination</u> |  |                        |
|--------------------------------------------------------|--|------------------------|
| <u>2011/12</u>                                         |  | <u>2012/13</u>         |
| <u>£000's</u>                                          |  | <u>£000's</u>          |
| (47) Interest and Investment Income                    |  | (35)                   |
| (24,646) Impairments and Revaluation of Fixed Assets   |  | (10,206)               |
| (84) Amortisation of Item 8 Discount                   |  | (13)                   |
| <u><u>(24,777)</u></u>                                 |  | <u><u>(10,254)</u></u> |
| <b>£000's</b>                                          |  | <b>£000's</b>          |
| 2,936 Interest payable and similar charges             |  | 5,717                  |
| 13,026 Depreciation                                    |  | 16,276                 |
| 24,646 Impairments and Revaluation of Fixed Assets     |  | 10,206                 |
| 0 Loan Principal Repayments                            |  | 10,434                 |
| 50 Debt management costs                               |  | 48                     |
| <u><u>40,658</u></u>                                   |  | <u><u>42,681</u></u>   |
| <u><u>15,881</u></u> Net Item 8 (Credit)/ Debit        |  | <u><u>32,427</u></u>   |

## THE COLLECTION FUND

This account reflects the statutory requirements for the Council, as a billing authority to maintain a separate Collection Fund. It shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated within the accounts.

| <b>Income and Expenditure for the Year Ended 31 March 2013</b> |                                                          |              |                |                  |
|----------------------------------------------------------------|----------------------------------------------------------|--------------|----------------|------------------|
| <b>2011/12</b>                                                 |                                                          |              | <b>2012/13</b> |                  |
| <b>£000's</b>                                                  |                                                          | <b>Notes</b> | <b>£000's</b>  | <b>£000's</b>    |
|                                                                | <b>Income</b>                                            |              |                |                  |
| (79,685)                                                       | Council Tax                                              | 3            | (79,360)       |                  |
|                                                                | Transfers from the General Fund                          |              |                |                  |
| (18,492)                                                       | - Council Tax Benefits                                   | 4            | (18,599)       |                  |
| (976)                                                          | - Local Council Tax Discount                             |              | (991)          |                  |
|                                                                | - Transitional Relief                                    |              |                |                  |
| <b>(99,153)</b>                                                |                                                          |              |                | <b>(98,950)</b>  |
| <b>(97,244)</b>                                                | Income Collectable from Business Ratepayers              |              |                | <b>(97,404)</b>  |
|                                                                | Contributions towards Previous Year's (Deficit)/ Surplus |              |                |                  |
| 3,245                                                          | - Southampton City Council                               |              |                | 373              |
| 383                                                            | - Hampshire Police Authority                             |              |                | 44               |
| 161                                                            | - Hampshire Fire & Rescue Service                        |              |                | 18               |
| <b>(192,608)</b>                                               | <b>Total Income</b>                                      |              |                | <b>(195,919)</b> |
|                                                                | <b>Expenditure</b>                                       |              |                |                  |
|                                                                | Precepts                                                 |              |                |                  |
| 82,586                                                         | - Southampton City Council Precept                       | 5            | 83,206         |                  |
| 9,747                                                          | - Hampshire Police Authority Precept                     | 5            | 9,820          |                  |
| 4,091                                                          | - Hampshire Fire & Rescue Authority Precept              | 5            | 4,121          |                  |
| <b>96,424</b>                                                  |                                                          |              |                | <b>97,147</b>    |
|                                                                | Business Rates                                           |              |                |                  |
| 95,513                                                         | - Payment to National Pool                               |              | 96,748         |                  |
| 176                                                            | - Interest on Overpayments                               |              | 6              |                  |
| 326                                                            | - Costs of Collection                                    | 6            | 322            |                  |
| <b>96,015</b>                                                  |                                                          |              |                | <b>97,076</b>    |
|                                                                | Bad and Doubtful Debts                                   |              |                |                  |
|                                                                | Council Tax                                              |              |                |                  |
| 768                                                            | - Write Offs                                             | 7            | 636            |                  |
| 606                                                            | - Provisions                                             | 7            | 848            |                  |
| <b>1,374</b>                                                   |                                                          |              |                | <b>1,484</b>     |
|                                                                | Business Rates                                           |              |                |                  |
| 746                                                            | - Write Offs                                             | 7            | 768            |                  |
| 482                                                            | - Provisions                                             | 7            | (440)          |                  |
| <b>1,228</b>                                                   |                                                          |              |                | <b>328</b>       |
| <b>195,041</b>                                                 | <b>Total Expenditure</b>                                 |              |                | <b>196,035</b>   |
| <b>2,433</b>                                                   | <b>(Surplus) / Deficit For the Year</b>                  |              |                | <b>116</b>       |
| (4,085)                                                        | (Surplus) / Deficit Brought Forward                      |              |                | (1,652)          |
| <b>(1,652)</b>                                                 | <b>Total (Surplus) / Deficit</b>                         |              |                | <b>(1,536)</b>   |

# THE COLLECTION FUND

## 1. Events after the Reporting Period

### a) Retention of Business Rates

The 1 of April 2013 is when the new arrangements for the Retention of Business Rates come into effect. From this date the Council assume some liability for refunding ratepayers who successfully appealed 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 Retention of Business Rates arrangements Central Government is only liable for 50% of future successful appeals refunds, the Council being liable for 49% and Hampshire Fire and Rescue Authority for the remaining 1%.

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 as the liability does not crystallise until 1 April 2013. (The loss of The Freightliner Terminal Rateable Value of £1.2M referred to below has not been reflected in our estimate to Central Government)

### b) The Freightliner Terminal

In May 2013, Southampton's Valuation Office Agency (VOA) Relationship Manager gave retrospective notice of a significant deletion from the City's rating list. The Freightliner Terminal will be deleted from the City's rating list and moved to the Central Railways rating list with effect from 16 March 2012.

The impact of this deletion is that the Council will have to refund the 2012/13 Business Rates of £0.6M, and lose Rateable Value from the City's rating list of £1.2M in 2013/14.

The £0.6M refund due to the Freightliner Terminal has been reflected in both the 2012/13 Collection Fund Account and the end of year submission (NNDR3 Return) to Central Government, therefore the full cost of the refund will be met by Central Government under the Business Rate arrangements that were in place for the Financial Year ended 31 March 2013.

Under the new arrangements the impact of £1.2M Freightliner Rateable Value removal from the City's rating list is a reduction in Business Rates income collectable of £586,000, (i.e. rateable value multiplied by the small business non domestic rating multiplier), and this will be borne by Central Government (50%), the Council (49%) and HFRA (1%).

## 2. Non-Domestic Rates (NNDR)

Southampton City Council collects NNDR for its area on behalf of Central Government. These rates are based on rateable values for properties set by the VOA, part of HMRC, which are multiplied by a uniform business rate set by Central Government. The uniform business rate was set at 45.8p in the pound for 2012/13 (43.3p for 2011/12). The small business rate relief multiplier for 2012/13 is 45.0p in the pound (42.6p for 2011/12). The rateable value at 31 March 2013 was £259.3M (£261.0M at 31 March 2012). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool managed by Central Government. The government redistributes the sums paid into the pool back to local authorities in proportion to population. Southampton's share of the pool for 2012/13, paid directly to the Comprehensive Income and Expenditure Statement, amounted to £97.6M (£80.1M for 2011/12).

# THE COLLECTION FUND

## 3. Council Tax Base

| <b>Council Tax Base</b> |                                            |                                       |                                      |
|-------------------------|--------------------------------------------|---------------------------------------|--------------------------------------|
|                         | <b><u>Net Chargeable<br/>Dwellings</u></b> | <b><u>Relevant<br/>Proportion</u></b> | <b><u>Band D<br/>Equivalents</u></b> |
| Band A Dis              | 49                                         | 5/9                                   | 27                                   |
| Band A                  | 24,733                                     | 6/9                                   | 16,489                               |
| Band B                  | 28,083                                     | 7/9                                   | 21,842                               |
| Band C                  | 18,612                                     | 8/9                                   | 16,544                               |
| Band D                  | 7,815                                      | 9/9                                   | 7,815                                |
| Band E                  | 2,596                                      | 11/9                                  | 3,172                                |
| Band F                  | 1,236                                      | 13/9                                  | 1,786                                |
| Band G                  | 374                                        | 15/9                                  | 624                                  |
| Band H                  | 3                                          | 18/9                                  | 6                                    |
|                         | <b><u>83,501</u></b>                       |                                       | <b><u>68,305</u></b>                 |

Taking the total Band D equivalents of 68,305 and multiplying this by the standard Council Tax of £1,446.84 gives a total estimated income from taxpayers of £98.8M. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2012/13 was 98.3%, giving a net Council Tax Base of 67,144. Multiplying this by the standard Council tax of £1,446.84 gives the total precepts on the Collection Fund of £97.1M.

## 4. Benefits

Some households are entitled to allowances to the standard rate of Tax, which includes Council Tax Benefits. The cost of benefits granted is met in full by government subsidy.

### Council Tax Localisation

The Comprehensive Spending Review (CSR) 2010 included proposals to localise support for Council Tax from the beginning of the financial year 2013/14. The Government issued a Consultation Paper in August 2011 setting out proposals for the changes.

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 will be expected to introduce revised local benefit schemes that in total reduce benefits by 10% overall (total circa £2M for Southampton), 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. Therefore, some current benefit recipients will be required to pay a higher contribution towards their Council Tax bill.

## 5. Precepts

The Precepts represent the demands made on the Fund by Southampton City Council, Hampshire Police Authority and Hampshire Fire & Rescue Authority.

## 6. Allowance for NNDR Collection

A contribution to the General Fund of £0.3M is made to meet the costs of collection.

## 7. Impairment Allowance for Bad Debts

The contribution to the Council Tax Impairment Allowance was £1.5M in 2012/13. At 31 March 2013 the provision totalled £6.6M (SCC share £5.6M) against a liability of £8.3M (SCC share £7.1M).



## THE COLLECTION FUND

The contribution to the NNDR Impairment Allowance was £0.3M in 2012/13. At 31 March 2013 the provision totalled £1.5M against a liability of £2.5M.

### 8. Collection Fund Balance

The year end balance on the Collection Fund of £1.5M can be apportioned, on the basis of the value of precepts, between that attributable to Southampton City Council and that attributable to the other preceptors. The amount attributable to Southampton City Council is £1.3M and is shown as a revenue balance in the Balance Sheet. The remaining £0.2M attributable to the other preceptors is included within the adjustments required to derive the Council Tax Debtors and Creditors on an Agency Basis.

The movement on the Collection Fund balance between 31 March 2012 and 31 March 2013 was £0.1M. This is shown within the Comprehensive Income and Expenditure Statement.

## TRUST AND OTHER FUNDS

The Council acts as trustee for several legacies left by inhabitants of the City and also as residual trustee for the Wessex Slaughterhouse Board. As required by the SORP the funds do not represent assets of the Council and have not been included in the Council's Balance Sheet.

Following the introduction of the Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005), a separate statement of financial affairs and a balance sheet relating to the trust funds are reported in this section.

Other Funds are:

- **Wessex Slaughterhouse Board** – The Council has responsibility of the former constituent authorities to pay the pensions to former employees. Any balance or liability remaining when these responsibilities have been discharged will be shared between the constituent authorities.
- **Criminal Injuries Compensation Awards** – Funds are held on behalf of children under 18 who fall under the Councils supervision.

The Other Funds are analysed as follows:

|                                      | <u>31 March</u><br><u>2012</u><br>£000's | <u>Receipts</u><br>£000's | <u>Payments</u><br>£000's | <u>31 March</u><br><u>2013</u><br>£000's |
|--------------------------------------|------------------------------------------|---------------------------|---------------------------|------------------------------------------|
| Other Funds                          |                                          |                           |                           |                                          |
| Wessex Slaughterhouse Board          | (96)                                     |                           | 2                         | (94)                                     |
| Criminal Injuries Compensation Board | (2)                                      |                           | 2                         | 0                                        |
| <b>Total</b>                         | <b>(98)</b>                              | <b>0</b>                  | <b>4</b>                  | <b>(94)</b>                              |

The Trust Funds are:

- **Chipperfield Trust** – Purchase works of art for Southampton City Art Gallery. In September 2012, the Trustees confirmed revised arrangements for the governance of the Trust and approved the establishment of the Advisory Committee following an advertisement process through appropriate publicity in relative publications and on the Council website. The Council received a significant number of applications and subsequently group leaders, or their delegates, reviewed the applications and confirmed appointments.
- **L C Smith Bequests** – Helps maintain the Merchants Navy Memorial in Holyrood Church.
- **Miss Orris Bequest** – Purchase of works of art.
- **Aldridge Bequest** – To facilitate the access of disadvantaged pupils to personal enrichment experiences.

Minor Trust Funds which consist of several funds of small value as follows

- **Ida Bany Bequest** – Purchase of books about America.
- **George Knee Fund** – Provision of special annual prizes for Bitterne Park School.
- **De Gee** – Annual treat for children of the former Hollbrook Children's home.
- **Dora Linton** - Helps maintain the Merchants Navy Memorial in Holyrood Church.
- **Cemeteries Legacy** – Helps maintain Cemeteries.

## TRUST AND OTHER FUNDS

The Balance Sheet shows the assets and liabilities of the Trust funds as at the Balance Sheet date. The net assets (assets minus liabilities) are matched by reserves. Where a Trust Fund holds Investments, there is an Unrealised Gains / Losses Account in the reserves which collects any gain or loss on the investment as at the Balance Sheet date.

| <u>Balance Sheet as at 31 March 2013</u> |                                                      |                                          |
|------------------------------------------|------------------------------------------------------|------------------------------------------|
| <u>31 March</u><br><u>2012</u><br>£000's |                                                      | <u>31 March</u><br><u>2013</u><br>£000's |
|                                          | <b>Fixed Assets</b>                                  |                                          |
|                                          | <b>Investments</b>                                   |                                          |
| 77                                       | Chipperfield Trust                                   | 77                                       |
| 196                                      | Aldridge Bequest                                     | 209                                      |
| 4                                        | Minor Trust Funds                                    | 4                                        |
| <u>277</u>                               | <b>Total Fixed Assets</b>                            | <u>290</u>                               |
|                                          | <b>Currents Assets</b>                               |                                          |
|                                          | <b>Internal Investments Accounts and Cash</b>        |                                          |
| 73                                       | Chipperfield Trust                                   | 76                                       |
| 33                                       | LC Smith Bequest                                     | 33                                       |
| 117                                      | Miss Orris Bequest                                   | 118                                      |
| 153                                      | Aldridge Bequest                                     | 135                                      |
| 35                                       | Minor Trust Funds                                    | 33                                       |
| <u>411</u>                               | <b>Total Investment Accounts</b>                     | <u>395</u>                               |
|                                          | <b>Debtors</b>                                       |                                          |
| 2                                        | Chipperfield Trust                                   | 2                                        |
| <u>2</u>                                 | <b>Total Debtors</b>                                 | <u>2</u>                                 |
| <u>690</u>                               | <b>Net Current Assets</b>                            | <u>687</u>                               |
| <u>690</u>                               | <b>Net Assets</b>                                    | <u>687</u>                               |
|                                          | <b>Trust Funds</b>                                   |                                          |
| 147                                      | Chipperfield Trust                                   | 150                                      |
| 5                                        | Chipperfield Trust Unrealised Gains/(Losses) Account | 5                                        |
| 33                                       | LC Smith Bequest                                     | 33                                       |
| 117                                      | Miss Orris Bequest                                   | 118                                      |
| 261                                      | Aldridge Bequest                                     | 243                                      |
| 88                                       | Aldridge Bequest Unrealised Gains/(Losses) Account   | 101                                      |
| 40                                       | Minor Trust Funds                                    | 38                                       |
| (1)                                      | Minor Trust Funds Unrealised Gains/(Losses) Account  | (1)                                      |
| <u>690</u>                               |                                                      | <u>687</u>                               |

| <u>2011/12</u>                 | <u>Reconciliation of Funds</u> | <u>2012/13</u>                                   |                                |
|--------------------------------|--------------------------------|--------------------------------------------------|--------------------------------|
| <u>Balance</u><br><u>B/fwd</u> |                                | <u>Net</u><br><u>Movement</u><br><u>in Funds</u> | <u>Balance</u><br><u>C/fwd</u> |
| (152)                          | Chipperfield Trust             | (3)                                              | (155)                          |
| (33)                           | LC Smith Bequest               |                                                  | (33)                           |
| (117)                          | Miss Orris Bequest             | (1)                                              | (118)                          |
| (349)                          | Aldridge Bequest               | 5                                                | (344)                          |
| (39)                           | Minor Trust Funds              | 2                                                | (37)                           |
| <u>(690)</u>                   | <b>Total Funds</b>             | <u>3</u>                                         | <u>(687)</u>                   |

## TRUST AND OTHER FUNDS

This statement shows the income and expenditure for the year and includes unrealised gains and losses for investments in the financial year.

| <b>Statement of Financial Activities for the Year Ending 31 March 2013</b> |                                                                              |                    |               |            |
|----------------------------------------------------------------------------|------------------------------------------------------------------------------|--------------------|---------------|------------|
| <u>2011/12</u>                                                             |                                                                              | <u>2012/13</u>     |               |            |
| <u>Net</u>                                                                 |                                                                              | <u>Expenditure</u> | <u>Income</u> | <u>Net</u> |
| £000's                                                                     | <b>Resources Expended and (Incoming Resources)</b>                           | Notes<br>£000's    | £000's        | £000's     |
|                                                                            |                                                                              |                    |               |            |
| 3                                                                          | Chipperfield Trust                                                           |                    | (3)           | (3)        |
| 1                                                                          | Miss Orris Bequest                                                           |                    | (1)           | (1)        |
| 7                                                                          | Aldridge Bequest                                                             | 29                 | (11)          | 18         |
|                                                                            | Minor Trust Funds                                                            | 2                  |               | 2          |
| 11                                                                         | <b>Total Net Incoming Resources before Other Recognised Gains and Losses</b> | 31                 | (15)          | 16         |
|                                                                            | <b>Unrealised (Gains) and Losses on Investment Assets</b>                    |                    |               |            |
| (12)                                                                       | Chipperfield Trust                                                           | 6                  | 0             | 0          |
| (6)                                                                        | Aldridge Bequest                                                             |                    | (13)          | (13)       |
| (18)                                                                       | <b>Total Unrealised (Gains) and Losses on Investment Assets</b>              |                    | (13)          | (13)       |
|                                                                            | <b>Net Movement in Funds</b>                                                 |                    |               |            |
| (9)                                                                        | Chipperfield Trust                                                           |                    |               | (3)        |
| 0                                                                          | LC Smith Bequest                                                             |                    |               | 0          |
| 1                                                                          | Miss Orris Bequest                                                           |                    |               | (1)        |
| 1                                                                          | Aldridge Bequest                                                             |                    |               | 5          |
|                                                                            | Minor Trust Funds                                                            |                    |               | 2          |
| (7)                                                                        | <b>Total Net Movement in Funds</b>                                           |                    |               | 3          |

### 1. Basis of Accounting

The financial statements have been prepared on the basis of historic cost with the exception of investments which are included at market value. The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005) and applicable UK Accounting Standards and the Charities Act 1993.

### 2. Change in the Basis of Accounting

There have been no other changes to the accounting policies (valuation rules and method of accounting) since last year.

### 3. Changes to Previous Accounts

There have been no changes.

### 4. Incoming Resources

All incoming resources are recognised once the charity has entitlement to the resources, it is certain the resources will be received and the monetary value of incoming resources can be measured with sufficient reliability.

### 5. Investment Income

This is included in the accounts when receivable.

## TRUST AND OTHER FUNDS

### 6. Investment Gains and Losses

All gains and losses are taken to the Statement of Financial Activities in the year that they arise. Realised gains and losses on investments are calculated as the difference between sale proceeds and opening market value (purchase date if later). Unrealised gains and losses are calculated as the differences between the market value and opening market value (or purchase date if later).

### 7. Analysis of Incoming Resources

| <u>Analysis of Incoming Resources</u> |                    |                    |                   |                  |
|---------------------------------------|--------------------|--------------------|-------------------|------------------|
| <u>2011/12</u>                        |                    | <u>2012/13</u>     |                   |                  |
| <u>Net Total</u>                      |                    | <u>Dividends -</u> | <u>Investment</u> | <u>Total</u>     |
| <u>Incoming</u>                       |                    | <u>Unit Trusts</u> | <u>Interest *</u> | <u>Incoming</u>  |
| <u>Resources</u>                      |                    | <u>and Gilts</u>   |                   | <u>Resources</u> |
| <u>£ 000's</u>                        |                    | <u>£ 000's</u>     | <u>£ 000's</u>    | <u>£ 000's</u>   |
| (3)                                   | Chipperfield Trust | (3)                |                   | (3)              |
| (1)                                   | Miss Orris Bequest |                    | (1)               | (1)              |
| (10)                                  | Aldridge Bequest   | (10)               | (1)               | (11)             |
| <u>(14)</u>                           | <b>Total</b>       | <u>(13)</u>        | <u>(2)</u>        | <u>(15)</u>      |

\* Interest is paid on net fund balances held with the council

### 8. Other Expenditure Disclosures

Expenditure for the year was nil for the following items

- Trustees' expenses and emoluments,
- Staff costs, and
- Auditor remuneration

# GLOSSARY

## 1. Accruals

The concept that income and expenditure is recognised as it is earned or incurred; not as money is received or paid.

## 2. Best Value

A Government initiative introduced in 1998 in a series of pilot projects, and now supported by legislation in 1999, that is aimed at measuring the economy, efficiency and effectiveness of all local authority services.

## 3. Budget

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

## 4. Capital Asset Charges

Charges to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

## 5. Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

## 6. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which enhances and not merely maintains the value or increases the life of an existing fixed asset.

## 7. Capital Receipts

The proceeds from the sale of capital assets.

## 8. Community Assets

Assets that the Council intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks, open spaces, and allotments.

## 9. Consistency

The concept that the accounting treatment of like items within an accounting period, and from one period to the next, is the same.

## 10. Contingency

A situation which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

## 11. Council Tax

A local tax levied by a Local Authority on its citizens.

## 12. Creditor

Money owed by the Council to others for goods or services that have been supplied in the accounting period but not paid for.

## 13. Debtor

Money owed to the Council for goods or services we have supplied to others that they have received but have not paid for by the end of the accounting period.

## GLOSSARY

### **14. Depreciation**

The measure of wearing out, consumption, or other reduction in the useful economic life of a fixed asset, arising from use, passage of time, obsolescence or other changes.

### **15. Effective Interest Rate (EIR)**

The effective interest rate is the true rate of interest earned. It could also be referred to as the market interest rate, the yield to maturity, the discount rate, the internal rate of return, the annual percentage rate (APR), and the targeted or required interest rate.

### **16. Fair Value**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

### **17. Financial Assets**

A right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

### **18. Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

### **19. Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument, of another entity.

### **20. Financial Liability**

An obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

### **21. Financial Reporting Standard (FRS)**

Statements issued by the Accounting Standards Board (ASB) specifying the treatment and disclosure of certain events and transactions in the preparation and publication of accounting statements.

### **22. General Fund**

The division of the Council's accounts covering services paid for by the precept on the Collection Fund (Council Tax).

### **23. Going Concern**

The concept that the Council will remain in operational existence for the foreseeable future, in particular, that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

### **24. Government Grants**

Government assistance whether in the form of cash or transfers of assets in return for compliance with certain conditions relating to the activities of the Council.



## GLOSSARY

### **25. Heritage Assets**

Heritage Assets are those assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities.

### **26. Housing Revenue Account**

The division of the Council's accounts that covers services relating to the provision of Council housing.

### **27. Impairment**

A reduction in the value of a fixed asset as shown in the balance sheet to reflect its true value.

### **28. Infrastructure Assets**

Examples of infrastructure assets are highways, bridges and footpaths.

### **29. International Financial Reporting Standard (IFRS)**

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

### **30. Long Term Investments**

An investment that is intended to be held for use on a continuing basis in the activities of the Council.

### **31. Long-Term Contracts**

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

### **32. Materiality**

This is one of the main accounting concepts. It ensures that the Financial Statements include all the transactions that, if omitted, would lead to a significant distortion of the financial position at the end of the accounting period.

### **33. Minimum Revenue Provision (MRP)**

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

### **34. Money Market Funds**

Pooled funds which invest in a range of short term assets (MMF) providing high credit quality and high liquidity.

### **35. National Non Domestic Rate**

Business rate levied on companies, firms etc, collected by Local Authorities and paid to a Central Government 'Pool'.

### **36. Net Book Value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

## GLOSSARY

### **37. Net Current Replacement Cost**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### **38. Net Expenditure**

Total expenditure for a service less directly related income.

### **39. Net Realisable Value**

The open market value of the asset in its existing use, (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

### **40. Non-Operational Assets**

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### **41. Operating Leases**

A lease other than a finance lease (see 24).

### **42. Operational Assets**

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### **43. Post Balance Sheet Events**

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Financial Statements are signed by the responsible financial officer.

### **44. Prepayments**

Payment for goods and services in advance of receipt, and are therefore treated as a debtor at the Balance Sheet date.

### **45. Private Finance Initiative (PFI)**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

### **46. Property, Plant and Equipment**

Tangible assets that benefit the Council and the services it provides for a period of more than one year.

### **47. Public Works Loans Board (PWL B)**

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

### **48. Revaluation Reserve**

The Revaluation Reserve is an unusable reserve that contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment.

## GLOSSARY

### **49. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure which may properly be deferred, but which does not result in a tangible asset. An example of revenue expenditure funded from capital under statute is expenditure on improvement grants. These were previously referred to as deferred charges.

### **50. Revenue Expenditure / Income**

The cost or income associated with the day-to-day running of the services and financing costs.

### **51. Statement of Standard Accounting Practice (SSAP)**

Accountancy practice's recommended by the Major Accounting Bodies. The application of SSAPs to local authorities is reflected in CIPFA's Code of Practice (The Code). Most SSAPs have now been superseded by FRSs.

### **52. Stocks**

Comprise the following categories:

- Goods or other assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long-term contract balances; and
- Finished goods.

### **53. Supported Borrowing**

Borrowing that is supported by Government financial assistance.

### **54. Unsupported Borrowing**

Borrowing that is not supported by Government financial assistance.

### **55. Useful Life**

The period over which the Council will derive benefits from the use of a fixed asset.

# ANNUAL GOVERNANCE STATEMENT

## 1. SCOPE OF RESPONSIBILITY

Southampton City Council (“the council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the CIPFA/SOLACE Framework ‘Delivering Good Governance in Local Government’. A copy of the code is on our website at

<http://www.southampton.gov.uk/council-partners/decisionmaking/corporategovernance/> or can be obtained from the:

Head of Legal, HR and Democratic Services,  
Southampton City Council,  
Civic Centre,  
Southampton,  
SO14 7LY

This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

## 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

## 3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the council’s governance arrangements are as described below and include arrangements for:

- **Identifying and communicating the authority’s vision of its purpose and intended outcomes for citizens and service users**

There is a clear vision of the council’s purpose and intended outcomes for citizens and service users that is communicated both within the organisation and to stakeholders.

The ‘Southampton Connect Plan for 2012-2015’ (“the Connect Plan”) which is based on a single, comprehensive assessment of needs in the city (supported by resident feedback, a city profile

# ANNUAL GOVERNANCE STATEMENT

and ward profiles) sets out a vision for the city and a challenging programme of ten priority projects.

Southampton Connect, was established in 2011 as a successor to the Southampton Partnership, and is a collaborative arrangement that seeks to address the key challenges facing Southampton. These include, at a national level, the Coalition Government's deficit reduction plan and, at a local level, the ongoing impact of the recession. The Southampton Connect approach builds upon our unique city collaborative ethos, relationships and networks, and represents a new way of working together to improve the City. Southampton Connect has recently reviewed its terms of reference and priorities.

The Southampton City Council Plan ("the Council Plan") sets out, in one concise document, the council's priorities, challenges and opportunities for the forthcoming period. It reflects the council's commitment to secure on-going improvements to services provided to residents, businesses and visitors to the city.

- **Reviewing the authority's vision and its implications for the authority's governance arrangements**

The council's vision is reflected in the Council Plan which sets out 'Our priorities', 'How we will work' and 'Our Challenges and Opportunities'. The 'Council Plan' covers a 3 year period and is reviewed periodically to ensure that it continues to reflect the needs and aspirations of our customers, services users and communities. A new Council Plan, for the period 2013-16, was formally approved by Full Council in July 2013. This replaced the previous plan that covered the period 2011-2014.

The council has adopted a Code of Corporate Governance ("CCG") which identifies, in one document, how the Council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Head of Legal, HR and Democratic Services and is subject to an annual 'light touch' review with any recommendations presented to the Governance Committee.

- **Translating the vision into objectives for the authority and its partnerships**

The Connect Plan and the Council Plan include clearly defined priorities together with actions required to secure the desired outcomes. The intention is that strategic planning will be informed by the single needs assessment (Southampton Profile). The actions and measures in the Council Plan are delivered and monitored through specific commitments in the individual directorate plans.

- **Measuring the quality of services for users, ensure they are delivered in accordance with the authority's objectives and to ensure they represent the best use of resources and value for money**

The Council Plan identifies the 'Success Measures', and performance against these defined measures is monitored on a quarterly basis by the Council Management Team and reported to both Scrutiny and Cabinet. The reports contain details of current performance and identifies where targets are not being met and/or where slippage has occurred in delivering improvement measures. Following a review of policy, performance and systems, the council is implementing a revised approach to performance management.

The Corporate Procurement Strategy and associated Contract Procedure Rules, which form part of the Council's Constitution, govern how the council buys the supplies, services and works that it needs. The council is committed to achieving Best Value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way.

- **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements**

# ANNUAL GOVERNANCE STATEMENT

## **and protocols for effective communication in respect of the authority and partnership arrangements**

The council has a Constitution that sets out how it operates, how decisions are made (including an Officer Scheme of Delegation) and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution, which is divided into 15 Articles and sets out the detailed rules governing the council's business, is published on the internet at:

<http://www.southampton.gov.uk/council-partners/decisionmaking/constitution.aspx>

- **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The council's Constitution contains both an Officer Code of Conduct and a Members' Code of Conduct which set out the expected behavior and standards to be adhered to. In addition, a 'Disciplinary Policy and Code of Conduct' is in place for employees and sets out the standards of service and conduct that are expected of employees.

- **Reviewing the effectiveness of the authority's decision making framework, including delegation arrangements, decision making in partnerships and robustness of data quality.**

The council's Constitution details how the council operates, including how decisions are made and the role of Overview and Scrutiny. It also includes an Officer Scheme of Delegation setting out the powers, duties or functions that may be exercised under Delegated Powers. The Head of Legal, HR and Democratic Services conducts an annual review of the council's constitutional arrangements, which is considered by the council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the council in May.

- **Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability**

The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement. In addition, the Committee needs to satisfy itself that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.

The council has in place a Risk Management Policy and Strategy which sets out the council's overall approach to managing risk. The policy and strategy, which are formally approved by the Governance Committee, are subject to annual review to ensure that they continue to reflect good practice and remain aligned with current business processes and practices.

- **Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained**

The council has in place an Anti-Fraud and Anti-Corruption Policy and Strategy which is published on the internet and reflects the council's approach and commitment to the prevention and detection of fraud and corruption.

- **Ensuring effective management of change and transformation**

# ANNUAL GOVERNANCE STATEMENT

The council has in place a Change Programme which is led by the Lead Cabinet Member and supported by the Council Management Team via Change Programme Board. The key three aims of the programme are to secure 'Better outcomes for residents', 'Better quality of service' and 'Significantly reduce cost'. A co-ordinated, strategic approach has been agreed with the initial focus on 'Service Transformation', 'Working Environment Transformation' and 'Community Asset Transfer'. Delivery of the programme is via defined 'workstreams' with progress being reported to and monitored by the Change Programme Board. In addition, each service is required to complete a 'Blueprint' document. The 'Blueprint' document is intended to capture key service information in a standard format which is then used to support and inform the council in terms of taking a strategic approach to organisational redesign and proposals to meet the ongoing financial challenges.

- **Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'**

The council's financial management arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'. The Head of Finance and IT (Chief Financial Officer) is professionally qualified and is a key member of the Council Management Team, helping to develop and implement strategy and deliver the key strategic objectives of the authority. The Head of Finance and IT has direct access to the Chief Executive and is actively involved in ensuring that all immediate and longer term risks and opportunities are considered, and in ensuring the strategic objectives are aligned to the longer-term finance strategy.

The Head of Finance and IT has an input into all major decisions and advises the Executive on financial matters. He is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust, to ensure value for money is provided by our services, and that the finance function is fit for purpose.

- **Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'**

The council's assurance arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

- **Ensuring effective arrangements are in place for the discharge of the monitoring officer function**

The Director of Corporate Services is designated as the Monitoring Officer with responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to the full Council and/or to the Cabinet.

The Head of Legal, HR and Democratic Services is the nominated Deputy Monitoring Officer

- **Ensuring effective arrangements are in place for the discharge of the head of paid service function**



# ANNUAL GOVERNANCE STATEMENT

The Chief Executive is designated as the Head of Paid Service with responsibility for leading the Council Management Team in driving forward the strategic agenda, set by Cabinet, improving the efficiency and performance of the council and ensuring that the community receives high quality, value-for-money services.

- **Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities**

The council has a formally constituted Governance Committee that undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It provides independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

- **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

'Corporate Standards' are published on the internet and provide a summary of the most significant and important rules in the areas where the council must achieve compliance. They cover Legality and Corporate Governance (including decision-making, Finance, IS/IT, Property and Procurement).

In addition, the council's Financial Procedure Rules, which provide the framework for managing the council's financial affairs and the council's Contract Procedure Rules, which govern the method by which the council spends money on supplies, services and works, form part of the council's Constitution.

- **Whistle blowing and receiving and investigating complaints from the public**

The council is committed to the highest possible standards of openness, probity and accountability and has in place a 'Whistle blowing' Duty to Act Policy. This reflects the legal framework and obligation on the council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment.

Complaints from the public are dealt with in accordance with the Complaints Policy which has been formally approved and is published on the council's website. There is a separate policy in place in respect of dealing with complaints made about Members.

- **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

The council is developing a revised Member Development Strategy which is aimed at providing a long-term view to learning and development whilst remaining sufficiently flexible to reflect changing priorities. The Member learning and development programmes currently includes the following:-

- Induction Programme;
- Member Mentoring Scheme;
- Regulatory Panel training;
- Skills training and workshops;
- Personal Development Planning;
- Cabinet Member training;
- Scrutiny training;
- Governance

Priorities for learning and development form part of the annual performance appraisal process with a requirement that training priorities link to achievement of objectives and service plans as well as on-going professional competence. In addition, a suite of 'Management Development'

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training modules is in place and available to new and existing managers to assist them in understanding and developing their core skills.

- **Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

The council believes that all people should have the opportunity to voice their opinions on issues that affect them. The views of customers and staff are actively sought by services via questionnaires, text messaging, focus groups and community consultation events. For example, a comprehensive consultation exercise was conducted to enable comments and suggestions from community groups and members of the public to be fed into the budget report 2013/14.

Information on 'Consultation' and 'Other ways to have your say' is also published on the council's website and provides an opportunity for stakeholders to voice their opinions and shape service delivery. The council has also led a Southampton Connect initiative to produce a single Southampton Profile which reflects consultation feedback. The purpose of this City profile is to provide a systematic analysis of needs provision opportunities and gaps in the City, based on accurate, relevant and up-to-date information that will inform collaborative work with partners, joint commissioning decisions and the priorities detailed in the Connect Plan. The Southampton Profile, which incorporates the Joint Strategic Needs Assessment, is a unique city resource bank that will be updated periodically.

- **Enhancing the accountability for service delivery and effectiveness of other public service providers**

The 'Priorities', 'Key Actions' and 'Success measures' identified in the Council Plan are monitored on a quarterly basis by the Council Management Team and reported to both Scrutiny and Cabinet. The reports contain details of performance and identify where targets are not being met or where slippage has occurred in delivering improvement measures. The council is currently considering the use of 'performance scorecards' at directorate and council levels.

A number of the council's key services are delivered in partnership with external service providers. These outsourced contracts are managed by a centralised Contract Management Team which provides a senior management interface between the council and our partnership service provider. All such arrangements include a suite of key performance indicators and are based upon a culture of continuous improvement, recognising the need to achieve a balance between the council's short term financial challenges and long term strategic aims.

- **Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements**

A Partnership Code is in place and forms part of the council's Constitution. The Code identifies the headline considerations when developing a partnership and includes 'Aims & Objectives – is there clarity of purpose and is it compelling?' and 'Governance – how will decisions be made and acted upon?'. It is intended to ensure that sound governance arrangements are in place in respect of partner and partnership engagement and will continue to be reviewed as partnership working arrangements develop and evolve.

## 4. REVIEW OF EFFECTIVENESS

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by a 'Controls Assurance Management Group' (comprising the Section 151 Officer, Chair of the Governance Committee, Monitoring Officer and Chief Internal Auditor).

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The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Annual Governance Report;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the Council's internal control environment;
- The Internal Audit Strategy and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment,
- The completion of an annual 'Self Assessment Statement' by Directors which covers the key processes and systems that comprise the council's governance arrangements and is intended to identify any areas where improvement or further development is required;
- Completion of an 'Assurance Framework' document which reflects the key components of the Council's overall governance and internal control environment. This document, which is based on CIPFA guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and Strategy, specifically the Strategic and Directorate risk Registers;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## 5. SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

|    | Governance Issue                                                                                                                                             | Planned Action                                                                                                                                                                                                                                        |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | The Council's Anti Fraud and Corruption Policy and Strategy has not been updated since 2008.                                                                 | Anti Fraud and Corruption Policy and Strategy to be reviewed and updated to reflect current good practice together with a commitment for future periodic reviews. Appropriate arrangements to be made to communicate the updated Policy and Strategy. |
|    | <b>Responsible Officer:</b> Director of Corporate Services <b>Target for completion:</b> Oct 2013                                                            |                                                                                                                                                                                                                                                       |
| 2. | Performance management reporting arrangements need to capture and reflect the most up to date information or position and to enable improvement in outcomes. | A review of performance management arrangements has been undertaken and a new approach, in the form of a monthly 'scorecard' format, is being developed and will be in place in December.                                                             |
|    | <b>Responsible Officer:</b> Chief Executive / Director Place (Environment and Economy) <b>Target for completion:</b> Dec 2013                                |                                                                                                                                                                                                                                                       |
| 3. | Reduced capacity and resilience within the senior management team.                                                                                           | Review of senior management structure and capacity will follow the new Chief Executive appointment in June 2013.                                                                                                                                      |
|    | <b>Responsible Officer:</b> Chief Executive <b>Target for completion:</b> Dec 2013                                                                           |                                                                                                                                                                                                                                                       |

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|                                                            |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                       |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.                                                         | Development of a co-ordinated and consistent approach to workforce learning and development including corporate induction and succession planning.                                                                                              | Delivery of the workstreams as part of the overall Workforce Plan                                                                                                                                     |
| <b>Responsible Officer:</b> Director of Corporate Services |                                                                                                                                                                                                                                                 | <b>Target for completion:</b> Mar 2014<br>(Year 1- Foundation Year Actions)                                                                                                                           |
| 5.                                                         | The provision and access to internal/external training and development for members should be on a more structured basis and the scope and level of member engagement with internal learning and development opportunities needs to be reviewed. | A review of the approach and delivery of Member learning and development opportunities is being undertaken by the Governance Committee in consultation with Group Leaders and the Members User Group. |
| <b>Responsible Officer:</b> Director of Corporate Services |                                                                                                                                                                                                                                                 | <b>Target for completion:</b> Sept 2013                                                                                                                                                               |
| 6.                                                         | Understanding of and compliance with the council's 'Corporate Standards' by relevant officers.                                                                                                                                                  | A review of the current provision is being undertaken with a view to introducing a revised training programme for officers.                                                                           |
| <b>Responsible Officer:</b> Director of Corporate Services |                                                                                                                                                                                                                                                 | <b>Target for completion:</b> Oct 2013                                                                                                                                                                |

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

### Signed

.....

**Dawn Baxendale**  
(Chief Executive)

.....

**Councillor Simon Letts**  
(Leader of the Council)

on behalf of Southampton City Council

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHAMPTON CITY COUNCIL**

## **Opinion on the Authority financial statements**

We have audited the financial statements of Southampton City Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 44, the Housing Revenue Account Income and Expenditure Statement, and the related notes 1 to 14, the Statement of Movement on the HRA Balance and note, the Collection Fund and the related notes 1 to 8. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Southampton City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 11, the Head of Finance & IT is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance & IT; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements 2012/13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

## **Opinion on other matters**

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In our opinion, the information given in Financial Statements 2012/13 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Southampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

## **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

K.L.Handy  
Director  
for and on behalf of Ernst & Young LLP, Appointed Auditor Southampton

Wessex House  
19 Threefield Lane  
Southampton  
Hampshire SO14 3QB

30 September 2013