Southampton City Council
FINANCIAL STATEMENTS

2017/2018

SOUTHAMPTON
CITY COUNCIL

FINANCIAL STATEMENTS
Contents Page

SECTION 1. Preface

Introduction to the Statement of Accounts by Councillor Chaloner, Cabinet Member for Finance

Welcome to Southampton City Council's Statement of Accounts for 2017/18.

Southampton City Council has continued to work tirelessly throughout 2017/18 to bring investment to the city and improve the value for money for the services that we provide to our residents.

Through Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the City Council, we have developed our 'City Vision' where Southampton is a 'City of opportunity where everyone thrives'. 2017/18 saw the first year of operation of the Business Improvement District (BID), with over £1M generated to support activities to improve the marketing and experience of the city centre.

2017/18 has seen further major new developments in the city including the continued opening of elements of West Quay Two, which provides new shops, restaurants and bars and a state of the art cinema complex. This year also saw the opening of Studio 144 in the Cultural Quarter, a state of the art theatre and arts complex.

To support the achievement of the priority outcome, people in Southampton leading safe, healthy, independent lives, the Executive have committed to build Extra Care housing so that older people can continue to live independently whilst getting extra assistance. In pursuant of this priority, the Council has recently delivered the successful conversion and new build projects at Manston, Rosebrook and Erskine Courts, with detailed design of a further facility at Woodside Lodge well under way.

Southampton City Council was successful in bidding for £3.75M from the Housing Infrastructure Fund towards Townhill Park Regeneration which includes the construction of 56 affordable homes, that commenced in 2017/18 as part of phase 1 of the development.

The homes will be developed and owned by the council and will be available for rent at

affordable rents.

The Council's wider plans for Townhill Park will deliver around 665 new homes. Plans for the next phase are being progressed and are expected to include around 213 homes, with a mix of 45-55% affordable housing and the remainder let for private rental.

In ensuring every child gets a good start in life, the council has put major focus the continuation of the review of looked after children. This has enabled us to support more children and families to reduce the number of looked after children. This has led to this areas spend being within budget and is a great reflection on all involved as many other authorities are seeing overspends within this area.

The Council's approved capital programme totals £411.32M (2017/18 to 2021/22) and aims to bring jobs and investment to the city. In line with the Council's priority outcomes, additional provision has been made for:

- £67.4M for secondary schools expansion;
- £8.0M for road improvements;
- £2.0M for investment in phases 2 and 3 of the Digital Strategy;
- Improvements in the quality of existing accommodation and to provide more affordable homes; and
- In light of advice from Hampshire Fire and Rescue Service and specialist fire safety consultants, a need has been identified to install sprinkler systems in all tower blocks. Work is currently underway to establish the full programme of works required in 2018/19.

As part of the council's commercialisation strategy, an initial Best Value consultation was undertaken in 2017 to look at options for the ongoing provision of some of the council's front line services, Cabinet agreed to proceed with the option of establishing a Local Authority Trading Co (LATCo).

In January 2018 a further report was presented to Cabinet to outline the proposed governance arrangements and company structure of a LATCo, along with proposed phasing of the migration of services. A Best Value consultation has been launched and ran until April 2018.Following the outcome of the consultation, a final report with the proposals and business plans for the LATCo will be presented for consideration and approval by Council in July 2018.

The Councils Medium Term Financial Plan (MTFS) that was approved in in February 2017, was a step change in the council's improvement journey. The council was able to set a two year balanced budget for the first time for the financial years 2017/18 and 2018/19. This meant that there was no necessity to hold further budget consultations in 2017/18, with a balanced budget already achieved for 2018/19. This has given stability to services and enabled them to focus on delivering the priority outcomes. It is intended to continue this practice going forward.

The general fund revenue budget gap has been reduced to £10.9M by 2021/22. Further work will be undertaken during 2018/19 to close this gap.

The national and local issues surrounding Adult Social Care and Safeguarding of Children have impacted on the level of spend for these services in 2017/18 and will continue to impact on the Council's budget. This has been reflected in the Council's Medium Term Financial Strategy (MTFS). Rising demand in both adult and children's social care remains one of the most significant risks to the sustainably of the Council and its financial position with further investment in these services planned for 2018/19.

The Statement of Accounts this financial year have been produced ahead of statutory requirements which now reflect the earlier closedown deadlines which were adopted early by the council for the last 2 years. This is an enormous achievement and I would like to take this opportunity to thank all of our finance and audit staff for all their work over the year. This careful management of our finances enables us to make fully informed decisions about the appropriate use of council resources and deliver the quality of services that residents have come to expect.

SECTION 2. Narrative Statement

Message from the Service Director of Finance & Commercialisation, Mel Creighton

The Finance Service faced a major restructure during 2017/18 with a change of focus on the role of and the services provided by the Finance Service. The introduction of a fully integrated Finance Business Partner Service has commenced with front line services to ensure that robust financial management is part of every employees roles and a key factor in the decision making process.

In line with our vision to be a Finance Service that drives improvements in financial management, customer experience and operational excellence we have published theses accounts ahead of the statutory deadlines. It should be noted that the statutory requirements now reflect the earlier closedown deadlines which have been adopted and achieved by the council for the last 2 years. The advantages of delivering the statements earlier are many:

- We are able to inform stakeholders of the financial performance at the earliest opportunity;
- Staff can focus on delivering the next year's financial performance;
- Staff can assist services in identifying and delivering the future year's savings; and
- Staff are available to give financial advice and support at the earliest opportunity on ideas and initiatives that support the ongoing efficiency and effectiveness of front line services.

The achievement of the early production of the statements is only possible by having sound financial management practices and a robust system of budget monitoring throughout the year. This has been demonstrated in 2017/18 with assurances being given following a number of audits of the Council's financial systems, processes and controls by our new internal audit service that is delivered in conjunction with Portsmouth. This reflects the dedication of all finance staff, who have identified areas for step change improvements both in this financial year and future years, to continue on this improvement journey.

Looking forward into 2018/19, the Finance Service will continue to develop Finance Business Partnering alongside looking to the longer term financial planning for the authority. This includes continuing to support the focused approach to Outcome Based Planning and Budgeting (OBPB) which commenced in 2017/18. This looks at focusing the decreasing resources towards supporting areas which have the greatest impact on the agreed priorities and outcomes. The OBPB process will be further reviewed and refined in 2018/19 to ensure that the budget gap to 2020/21 and future years can be mitigated.

This year has also seen the development of the council's approach to commercialisation being developed and beginning to be implemented to ensure that there is a coordinated, focused approach to maximising commercial opportunities where available, providing a positive contribution to the council's overall financial sustainability whilst enhancing the reputation of the council in the provision of services. The use of a Local Authority Trading Company (LATCo) could play an essential role in achieving this strategy, with a final decision to be made by Council in July 2018.

During 2017/18 the council submitted a successful 100% Business Rates Retention Pilot bid to the then Department for Communities and Local Government (DCLG). This was part of a bid for the Solent Region alongside Portsmouth City Council and Isle of Wight Council for the pooling of business rates.

The arrangement will be governed by a Board consisting of the three council leaders, and provides the opportunity for the 3 councils to retain the governments share of business rates growth and invest this in services, financial stability and sustainability, and reinvesting in promoting further growth in the city. The pilot bid covers the financial year 2018/19.

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.

I have structured this narrative statement to help enable readers to understand the Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts.

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 8 on page 109.

The council reviews annually any interest in companies and other entities for any financial relationships which would require the council to produce group accounts. In 2017/18 there were no material transactions that require this. Note 36 on page 94 provides further information.

The sections contained within the Narrative Statement are:

1. Key Facts about Southampton
2. Key Facts about Southampton City Council
3. A summary of the financial performance
4. An explanation of the financial statements
5. Accounting Issues & Developments

1. KEY FACTS ABOUT SOUTHAMPTON

Southampton has a unique sea city location with exceptional transport links, a strong position nationally for economic growth, an excellent reputation for teaching and learning, a strong business community, good regional specialist hospital, varied retail offer, night-time economy, vibrant voluntary and student communities and a rich and diverse cultural mix. The city vision is to "Create a city of opportunity where everyone thrives".

There are a number of factors which affect the council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Council's financial position in both the short and medium term:

Key Statistics

Population 254,275 (SAPF 2017 base)

Southampton covers 51.81km^2

Ave House Price £228,300 (Dec 2017)

Southampton University ranked 26th 2018 League Tables

Ranked as the 3rd highest ranking city for Good Growth

Ave Gross Weekly (Full Time) Earnings £521.00 (£556.00 National Ave)

3,395 (2%) Working Age Residents claiming job seekers allowance or universal credit (National Ave 1.9%)

105,629 Households, 51% owner occupied, 25% private rented

71.4% 16-64 Year olds in employment (74.7% National Ave)

6,710 Business Enterprises

43,000 Higher Education students in the city

Source: NOMIS – Official Labour Market Statistics, Land Registry and Hampshire County Council

- We maintain over **416** miles of highways and **49** parks
- We run **6** libraries, **3** museums and support **5** community libraries
- We provide **16,300** council houses
- We recycle, compost and reuse **27,000** tonnes of waste every year
- We processed over **2,384** planning applications (during 2017)
- We provide long term support for over **3,000** adults
- We work with and support **75** schools in the city
- Over **15,000** children **under 5** use our city's children's centres and we look after approximately **518** children who are in our care

Southampton City Strategy 2015-25

Bearing the above in mind, the City Strategy 2015-2025 has been developed by Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the City Council. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and safer communities.

It also includes four cross cutting themes:

- Fostering City Pride and Community capacity;
- Delivering whole place thinking and innovation;
- Improving mental health; and
- Tackling poverty and inequality.

Southampton Connect works closely with the key city partnerships to deliver against the vision, priorities and themes. Partnerships include the Health and Wellbeing Board and the Safe City Partnership.

Southampton City Council Strategy 2016-2020

In September 2016, the Council approved the Southampton City Council Strategy 2016-20. The Strategy sets out the Council's strategic vision until 2020 and has four key outcomes, along with an internal outcome, which are:

2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

All of the factors in Section 1 help to shape the Council's priorities and provide a challenging environment for the Council to operate in. Potentially increasing demand on services and reducing the amount of income the Council can generate. Charged with directing the outcomes, priorities and policies of the Council are the 48 elected Councillors. The next section describes the political and management structure of the Council.

Political Structure

Southampton City Council is split into 16 wards each represented by 3 councillors. The political structure in 2017/18 was as follows:

Labour 25
Conservative 19
Putting People First 3
Southampton Independents 1

Senior Leadership Team and Council Management Team

Supporting the work of the elected members is the Council's Management Team (CMT). The current makeup of the team is detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2017/18.

THE COUNCIL MANAGEMENT TEAM

Chief Executive – *Richard Crouch (Interim)*/*Dawn Baxendale(Former)*

Chief Strategy Officer – *Suki Sitaram*

Chief Operating Officer – *Richard Crouch*

Service Director - Finance & Commercialisation – *Mel Creighton*

Service Director - Transactions and Universal Services *Mitch Sanders*

Service Director - Legal & Governance – *Richard Ivory*

Service Director - Intelligence, Insight & Communications – *Emma Lewis*

Service Director - Housing, Adults & Communities *Paul Juan*

Service Director - Children's & Families – *Hillary Brooks*

Service Director - Quality & Integration – *Stephanie Ramsey*

Service Director - Growth – *Mike Harris*

Service Director - Public Health – *Jason Horsley*

Service Director - HR & Organisational Development – *Janet King*

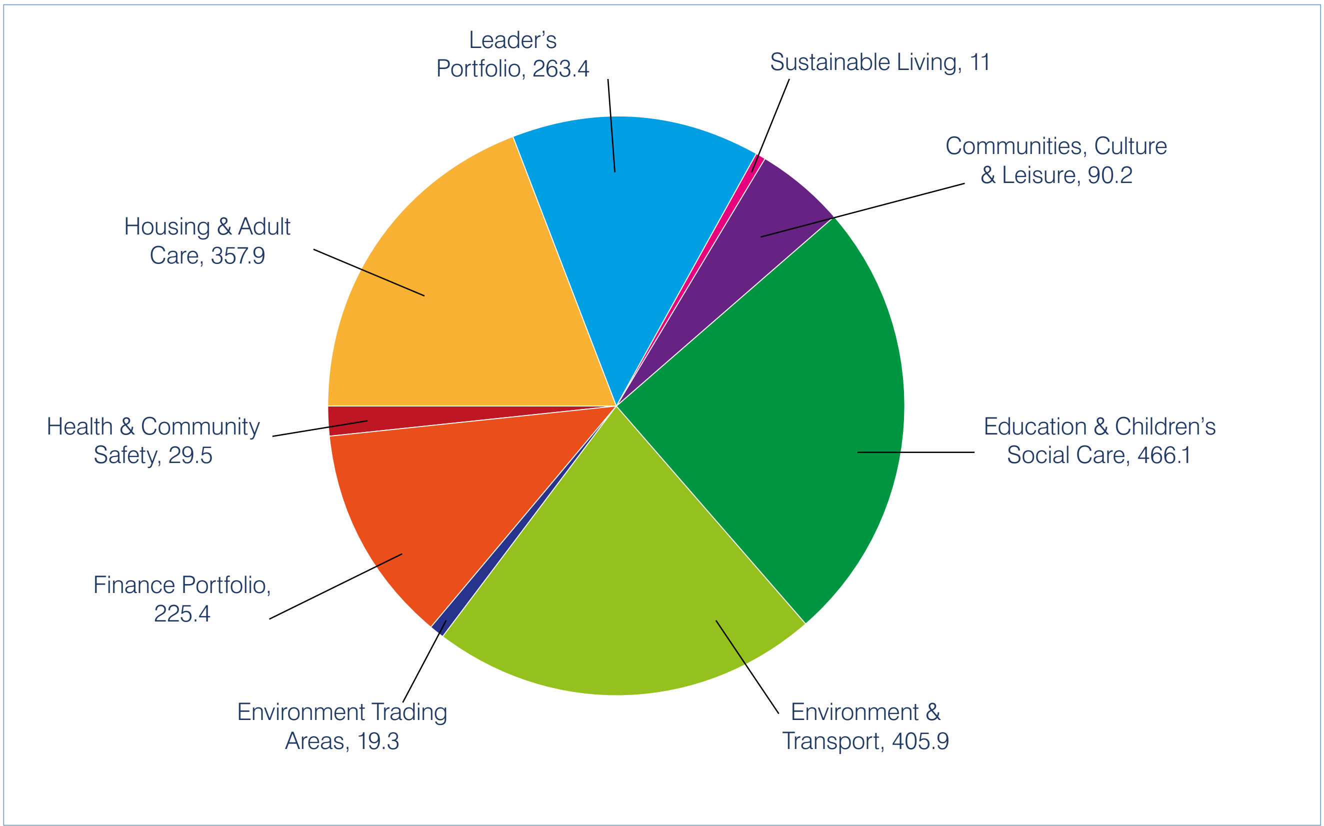
Service Director - Business Operations and Digital – *James Strachan (Formerly Rob Harwood)*

These groups work together to set out the priorities and themes contained within the Southampton City Council Plan.

Staffing

The Council employs circa 1,900 Full Time Equivalents to deliver these priorities.

The following chart shows how these support the Council's services (these figures exclude school employees).



The Council's Performance

Indicator	15/16	16/17	17/18	DoT	Change	Preferred Direction of Travel	Stat Neighbour (Ave)	Variance	Eng. (Ave)	Variance	Comment
Working-age client group - main benefit claimants (Out of Work Benefits) **(OLD MEASURES)**	8.40%	-	-	-	-	▼	11.1%	-2.7%	8.6%	-0.2%	Proportion of resident population aged 16-64 estimates. To Feb 2015 and to Feb 2016
Job seeker	1.1%	0.8%	0.3%	▼	-0.50%	▼	1.1%	-0.8%	1.0%	0.7%	August 2017 figures JSA Claimants as a percentage of working age population aged 16-64. Trend is based on August firgures for each year.
Disability Living Allowance	4.7%	4.0%	3.1%	▼	-0.90%	▼	3.5%	0.4%	3.2%	0.1%	August 2017 figures. DLA Claimants as percentage of total population MYE 2016. Trend is based on August each year figures.
Rate per 1000 head of 10 - 17 year old population receiving a custodial sentence	0.8	0.6	1.2	▲	0.6	▼	0.5	-0.7	0.4	-0.8	Data and Benchmark, Jan - Dec 2017
Children leaving care for permenence (Special Guardianship Order (SGO) or Adoption) (%)	46.3%	50.7%	46.9%	▼	3.8%	▲	30.2%	16.7%	25.7%	21.2%	National Benchmark, Statistical Neighbour Benchmark - 2016/2017
First time entrants into Youth Justice System (per 100,000 population of 10-17 year olds)	486	387	386	▼	-1	▼	429	-43	322	64	National Benchmark, Statistical Neighbour Benchmark - 2016/2017
Pupils in Early Years Foundation Phase achieving good level of development (%)	66.1%	69.8%	70.2%	▲	0.4%	▲	67.1%	3.1%	66.3%	3.9%	National Benchmark, Statistical Neighbour Benchmark - 2017
Percentage of 16-17 year olds NEET or whose activity is not known	n/a	7.6%	5.8%	▼	-1.8%	▼	6.3%	-0.5%	6.0%	0.2%	National Benchmark, Statistical Neighbour Benchmark - 2016/2017

Indicator	15/16	16/17	17/18	DoT	Change	Preferred Direction of Travel	Stat Neighbour (Ave)	Variance	Eng. (Ave)	Variance	Comment
Young People who are Not in Education, Employment or Training (NEET) % **(OLD MEASURE)**	4.80%	-	-	-	-	▼	6.1%	1.3%	4.6%	-0.2%	Only 14/15 Benchmarking available for England & Statistical Neighbours
Claimant Count	1.50%	1.40%	2.50%	▲	1.10%	▼	2.30%	-0.20%	2.10%	-0.40%	March 18 figures. Claimant Count is JSA claimants and Universal Credit claiments combined seeking employment. DoT is caused by the inclusion of Universal Credit claimants and may not reflect actual diraction of travel. Trend is based on March of each year
ESA	4.01%	4.01%	3.53%	▼	-0.48%	▼	4.06%	0.53%	3.47%	-0.06%	August 2017 figures. Employment and Support Allowance (ESA) replaced Incapacity Benefit and Income Support paid on the grounds of incapacity for new claims from 27th October 2008. Population used MYE. Trend is based on March each year figures.
Carers Allowance	1.15%	1.16%	1.19%	▲	0.03%	▼	1.30%	0.11%	1.25%	0.06%	August 2017. Claimants of carers allowance percentage of total population. Trend is based on August each year figures

3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The financial year began with the setting of the budget on 15th February 2017, when a balanced budget was set that included savings of £30.8M. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting. A revised budget was then approved by Council on 21st February 2018 and represented the expected outturn position for 2017/18 at that time.

The council incurs both revenue and capital expenditure. The revenue account (known as the General Fund) bears the net cost of providing day to day services. The capital account shows the net cost of transactions made to buy or sell land, property or other assets, build new property, make improvements and provide grants or loans to other bodies to undertake this type of activity.

The table below shows the Councils outturn position and variances from the current budget.

General Fund Revenue Account Outturn Position 2017/18	Budget 2017/18	Portfolio Outturn 2017/18	Outturn Variance 2017/18
	£000	£000	£000
Portfolios			
Communities, Culture & Leisure	4,888.30	4,226.69	661.61 F
Education & Children's Social Care	43,193.57	43,076.83	116.74 F
Environment & Transport	21,124.60	21,170.20	45.60 A
Finance Portfolio	29,955.50	29,866.57	88.93 F
Health & Community Safety	(4,642.80)	(4,651.95)	9.15 F
Housing & Adult Care	68,439.10	72,152.53	3,713.43 A
Leader's Portfolio	12,482.80	11,972.31	510.49 F
Sustainable Living	115.30	118.23	2.93 A
Transformation Projects	0.00	948.70	948.70 A
Sub-total for Portfolios	**175,556.37**	**178,880.11**	**3,323.74 A**
Levies & Contributions	632.20	703.69	71.49 A
Capital Asset Management	2,745.40	1,057.77	1,687.63 F
Other Expenditure & Income	11,478.34	7,544.09	3,934.24 F
Contribution to Capital	2,225.80	2,225.80	0.00
Net Revenue Expenditure	**192,638.10**	**190,411.45**	**2,226.65 F**
Funded By:			
Addition to / (Draw From) Balances	0.00	0.00	0.00
Transfer From Provisions/Reserves In Year	(6,470.60)	(6,470.58)	0.02 A
Council Tax	(88,480.00)	(88,480.17)	0.17 F
Non-Specific Government Grants & Other Funding	(41,938.10)	(43,202.47)	1,264.37 F
Business Rates	(51,649.40)	(52,230.01)	580.61 F
Council Tax Collection Fund (Surplus) / Deficit	(1,800.00)	(1,777.91)	22.09 A
Business Rates Collection Fund (Surplus)/Deficit	(2,300.00)	(2,322.70)	22.70 F
Total Funding	**(192,638.10)**	**(194,483.83)**	**1,845.73 F**
Transfer to Reserves - Year End Surplus	**0.00**	**4,072.38**	**4,072.38 A**
(SURPLUS)/DEFICIT	**0.00**	**(0.00)**	**0.00 F**

Since the Council set its budget in February 2017, the economic outlook has remained challenging. In-year action was taken in response to the ongoing financial pressures facing the Council:

- It should be noted that where a forecast overspend had been identified, the relevant Service Director developed an action plan to detail the measures and interventions that would be undertaken to manage the pressure.
- In addition to the action plans, 'intensive care' meetings were held with the Senior Officers to discuss key issues and actions with the services. It is expected that these meetings, along with service improvement boards, and the requirement for action plans will continue in to 2018/19, with an overarching expectation that pressures arising must be accommodated within the overall service budgets.
- This has led to significant improvement in the overall outturn position.

The outturn for the council was a contribution to general reserves of £4.07M.

The significant pressure has been in relation to Health and Adult Social care due in part to increasing demand and complexity of required services and non-achievement of required savings in 2017/18 as a result. As part of setting the budget for 2018/19 and future years, these specific pressures have been recognised and further funding has been allocated to mitigate them.

Where a 2017/18 pressure has been identified as having a longer term impact the relevant assumptions have been made and included within the updated MTFS position.

The portfolio position has been offset by:

- Review and release of Treasury Management budgets of £1.70M due to continued short term borrowing and slippage in the capital programme which has a reduced borrowing requirement.
- Release of the council's contingency funds £4.54M (within other income and expenditure) – held to meet potential demand and inflationary pressures identified in year.
- Additional grant was received for Staying Put duty where costs have already been provided for within the approved expenditure budgets; and when setting the budget for 2017/18 an assumption was made re expected reductions in grants that had not been notified at the point of budget setting. These grants have now been formally notified and will be £0.26M higher than budgeted. Additionally S31 Grants for new burdens and for transitional reliefs on given by central government on Business Rates.

Expenditure and Funding Analysis

It should be noted that an expenditure and funding analysis is now included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 23 and further in note 8.

Expenditure is analysed below by category to explain further how the Council spends its resources.

	Working Budget 2017/18	Portfolio Outturn 2017/18	Outturn Variance
	£000	£000	£000
Salaries, Wages & Other Employee Costs	99,084.67	96,994.20	2,090.5 F
Premises Costs	14,634.60	11,735.12	2,899.5 F
Transportation Costs	4,119.70	4,431.58	311.9 A
Supplies & Services	52,248.70	60,355.93	8,107.2 A
Internal Charges	4,872.10	6,027.30	1,155.2 A
Other Direct Costs (Includes School Allocations)	266,160.20	261,111.64	5,048.6 F
Total Expenditure	**441,119.97**	**440,655.28**	**464.7 F**
Internal Income	(22,231.00)	(20,120.44)	2,110.6 A
Fees, Charges & Rents	(49,512.90)	(52,484.36)	2,971.5 F
Grants / Contributions	(193,819.70)	(189,170.87)	4,648.8 A
Total Net Expenditure	**175,556.37**	**178,880.22**	**3,323.7 A**

This analysis excludes the HRA, Housing Benefit and Environment and Trading Areas when compared to the EFA.

HOUSING REVENUE ACCOUNT

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. The HRA statements are included on pages 98 to 102.

HRA Outturn Position 2017/18

The table below shows the HRA outturn position

	Budget 2017/18	Portfolio Outturn 2017/18	Outturn Variance 2017/18
	£000	£000	£000
Dwelling Rents	71,473.5	71,433.9	39.6 A
Other Rents	1,117.6	1,089.3	28.3 A
Total Rental Income	**72,591.1**	**72,523.2**	**67.9 A**
Service Charge Income from Tenants	1,621.6	1,622.5	0.9 F
Service Charge Income from Leaseholders	620.4	988.1	367.7 F
Interest Received	30.0	9.5	20.5 A
Total Income	**74,863.1**	**75,143.3**	**280.2 F**
Responsive Repairs	8,760.1	11,520.2	2,760.1 A
Programmed Repairs	5,153.6	4,589.9	563.7 F
Total Repairs	**13,913.7**	**16,110.1**	**2,196.4 A**
Rents Payable	100.0	154.4	54.4 A
Debt Management	69.8	83.6	13.8 A
Supervision & Management	21,815.5	22,028.4	212.9 A
Capital Financing Charges	11,506.4	10,868.4	638.0 F
Depreciation	19,263.9	19,263.9	0.0 A
Direct Revenue Financing	9,193.8	7,634.5	1,559.3 F
Total Expenditure	**75,863.1**	**76,143.3**	**280.2 A**
(Surplus) / Deficit for Year	**1,000.0**	**1,000.0**	**0.0**

CAPITAL

The capital programme budget for the year, including changes approved under delegated powers, was £93.56M in total for the General Fund and HRA. Final capital spend for the year was £62.43M, this was £31.12M less than the budget, including slippage/rephasing of £29.50M. This will be reflected in the post outturn update of the overall programme.

The table below shows the capital expenditure for the year against budget for each Portfolio:

	2017/18 Budget	2017/18 Expenditure	Variance
	£M	£M	£M
City Services	2.51	1.29	1.22 F
Communities, Culture & Leisure	0.61	0.22	0.39 F
Education & Children's Social Care	12.18	7.16	5.02 F
Finance	2.43	0.22	2.21 F
Health & Adult Social Care	2.21	0.29	1.92 F
Health & Community Safety	0.18	0.13	0.05 F
Leaders	6.80	5.11	1.69 F
Sustainability	3.14	1.51	1.63 F
Transport	18.57	14.51	4.06 F
Total General Fund Programme	**48.64**	**30.44**	**18.20 F**
Housing Revenue Account	44.92	31.99	12.93 F
Total Capital Programme	**93.56**	**62.43**	**31.12 F**

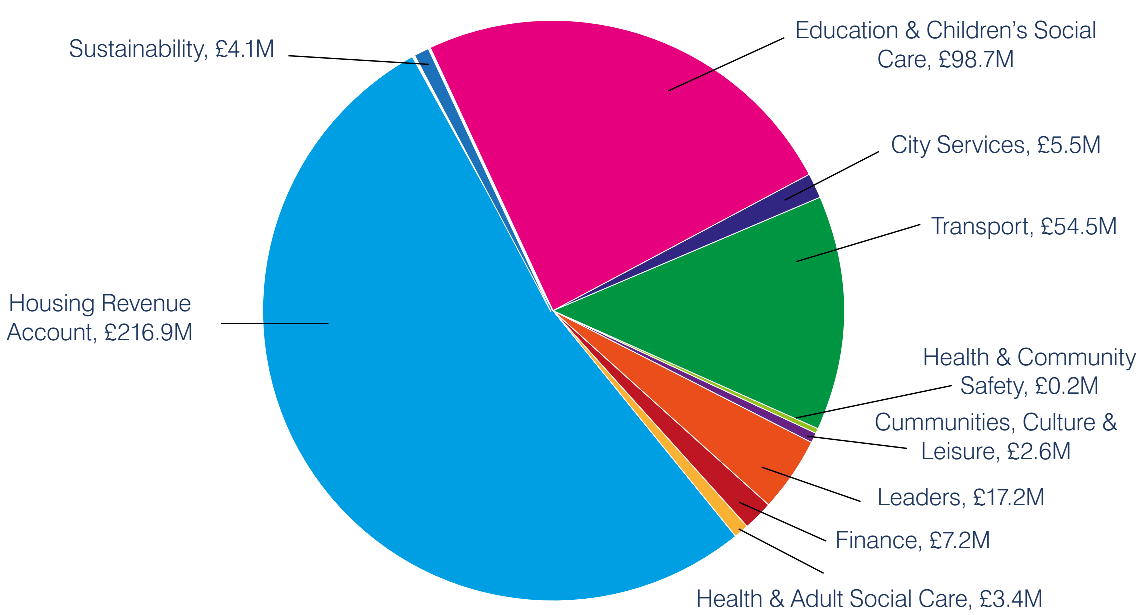
The final spend for the year was £31.12M lower than the budget. Of this, £29.50M was due to slippage/rephasing on schemes, which will be spent in 2018/19 predominantly on the following schemes:

Highway Programmes	£1.56M
Springwell School	£1.75M
Secondary School Expansion	£1.46M
Safe Wind & Weather Tight	£4.23M
Warm & Energy Efficient	£7.13M
Well Maintained Communal Facilities	£1.75M
Property Investment Fund	£1.26M
Hampshire Community Bank	£1.00M
Transformation Capital Programme	£2.11M
Suitability - Grants & Loans	£0.93M
Sustainability - Grants & Loans	£1.47M

5 year Capital Programme

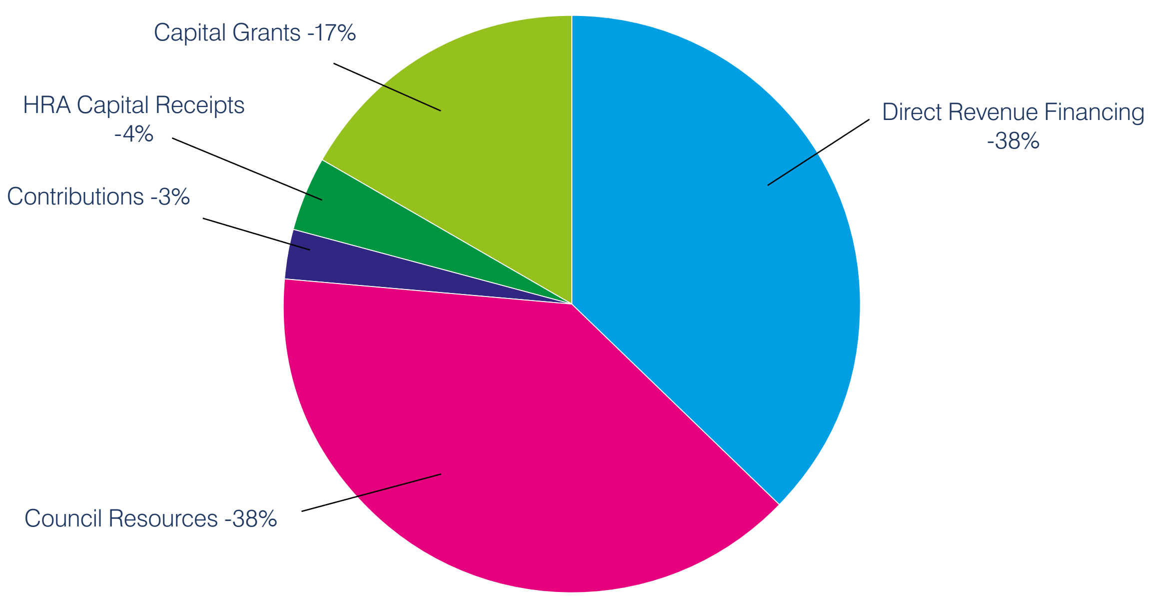
The current approved 5 year capital programme which totals £410.21M, including approvals under delegated powers (£0.20M), and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends in 2018/19.

Capital Expenditure - 5 Year Programme 2017/18 - 2021/22



Funded by:

Capital Funding - 5 Year Programme 2017/18 - 2021/22



TREASURY MANAGEMENT

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Service Director for Finance and Commercialisation to make decisions on the management of the Council's debt and investment of surplus funds.

The current investment strategy is to continue to diversify into more secure and/or higher yielding asset classes and move away from the increasing risk and low returns gained from short term unsecured bank investments. In 2017/18 the Council has continued to diversify into corporate and covered bonds. In doing so, we have been able to improve our overall level of investment returns whilst lower our risk exposure.

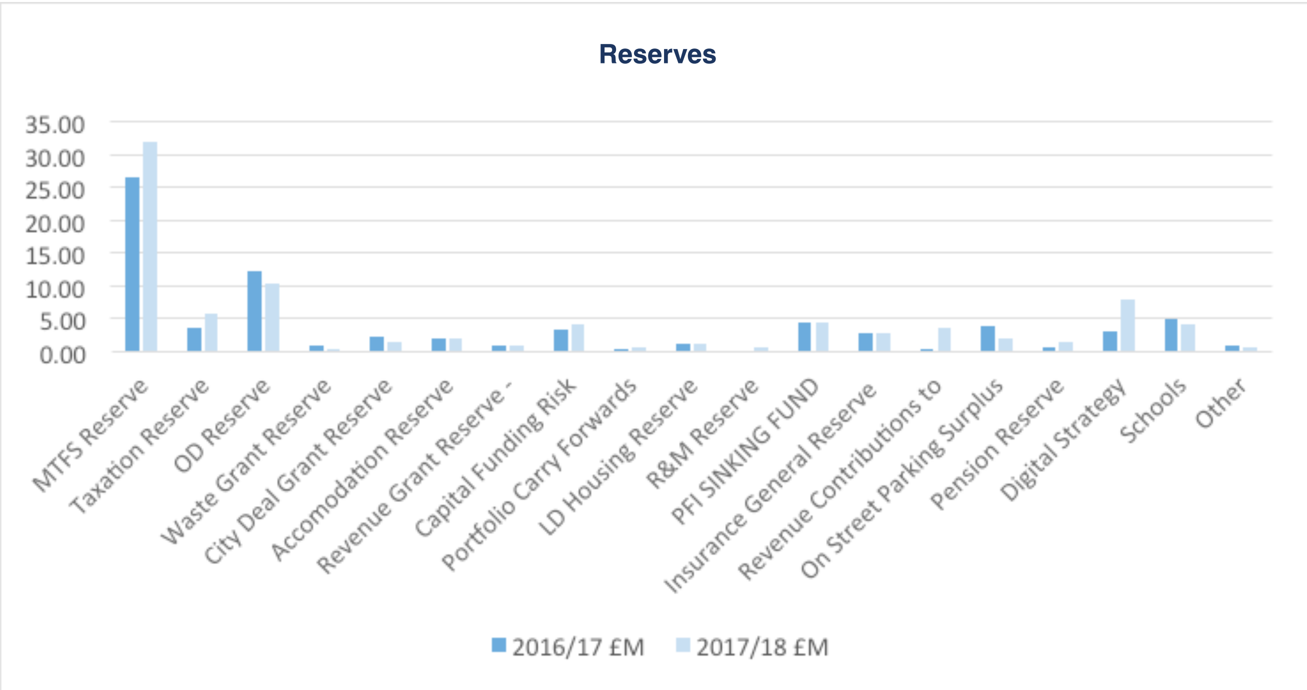
Further in support of the need to generate additional revenue income streams, additional investment has been made in the CCLA property investment fund which is generating returns of 4.63% against our nominal investment of £27M.

RESERVES AND BALANCES

The Council maintains a number of useable reserves, as detailed in the Balance Sheet.

We aim to identify, within the Medium Term Financial Strategy (MTFS), the financial risks facing the Council in the medium term. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the council.

In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of financial resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2017/18 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk (detailed in the following section). The graph below highlights the changes in the value of reserves between the 31st March 2017 and 31st March 2018.



The Council's approved minimum level for the General Fund Balance is £11.3M. This was reassessed when setting the budget for 2018/19 in February 2018 and is still appropriate to be held at £11.3M.

PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way.

The Council has in place a Strategic Risk Register which captures, in one place, those significant risks that need to be managed in order to enable and support delivery of the council's key outcomes and priorities. The Strategic Risk Register is subject to regular review by the Council Management Team and is intended to ensure that key risks are not only identified and understood, but that appropriate actions and controls are in place in order that risks are managed to an acceptable level.

Each risk is 'assessed' in terms of the likelihood of occurrence and potential impact. The assessment of 'impact' reflects a blended score that considers 'service delivery', 'finance' and 'reputation' and is based on a range of scores from 'Extreme to Minor'. The assessment of likelihood, or probability, is based on a range of scores from 'Almost Certain to Very Unlikely'. Mitigating actions are identified to reduce the level of risk.

The identified strategic risks are subject to change as new risks may emerge whilst others may become less significant as mitigating actions are implemented, or external factors change the nature of the risk.

No	Strategic Risk - Description	Likelihood	Impact
1	Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes.	Possible	Major
2	Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.	Unlikely	Major
3	Failure to safeguard vulnerable adults resulting in a preventable incident.	Possible	Extreme
4	Failure to safeguard children resulting in a preventable incident.	Possible	Extreme
5	Failure to meet our health and safety responsibilities.	Possible	Major
6	Failure to ensure the Council's information is held and protected in line with Information Governance policies and procedures.	Possible	Significant
7	The council is unable to respond appropriately or sufficiently quickly to significant changes in demand arising from changes in the welfare system.	Likely	Significant
8	Delivery of services via 'alternative service delivery models' fails to deliver the required outcomes in terms of sustainability and cost effectiveness.	Possible	Significant
9	Failure to ensure an effective and sustainable adult social care system.	Likely	Major
10	Failure to ensure an effective and sustainable children's social care system.	Possible	Major
11	The impact of organisational change and service redesign solutions, whilst delivering savings, create other unplanned for pressures and challenges	Unlikely	Significant

4. AN EXPLANATION OF THE FINANCIAL STATEMENTS

The Financial Statements bring together all the financial activities of the Council for the year and its financial position as at the 31st March 2018. They detail both revenue and capital elements for both the General Fund and the HRA.

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.

A glossary of key terms can be found at the end of this document.

Core Financial Statements:	Page
Responsibilities for the Financial Statements This statement shows the responsibilities of the Council and the Chief Financial Officer.	22
Expenditure and Funding Analysis This is a financial performance statement that was introduced from 2016/17. Its purpose is to report performance in a similar format used for reporting to management throughout the year. The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices. The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	23
Comprehensive Income and Expenditure Statement (CIES) This records all the Council's income and expenditure for the year. The statement analyses income and expenditure by service area as well as non-service specific or corporate transactions and funding. The format followed is provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) so that comparisons of local authority accounts can be undertaken.	24
Movement in Reserves Statement (MiRS) 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 'unusable' reserves which are set aside for specific purposes. As a local authority, special dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.	25
Balance Sheet The Balance Sheet shows the value as at the 31st March 2018 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.	26

5. ACCOUNTING ISSUES AND DEVELOPMENTS

Energy Supply Service

Southampton City Council (SCC) has entered into an agreement with a third party licensed energy supplier to provide a branded energy supply product. This will help the council deliver on a number of key outcomes and priorities including helping to tackle fuel poverty. Equally the proposal has the potential to support the council in developing a future cost effective energy supply within the southern region.

The planned go live date is July 2018.

Living Well Service

A new model of support and day time activities for older people is to be introduced that will improve outcomes for older people and increase independence by transforming over time the traditional model of day centres for older people that currently exists in the city.

The new model will focus on:

- giving people more choice and control over the support and services they are able to access,
- utilising direct payments to offer more personalised forms of care; and
- and promoting the ethos of early intervention and prevention by developing the market to support more people and maximising the use of community assets.

The proposals have been developed within the context of a range of other developments aimed at supporting older people to maintain their health, wellbeing and independence. The community wellbeing centres will particularly align with developments related to Advice, Information and Guidance (recently tendered by the Council), Southampton Healthy Living Behaviour Change Service (a new service which went live April 2017), Community Navigation and Housing Related Support to form a new offer of support and activities for older people.

The proposals will be underpinned by and help enable a strengths-based approach to social work practice. This approach looks at an individual's abilities and networks and, wherever possible, supports people to draw on these first to achieve their goals and maintain independence.

Local Authority Trading Company (LATCo)

This financial year also saw the start of the process to decide whether to establish a LATCo, with a Best Value consultation being undertaken in year. A decision will be taken on whether to set up a LATCo for some council services in July 2018.

The option is being considered to enable further commercialisation and potential trading opportunities of the services in scope, whilst still operating with a social purpose.

Although activity may be transferring to the LATCo and operated 'at arms length' of the council, the company will still be part of the broader SCC 'family' and will mirror its general policies, work ethic and code of conduct for public services.

The first group of services that may transfer upon the formation of the LATCo could be Waste Management and Collection, Street Cleansing, Pest Control, Parks & Open Spaces, Fleet Management (collectively 'City Services') and possibly Car Park Operations.

Progression of the Digital Strategy

Southampton City Council aims to be "a modern and sustainable council". An increasingly central part of achieving this will be the successful application of digital technology, both internally within the council and externally with partners.

It will contribute towards achieving the outcomes detailed in the Council Strategy 2016-20. The Digital Strategy (2018-2022) is a key strategic document that sets out a plan to:

- Make contacting the council, finding information and doing business with us easier for our customers;
- Help the council run efficiently, providing staff with the right digital tools for the job; and
- Grow Southampton's economy by showing digital leadership locally and working with others to improve public digital infrastructure.

To deliver this strategy the council is looking at all its major systems and associated processes, and as a result approval was given in December 2017 to undertake move to an Enterprise Resource Program (ERP).

This will enable the council to:

- Consolidate the number of IT applications;
- Rationalise and streamline business processes;
- Improve payment processes for the customer; and
- Improve management information to enable more informed decision making.

Following this, approval was given in February 2018 to procure a new Client Case Management system (CCM). This system enables the statutory need to keep a record of social care client information and interactions such as client visits, chronologies and payment for care packages. It is intended to undertake a re-procurement of a CCM system in 2018/19 on the open market to ensure the council is benefitting from the most appropriate product.

SECTION 3. Statement of Responsibilities

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 Section 151 (S151) Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve Statement of Accounts.

2. The Section 151 Officer's Responsibilities

The Council's S151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance (CIPFA)/ The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts the S151 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 S151 Officer 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 Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2018 and of its income and expenditure for the year ended 31 March 2018.

Signed **M Creighton** .... Date 31 July 2018
Section 151 Officer

4. Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the Governance Committee in accordance with the Accounts and Audit (England) Regulations 2015 and is authorised for issue.

Signed **E Keogh** .... Date 31 July 2018
Chair, Governance Committee

Expenditure and Funding Analysis

The Expenditure and Funding Analysis is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the councils services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in note 8 on page 45.

2016/17 Net Expenditure Chargeable to the General Fund and HRA Balances	2016/17 Adjustments between the Funding and Accounting Basis (Note 8)	2016/17 Net Expenditure in the Comprehensive Income and Expenditure Statement		2017/18 Net Expenditure Chargeable to the General Fund and HRA Balances	2017/18 Adjustments between the Funding and Accounting Basis (Note 8)	2017/18 Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
5,572	2,952	8,524	Communities, Culture & Leisure	4,227	3,395	7,622
43,542	6,637	50,179	Education & Children's Social Care	43,077	7,881	50,958
21,141	3,021	24,162	Environment & Transport	21,170	727	21,897
34,596	(6,427)	28,169	Finance Portfolio	29,866	(5,866)	24,000
(5,347)	782	(4,565)	Health & Community Safety	(4,652)	64	(4,588)
71,186	595	71,781	Housing & Adult Care	72,153	2,804	74,957
10,670	4,966	15,636	Leader's Portfolio	11,972	5,877	17,849
		0	Sustainable Living	118	445	563
1,416	126	1,542	Transformation Projects	949	0	949
(20,828)	(346)	(21,174)	Housing Revenue Account (HRA)	(17,493)	(57)	(17,550)
(645)	(1)	(646)	Housing Benefit	338	0	338
(19)	(695)	(714)	Environment & Trading Areas	(188)	(1,204)	(1,392)
0	3,903	3,903	Other Income & Expenditure	0	1,416	1,416
			Impairments and Revaluations:			
0	707	707	Impairment on General Fund Assets	0	19,605	19,605
0	(39,363)	(39,363)	Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings	668	(12,098)	(11,430)
161,284	**(23,143)**	**138,141**	**Cost of Services**	**162,205**	**22,989**	**185,194**
(161,931)	**(23,844)**	**(185,775)**	**Other Income & Expenditure**	**(173,720)**	**(38,019)**	**(211,739)**
(647)	**(46,987)**	**(47,634)**	**(Surplus)/Deficit**	**(11,515)**	**(15,030)**	**(26,545)**
(85,231)			**Opening General Fund Balance**	**(84,878)**		
(2,000)			**Opening HRA Balance**	**(3,000)**		
353			**Less/Plus Deficit/(Surplus) on General Fund**	**(12,515)**		
(1,000)			**Less/Plus Deficit/(Surplus) on HRA**	**1,000**		
(84,878)			**Closing General Fund Balance**	**(97,393)**		
(3,000)			**Closing HRA Balance**	**(2,000)**		
(87,878)			**Closing General Fund & HRA Balance**	**(99,393)**		

SECTION 4. The Financial Statements

Comprehensive Income and Expenditure Statement

2016/17					2017/18		
Expenditure	Income	Net			Expenditure	Income	Net
£000	£000	£000		Notes	£000	£000	£000
12,067	(3,543)	8,524	Communities, Culture & Leisure		11,798	(4,176)	7,622
202,787	(152,608)	50,179	Education & Children's Social Care		206,036	(155,078)	50,958
50,277	(26,115)	24,162	Environment & Transport		48,889	(26,992)	21,897
30,806	(2,637)	28,169	Finance Portfolio		29,829	(5,829)	24,000
15,431	(19,996)	(4,565)	Health & Community Safety		13,569	(18,157)	(4,588)
94,265	(22,484)	71,781	Housing & Adult Care		97,421	(22,464)	74,957
23,021	(7,385)	15,636	Leader's Portfolio		21,572	(3,723)	17,849
		0	Sustainable Living		2,876	(2,313)	563
1,542		1,542	Transformation Projects		949	0	949
59,719	(80,893)	(21,174)	Housing Revenue Account (HRA)		62,213	(79,763)	(17,550)
111,701	(112,347)	(646)	Housing Benefit		95,795	(95,457)	338
4,197	(4,911)	(714)	Environment & Trading Areas		(582)	(810)	(1,392)
3,903	0	3,903	Other Income & Expenditure		1,438	(22)	1,416
			Impairments and Revaluations	6			
707		707	Impairment on General Fund Assets		19,605	0	19,605
(39,363)		(39,363)	Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings		(11,430)	0	(11,430)
571,060	**(432,919)**	**138,141**	**Cost of Services**	8	**599,978**	**(414,784)**	**185,194**
15,859	(22,797)	(6,938)	Loss/ (Gain) on the disposal of Non Current Assets	12c	21,254	(9,260)	11,994
693		693	Contributions to Other Local Public Bodies		704	0	704
2,034		2,034	Contributions of Housing Capital Receipts to Government Pool		3,667	0	3,667
18,586	**(22,797)**	**(4,211)**	**Other Operating Expenditure**		**25,625**	**(9,260)**	**16,365**
(1,527)	(8,182)	(9,709)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	(583)	(9,280)	(9,863)
14,579		14,579	Interest payable and similar charges	11	13,020	0	13,020
	(1,083)	(1,083)	Interest and Investment Income	11	0	(1,565)	(1,565)
12,050		12,050	Net interest on the defined benefit liability (asset)	34b	10,730	0	10,730
25,102	**(9,265)**	**15,837**	**Financing, and Investment Income & Expenditure**		**23,167**	**(10,845)**	**12,322**
	(83,343)	(83,343)	Council Tax Income		0	(89,011)	(89,011)
	(51,304)	(51,304)	Non - Domestic Rates Redistribution		0	(53,262)	(53,262)
	(44,675)	(44,675)	General Government Grants	37c	0	(43,203)	(43,203)
	(18,079)	(18,079)	Capital Grants and Contributions	37b	0	(54,950)	(54,950)
0	**(197,401)**	**(197,401)**	**Taxation and Non-Specific Grant Income**		**0**	**(240,426)**	**(240,426)**
614,748	**(662,382)**	**(47,634)**	**Deficit/ (Surplus) on the Provision of Services**		**648,770**	**(675,315)**	**(26,545)**
		(1,399)	Deficit/ (Surplus) on revaluation of non current assets	22a			(6,493)
		1,617	Impairment losses/ (gains) on non-current assets charged to the revaluation reserve	22a			3,071
		884	Deficit/ (Surplus) on revaluation of available for sale financial assets	17d			(116)
		45,230	Remeasurements of the net defined benefit liability (asset)	34b			24,770
		46,332	**Other Comprehensive Income and Expenditure**				**21,232**
		(1,302)	**Total Comprehensive Income and Expenditure**				**(5,313)**

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2017	**(11,316)**	**(73,562)**	**(3,000)**	**0**	**(27,817)**	**0**	**(11,828)**	**(127,523)**	**(744,762)**	**(872,285)**
Movement in Reserves during 2017/18										
Total Comprehensive Income and Expenditure	(91)		(26,454)					**(26,545)**	21,232	**(5,313)**
Adjustments between accounting basis and funding basis under regulations (note 10)	(12,424)		27,454		303		(7,543)	7,790	(7,790)	0
Transfers to / (from) earmarked reserves (note 9)	12,515	(12,515)						0		0
(Increase) / Decrease in Year	**0**	**(12,515)**	**1,000**	**0**	**303**	**0**	**(7,543)**	**(18,755)**	**13,442**	**(5,313)**
Balance at 31 March 2018	**(11,316)**	**(86,077)**	**(2,000)**	**0**	**(27,514)**	**0**	**(19,371)**	**(146,278)**	**(731,320)**	**(877,598)**

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2016	**(12,806)**	**(72,425)**	**(2,000)**		**(13,596)**	**0**	**(10,593)**	**(111,420)**	**(759,563)**	**(870,983)**
Movement in Reserves during 2016/17										
Total Comprehensive Income and Expenditure	12,475		(60,109)					(47,634)	46,332	(1,302)
Adjustments between accounting basis and funding basis under regulations (note 10)	(12,121)		59,108		(14,221)		(1,235)	**31,531**	(31,531)	**0**
Transfers to / (from) earmarked reserves (note 9)	1,136	(1,137)	1					0	0	0
(Increase) / Decrease in Year	**1,490**	**(1,137)**	**(1,000)**	**0**	**(14,221)**	**0**	**(1,235)**	**(16,103)**	**14,801**	**(1,302)**
Balance at 31 March 2017	**(11,316)**	**(73,562)**	**(3,000)**	**0**	**(27,817)**	**0**	**(11,828)**	**(127,523)**	**(744,762)**	**(872,285)**

Balance Sheet

31 March 2017 £000		Notes	31 March 2018 £000
1,331,438	Property, Plant & Equipment	12	1,352,620
190,246	Heritage Assets	13	190,249
120,824	Investment Properties	14	125,067
6,290	Intangible Assets	15	5,553
28,099	Long Term Investments	17b	34,939
75	Long Term Debtors	18a	51
1,676,972	**Non Current Assets**		**1,708,479**
8,089	Short Term Investments	17b	13,799
2,364	Assets held for Sale	16	0
669	Stock (Inventories)		861
40,786	Short Term Debtors	18b	49,083
22,999	Cash & Cash Equivalents	19	25,567
74,907	**Current Assets**		**89,310**
(4,152)	Cash & Cash Equivalents	19	(391)
(364)	Deferred Liabilities	38	(364)
(51,876)	Short Term Borrow ing	17b	(55,404)
(76,927)	Short Term Creditors	20	(91,543)
(7,187)	Provisions	21	(7,263)
(140,506)	**Current Liabilities**		**(154,965)**
(60,422)	Long Term Creditors	17b	(56,878)
(6,619)	Provisions	21	(5,317)
(208,795)	Long Term Borrow ing	17b	(197,344)
	Other Long Term Liabilities		0
(14,553)	- Deferred Liabilities	38	(14,189)
(8)	- Deferred Capital Balances		(8)
(23,731)	- Cap. Grants & Conts Receipts in Advance	37a	(27,200)
(424,960)	- Pension Fund Liability	34c	(464,290)
(739,088)	**Long Term Liabilities**		**(765,226)**
872,285	**Net Assets**		**877,598**
	Useable Reserves		
(27,817)	Useable Capital Receipts Reserve	10	(27,514)
(11,828)	Cap. Grants & Conts Unapplied	10	(19,371)
(73,562)	Earmarked Revenue Reserves	9	(86,077)
(11,316)	General Fund Balance	10	(11,316)
(3,000)	Housing Revenue Account Balance	10	(2,000)
(127,523)			**(146,278)**
	Unuseable Reserves		
(338,442)	Revaluation Reserves	22a	(333,578)
(375)	Available-for-Sale Financial Instruments Reserve		(491)
(826,932)	Capital Adjustment Account	22b	(860,007)
299	Financial Instruments Adjustment Account		253
424,960	Pension Reserve	22c	464,290
(6,324)	Collection Fund Adjustment Account	22d	(3,786)
2,052	Accumulated Absences Account	22e	1,999
0	Deferred Capital Receipts Reserve	22f	0
(744,762)			**(731,320)**
(872,285)	**Total Reserves**		**(877,598)**

Cash Flow Statement

2016/17 £000		Notes	2017/18 £000
47,634	Net surplus or (deficit) on the provision of services		26,545
11,155	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	92,279
(51,219)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	(37,218)
7,570	**Net Cash Flows From Operating Activities**		**81,606**
(44,439)	Net Cash flows from Investing Activities	23 c)	(63,767)
19,752	Net Cash flows from Financing Activities	23 d)	(11,510)
(17,117)	**Net Increase / (Decrease) in Cash and Cash Equivalents**		**6,329**
35,964	Cash and cash equivalents at the beginning of the reporting period	23 e)	18,847
18,847	**Cash and Cash Equivalents at the End of the Reporting Period**	23 e)	**25,176**

SECTION 5. Notes to the Financial Statements

Index of Notes to the Core Financial Statements

1. Accounting Policies

a) General Principles

These Financial Statements summarise the Council's transactions for the 2017/18 financial year and its position at the year-end of 31st March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in these 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 retrospectively 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 made to revenue for the income that might not be collected.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature within one working day from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk or change in value.

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.

d) Prior Period Adjustments, Changes in Accounting Policies, 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.

e) 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 non-current 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; and
- 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 in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the "Minimum Revenue Provision", by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

f) Council Tax and Non-Domestic Rates (NDR)

The Council acts as an agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including Government for NDR) and, as a principal, collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund (the "Collection Fund") for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central Government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

g) 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 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 Teacher's 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. They 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 predominantly members of two separate pension schemes:

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

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

Local Government Pension Scheme

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

- The liabilities of the Hampshire County Council pension fund 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:
    - o Quoted securities – Current bid price.
    - o Unquoted securities – Professional estimate.
    - o Unitised securities – Current bid price.
    - o Property – Market value.

The change in the net pensions' liability is analysed into the following components -

Service Cost comprising:

- **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; and
- **Net Interest on the Net Defined Benefit Liability (Asset)** – i.e. Net interest expense for the Council. The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments.

Remeasurements comprising:

- Return on Planned Assets – Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- Actuarial Gains and Losses – Changes in the net pension 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 Pension Reserve as Other Comprehensive Income and Expenditure; and
- Contributions Paid to Hampshire County Council Pension Fund – 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 Pension 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 negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Teachers' Pension Scheme

Liabilities for the Teachers' scheme 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 relevant service line with the Comprehensive Income and Expenditure Statement is charged in year.

h) Events after the Reporting Period

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 Financial Statements.

i) Financial instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are 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 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 authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. 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 Movement in Reserves Statement.

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; and
- 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 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 de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

AVAILABLE-FOR-SALE ASSETS

Available-for-sale assets are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a 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 (using multiple techniques, including market, income and cost approaches).

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instruments 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 or loss for the asset accumulated in the Available-for-Sale Financial Instruments 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 and amortisation).

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

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

j) 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:

- 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 Capital Adjustments Account (CAA). Amounts in the Capital Grants Unapplied reserve are transferred to the CAA once they have been applied to fund capital expenditure.

Business Improvement District (BID)

The "Go Southampton" BID is a 5-year scheme that commenced in April 2017 and applies across the City Centre. The scheme is funded by an annual levy paid by around 600 non-domestic ratepayers in that area. The Council acts as agent under the scheme.

Community Infrastructure Levy (CIL)

The Council has elected to charge a 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.

k) Heritage Assets

The Council's Heritage Assets are mainly held in the Council's museums, although a number of Ancient Monuments (including the City Walls) are also held.

Heritage Assets are held principally for their contribution to knowledge and/or culture. They are recognised and measured (including the 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.

Heritage 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 significant) and numbers approximately 3,500 items, most of which have been acquired through donations.

  The Collection has been brought onto the Balance Sheet based on Insurance Values.

- Ancient Monuments – the Council has some Ancient Monuments including:

  o The Bargate; and

  o Town Walls and various Vaults.

  The Council's Ancient Monuments have been brought onto the Balance Sheet based on Historical Cost.

Heritage Assets not on the Balance Sheet

- Archaeology – The main component of the Archaeology Collections is the excavation archives which result from all archaeological investigations carried out within the City boundary, from full scale excavations, to watching briefs for building surveys. The wider Collection comprises objects, paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such "site archives" have been deposited.
- Archives – This comprises a Catalogue listing – including descriptions – of over 10,000 accessioned items. The 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; and
- 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 spreadsheets, the rest are still on paper records.

The Council does not consider that reliable cost or valuation information can be obtained for the items noted above. This is because of the diverse nature of the assets held and lack of comparable market values.

l) Interests in Companies and Other Entities

The Council does not have any material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures. Therefore there is no requirement to produce group accounts.

Non-material interests in companies and other entities are recorded as financial assets at cost less any impairment.

m) 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. Investment 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 Useable Capital Receipts Reserve.

n) Joint Operations

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liability incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

o) 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.

The Council as Lessee

The Council does not have any material finance or operating leases, where it is the lessee.

The Council as Lessor

- Finance Leases – the Council does not have any material finance leases where it is the lessor, although has entered into a number of Private Finance Initiative (PFI) arrangements (see below); and
- Operating Leases – where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on 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.

p) Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

q) 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 CAA in the MiRS.

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

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

- Assets Under Construction – Historic cost
- All Other Assets – Current 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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.

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.

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 up to 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.

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. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within 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 transferred to the Useable Capital Receipts 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 Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MiRS.

r) 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.
- **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 are 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.

s) 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.

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 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 Financial Statements.

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 Financial Statement where it is probable that there will be an inflow of economic benefits or service potential.

t) 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. 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 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, retirements and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

u) 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.

v) Value Added Tax (VAT)

All Income and expenditure, whether revenue or capital in nature, excludes any amounts related to VAT, as all VAT collected is payable to HMRC and the Council – using its 'Section 33 status' within the VAT Act 1994 – is able to recover all VAT paid.

w) Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

i) in the principal market for the asset or liability; or

ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- **Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- **Level 3** – unobservable inputs for the asset or liability.

x) Schools

The Code of Practice on Local Authority Accounting in the United Kingdom specifies that all schools maintained by the Council are deemed to be under the Council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the Council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the Council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the Council and schools have been eliminated.

y) Rounding Convention

Unless otherwise stated the convention used in these Financial Statements is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures, and therefore may – from time-to-time – 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 disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2018/19 Code. New standards introduced in the 2018/19 Code that apply from 1 April 2018 are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a forward looking 'expected loss' model for impairment rather than the current ‘incurred loss’ model. The full impact is still currently being assessed but it is anticipated that, due to the classification and security of the majority of our financial instruments, it is unlikely to have a material impact on the financial statements.

IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the current transfer of risk and rewards. This new approach is not expected to have a material impact on the financial statements.

Amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value and only apply to group accounts. Amendments to IAS 7 may require additional disclosures around changes in liabilities arising from financing activities. Neither of these amendments is considered to have a material impact on the financial statements.

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 does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections.
- **Asset Classifications** – 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, 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 six types of schools:

o Community schools,

o Voluntary Aided (VA) schools,

o Voluntary Controlled (VC) schools,

o Foundation / Trust schools,

o Academies, and

o Free Schools

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 pays at least 10% of the costs of capital work. Responsibility for work to VA school premises is shared between the school’s governing body and the Council. In simple terms the Council has responsibility for the playing fields and the governing body is liable for all other capital expenditure. Staff in VA schools are appointed by the schools’ governing body. The value of these schools is not included in the Council’s Balance Sheet.

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, Academy and Free schools are appointed by the schools’ governing body, which 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 2018	Infant	Junior	Primary	Secondary	Other	Total
Academies	6	5	10	4	2	**27**
Catholic Voluntary Aided Schools			2	1		**3**
Church of England Voluntary Aided Schools			1			**1**
Church of England Voluntary Controlled Schools			3			**3**
Community Schools	3	3	13	4	4	**27**
Foundation Trust	2		7	3	1	**13**
Free Schools					1	**1**
Grand Total	**11**	**8**	**36**	**12**	**8**	**75**

- **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 an Academy the Council accounts for this as a disposal for nil consideration. As at 31 March 2018, **the Council held £12.4M assets on its balance sheet in respect of a School 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 an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- **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).
- **Interests in Other Entities** – The Council has assessed that a number of interests in other entities fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code. However the Council's interests in aggregate are not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. In order to ensure compliance with the Code, a range of disclosures have been made in other sections of the accounts.
- It should be noted however, a judgment is made in determining any accounting entries required in relation to the contract with Capita Business Solutions Ltd., in particular in relation to guarantees payable under the terms of the contract.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the results of pending legal actions.

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
Property, Plant and Equipment	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. It is estimated that the annual depreciation charge for buildings would increase by £0.7M if the useful lives were reduced by one year.
Arrears	At 31 March 2018, the Council had a balance of sundry debtors of £16.0M. The current level of impairment allowance (Bad Debt Provision) based on previous experience, is £1.30M, which represents 8% 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 £6.5M to set aside as an allowance.
NDR Appeals Provision	Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in earlier years. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2018. The estimate is a percentage of the Gross rate yield after reliefs per the NNDR1 (based on prior years refund levels, and a review of the current Valuation Office Agency (VOA) list of appeal outstanding and their analysis of previous appeals)	An increase or reduction of the appeals provision estimate of 1.0%, would increase/(reduce) the year end NDR appeals provision by £1.1M and (£1.1M) respectively.
Pensions Liability	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 approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2018 and the projected service cost for the year ending 31 March 2018 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34.

Funded LGPS Benefits Discount rate assumption		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,197.53	1,244.38
% change of present value of total obligation	-1.9%	1.9%
Projected service cost (£M's)	27.88	29.60
Approximate % change in projected service cost	-3.0%	3.0%
Rate of general increase in salaries		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,225.20	1,216.30
% change of present value of total obligation	0.4%	-0.4%
Projected service cost (£M's)	28.73	28.73
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,239.87	1,201.91
% change of present value of total obligation	1.6%	-1.5%
Projected service cost (£M's)	29.60	27.88
Approximate % change in projected service cost	3.0%	-3.0%
Post retirement mortality assumption		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,256.63	1,185.00
% change of present value of total obligation	2.9%	-2.9%
Projected service cost (£M's)	29.76	27.7
Approximate % change in projected service cost	3.6%	-3.6%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

5. Prior Period Adjustments

The council discovered that the disclosure for future minimum lease payments has historically been calculated incorrectly, to exclude future payments from leases that have incurred a rent review. As this information is for disclosure purpose only, it has not been necessary to adjust the financial statements.

In order to correct this error the council has restated the prior year information for 2016/17 in Note 31 leases, for the future minimum lease payments receivable under non-cancellable leases in future years, resulting in an overall increase of £31.6M. No other prior period adjustments have been made.

6. Impairments and Revaluations

Revaluation of Property Plant and Equipment

The Council, as in prior years, discloses downward and upward revaluations (through CIES) of General Fund and HRA properties separately. These material items are disclosed separately within the CIES to avoid distortion of comparisons between years.

7. Events after the Reporting Period

The financial statements were authorised for issue by the Section 151 on the 30th July 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On 18th July 2018 Full Council made the decision to bring the services currently provided by the Capita Strategic Services Partnership back in-house. This has no impact on the 2017/18 accounts. Detailed plans and timescales for this transition are being developed and its impact on the 2018/19 accounts will become clearer in due course.

8. Expenditure and Funding Analysis

a) Notes to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments for Capital Purposes

Service lines have been adjusted to add in depreciation, impairment and revaluation gains/losses and capital expenditure on third party assets which is not recognised on the Council's balance sheet. Capital expenditure funded from revenue and PFI principal repayments have been removed. Adjustments for capital purposes have also been made to:

- **Other operating expenditure** – adjusts for capital disposals with transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charge for capital financing i.e. Minimum Revenue Provision is deducted from other income and expenditure as it is not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – add in capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For services** – add in expenditure for staff holiday entitlement, remove transfers to/from earmarked reserves and transfer costs between services and from Other Income and Expenditure
- **For Financing and investment income and expenditure** – transfer PFI finance costs from service lines.
- **For Taxation and non-specific grant income and expenditure** – represents the difference between the amount received under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Adjustments between Funding and Accounting Basis 2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes**	**Net change for the Pension Adjustments**	**Other Differences**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
Communities, Culture & Leisure	3,365	318	(288)	3,395
Education & Children's Social Care	7,675	1,851	(1,645)	7,881
Environment & Transport	6,397	1,477	(7,147)	727
Finance Portfolio	469	(3,234)	(3,101)	(5,866)
Health & Community Safety	9	109	(54)	64
Housing & Adult Care	216	1,469	1,119	2,804
Leader's Portfolio	1,492	1,231	3,154	5,877
Sustainable Living	364	64	17	445
Transformation Projects	0	0	0	0
Housing Revenue Account (HRA)	0	461	(518)	(57)
Housing Benefit	0	0	0	0
Environment & Trading Areas	156	84	(1,444)	(1,204)
Other Income & Expenditure	0	0	1,416	1,416
Exceptional Items				
Impairment on General Fund Assets	19,605	0	0	19,605
Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings	(12,098)	0	0	(12,098)
Cost of Services	**27,650**	**3,830**	**(8,491)**	**22,989**
Other Income and Expenditure from the Expenditure and Funding Analysis	**(34,720)**	**10,730**	**(14,029)**	(38,019)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	**(7,070)**	**14,560**	**(22,520)**	**(15,030)**

Adjustments between Funding and Accounting Basis 2016/17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000		£000
Communities, Culture & Leisure	2,356	168	428	2,952
Education & Children's Social Care	8,933	843	(3,139)	6,637
Environment & Transport	8,006	746	(5,731)	3,021
Leader's Portfolio	1,675	456	2,835	4,966
Health & Sustainable Living	818	41	(77)	782
Housing & Adult Care	261	667	(333)	595
Finance Portfolio	213	(2,239)	(4,401)	(6,427)
Transformation Projects	19	25	82	126
Housing Revenue Account (HRA)		94	(440)	(346)
Housing Benefit			(1)	(1)
Environment & Trading Areas	1,196	39	(1,930)	(695)
Other Income & Expenditure			3,903	3,903
Exceptional Items				
Impairment on General Fund Assets	707			707
Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings	(39,363)			(39,363)
Cost of Services	**(15,179)**	**840**	**(8,804)**	**(23,143)**
Other Income and Expenditure form the Expenditure and Funding Analysis	**(39,493)**	**12,050**	**3,599**	(23,844)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	**(54,672)**	**12,890**	**(5,205)**	**(46,987)**

b) Analysis of income and expenditure by nature

2016/17 £000	Analysis of income and expenditure by nature	2017/18 £000
	Income	
(140,521)	Fees, charges and other service income	(140,404)
(363,334)	Government grants and contributions	(381,813)
(1,083)	Interest and investment income	(1,565)
(134,647)	Income from council tax and non-domestic rates	(142,273)
(22,797)	Proceeds from the disposal of non-current assets	(9,260)
(662,382)	**Total Income**	**(675,315)**
	Expenditure	
157,477	Employee benefits expenses	196,097
412,243	Other service expenses	355,066
506	Depreciation, amortisation, impairments and revaluations	48,936
14,579	Interest payable and similar charges	13,020
12,050	Net interest expense on the pension defined liability	10,730
2,034	Payments to Housing Capital Receipts Pool	3,667
15,859	Costs from the disposal of non-current assets	21,254
614,748	**Total Expenditure**	**648,770**
(47,634)	**Surplus (-) or Deficit (+) on the Provision of Services**	**(26,545)**

c) Analysis of service income

Analysis of Service Income 2017/18	Government Grants and Contributions £000	Fees, Charges & Other Service Income £000	Total Service Income £000
Communities, Culture & Leisure	(998)	(3,178)	(4,176)
Education & Children's Social Care	(150,416)	(4,662)	(155,078)
Environment & Transport	(4,456)	(22,536)	(26,992)
Finance	(2,033)	(3,796)	(5,829)
Health & Community Safety	(12,464)	(10,000)	(22,464)
Housing & Adult Care	(17,808)	(349)	(18,157)
Leader's Portfolio	(311)	(3,412)	(3,723)
Sustainable Living	(684)	(1,629)	(2,313)
Transformation Projects	0	0	0
Housing Revenue Account (HRA)	0	(79,763)	(79,763)
Housing Benefits	(91,495)	(3,962)	(95,457)
Environment & Trading Areas	0	(810)	(810)
Other Expenditure & Income (NCoS)	0	(22)	(22)
	(280,665)	**(134,119)**	**(414,784)**

Analysis of Service Income 2016/17	Government Grants and Contributions £000	Fees, Charges & Other Service Income £000	Total Service Income £000
Communities, Culture & Leisure	(1,527)	(2,016)	(3,543)
Education & Children's Social Care	(149,130)	(3,478)	(152,608)
Environment & Transport	(3,871)	(22,244)	(26,115)
Leader's Portfolio	(5,133)	(2,252)	(7,385)
Health & Sustainable Living	(19,161)	(835)	(19,996)
Housing & Adult Care	(13,322)	(9,162)	(22,484)
Finance	(647)	(1,990)	(2,637)
Transformation Projects			0
Housing Revenue Account (HRA)		(80,893)	(80,893)
Housing Benefits	(107,789)	(4,558)	(112,347)
Environment & Trading Areas		(4,911)	(4,911)
Other Expenditure & Income (NCoS)			0
	(300,580)	**(132,339)**	**(432,919)**

9. 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 year.

Earmarked Reserves	Balance 31 March 2017 £000	Net Transfers In 2017/18 £000	Net Transfers Out 2017/18 £000	Balance 31 March 2018 £000
General Fund				
PFI Sinking Fund	(4,250)	(180)		(4,430)
Insurance Reserve	(2,750)		60	(2,690)
On Street Parking	(3,785)		1,734	(2,051)
Digital Strategy Reserve	(3,117)	(4,874)		(7,991)
General Fund Contributions to Capital	(576)	(3,225)		(3,801)
Medium Tern Financial Risk Reserve	(26,726)	(5,408)		(32,134)
Taxation Reserve	(3,700)	(2,000)		(5,700)
Organisational Design Reserve	(12,310)		2,047	(10,263)
Revenue Grant Reserve - Waste Services	(795)		382	(413)
Revenue Grant Reserve - City Deal	(2,272)		805	(1,467)
Accomodation Reserve	(1,815)			(1,815)
Revenue Grant Reserve - General	(796)	(169)		(965)
Capital Funding Risk Reserve	(3,221)	(810)		(4,031)
Other Reserves	(2,436)	(1,848)		(4,284)
	(68,549)	**(18,514)**	**5,028**	**(82,035)**
Schools				
School Balances	(5,013)		971	(4,042)
	(73,562)	**(18,514)**	**5,999**	**(86,077)**

The purpose of the main reserves are noted below:

Medium term financial risk reserve

Following on from the compilation of the Council's MTFS, and the identification of the risks that are currently in the funding system, demand pressures and the potential for savings to be delayed as the Council goes through a period of major change, monies have been set aside to mitigate these risks on a non-recurrent basis.

Taxation Reserve

Due to the volatile nature of business rates, the predicted recession in 2019/20 and the potential move to 75% Business Rate Retention by 2019/20, monies have been set to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact.

Digital Strategy Reserve (Formerly Transformation Reserve)

To ensure the Council can continue to transform and innovate in order to reduce costs whilst improving outcomes, a reserve is set aside to pump prime this activity.

PFI Sinking Fund

The surplus PFI grant is held in a reserve to meet future contract liabilities and additional costs that might arise from reviewing or restructuring the councils PFI arrangements.

Capital Funding Risk Reserve

The Council now has a number of options available for the use of capital receipts to meet the cost of both revenue and capital projects. Monies have been put aside to meet the potential shortfall in or timing of receipt of capital funding to mitigate the impact on the general fund revenue account.

Organisational Design Reserve

The reserve holds monies to meet the financial cost of redundancies as a result of organisation design changes for the period of the MTFS.

On Street Parking Reserve

It is a legal requirement to set aside surplus income from on street parking to be used in future years in accordance with the Road Traffic Regulation Act 1984.

Revenue Grant Reserve – Waste Services

The reserve holds the balance of a central government grant received by the Council to enable weekly bin collections. The grant funding was received in advance and is released to the general fund revenue account on an annual basis.

Revenue Grant Reserve – City Deal

City Deal funding of £3.6M was received in 2013/14 with two programmes being developed, one for adults and one for young people. SCC is the lead accountable body for the City Deal and administers the fund on behalf of the Council and its partners. The funding is held in a reserve and will be released as the programmes are developed and implemented.

Accommodation Reserve

Monies put aside to meet the implementation cost of the Councils Accommodation Strategy, and residual further accommodation changes required as the Council consolidates the number of administrative buildings that it uses in the provision of council services.

Insurance Reserve

This reserve holds the monies to meet the potential cost of liability claims against the Council, including motor and third party injury, however, there is no commitment on the Council to pay the claim.

10. 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.

2017/18	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(1,181)							**(1,181)**	**1,181**	**0**
Depreciation and revaluation of Non Current Assets	(42,328)		(7,834)					**(50,162)**	**50,162**	**0**
Movement on Market Value of Investment Properties	2,249		159					**2,408**	**(2,408)**	**0**
Capital Grants and Contributions Applied	19,314		943					**20,257**	**(20,257)**	**0**
Capital Grants and Contributions Unapplied	7,543						(7,543)	**0**	**0**	**0**
Donated assets	30,144							**30,144**	**(30,144)**	**0**
Revenue Expenditure Funded from Capital Under Statute	(3,426)							**(3,426)**	**3,426**	**0**
Short-term Accumulating Compensated Absences	53							**53**	**(53)**	**0**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	59							**59**	**(59)**	**0**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(34,334)		(4,696)					**(39,030)**	**39,030**	**0**
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	21,526		2,944					**24,470**	**(24,470)**	**0**
Statutory Provision for the Financing of Capital Investment	5,572							**5,572**	**(5,572)**	**0**
Voluntary Provision for the Financing of Capital Investment			5,511					**5,511**	**(5,511)**	**0**
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(3,667)				3,667			**0**	**0**	**0**
Capital expenditure charged in-year to the GF and HRA Balances	4,125		7,635					**11,760**	**(11,760)**	**0**
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	(2,538)							**(2,538)**	**2,538**	**0**
Transfers to/(from Major Repairs Reserves			19,264			(19,264)		**0**	**0**	**0**
Financing of HRA Assets (Major Repairs Reserve)						19,264		**19,264**	**(19,264)**	**0**
Amortisation of Item 8 Discount			(13)					**(13)**	**13**	**0**
Capital Receipts in Year	317		8,943		(9,260)			**0**	**0**	**0**
Non-current Asset Disposals	(15,852)		(5,402)					**(21,254)**	**21,254**	**0**
Capital Receipts Financing of New Capital Expenditure					5,896			**5,896**	**(5,896)**	**0**
Historic Cost Depreciation Adjustment								**0**	**0**	**0**
	(12,424)	**0**	**27,454**	**0**	**303**	**0**	**(7,543)**	**7,790**	**(7,790)**	**0**

2016/17	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(763)							**(763)**	**763**	**0**
Depreciation (and amounts equal to) and Impairment of Non Current Assets	(22,772)		20,469					**(2,303)**	**2,303**	**0**
Movement on Market Value of Investment Properties	4,127		(99)					**4,028**	**(4,028)**	**0**
Assets Transferred to CAPITA	(403)							**(403)**	**403**	**0**
Capital Grants and Contributions Applied	22,495		1,780					**24,275**	**(24,275)**	**0**
Capital Grants and Contributions Unapplied	1,222		13				(1,235)	**0**	**0**	**0**
Revenue Expenditure Funded from Capital Under Statute	(8,079)							**(8,079)**	**8,079**	**0**
Short-term Accumulating Compensated Absences Account	(680)							**(680)**	**680**	**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	(33,577)		(4,213)					**(37,790)**	**37,790**	**0**
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	22,124		2,776					**24,900**	**(24,900)**	**0**
Statutory Provision for the Financing of Capital Investment	2,895							**2,895**	**(2,895)**	**0**
Voluntary Provision for the Financing of Capital Investment	(1)		5,592					**5,591**	**(5,591)**	**0**
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(2,054)				2,054			**0**	**0**	**0**
Capital expenditure charged in-year to the General Fund Balance	551		9,123					**9,674**	**(9,674)**	**0**
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	649							**649**	**(649)**	**0**
Transfers to/(from) Major Repairs Reserve			18,894			(18,894)		**0**	**0**	**0**
Financing of HRA Assets (Major Repairs Reserve)						18,894		**18,894**	**(18,894)**	**0**
Amortisation of Item 8 Discount			(13)					**(13)**	**13**	**0**
Net (loss) / gain on sale of Fxed Assets								**0**	**0**	**0**
Transfer to the Capital Receipts Reserve upon receipt of cash	0		0		(2,762)			**(2,762)**	**2,762**	**0**
Capital Receipts in Year	10,412		12,318		(22,730)			**0**	**0**	**0**
Non-current Asset Disposals	(8,327)		(7,532)					**(15,859)**	**15,859**	**0**
Capital Receipts Financing of New Capital Expenditure					9,217			**9,217**	**(9,217)**	**0**
	(12,121)	**0**	**59,108**		**(14,221)**	**0**	**(1,235)**	**31,531**	**(31,531)**	**0**

11. Interest Payable and Receivable

Interest Payable and Similar Charges

2016/17 £000		2017/18 £000
7,980	Interest on External Loans	7,557
454	Payments to HCC in respect of Transferred Debt	401
125	Interest on Funds held	178
6,020	PFI Schemes	4,884
14,579		**13,020**

Interest and Investment Income

2016/17 £000		2017/18 £000
(1,052)	Temporary Investments	(1,551)
(28)	HRA Cash Balances	(10)
(3)	Other	(4)
(1,083)		**(1,565)**

12. Property Plant and Equipment (PPE)

PPE are shown at a current valuation of £1,353M, an increase of £21.2M. The basis of valuation is explained in more detail in Note 1q) (Accounting Policies). The values are shown as at 31 March 2018.

a) Depreciation

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

- Council Dwellings – based on useful lives on a componentised basis.
- 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 PPE required to be measured at fair value is revalued at least every five years. All valuations were carried out by the valuer's section within the council. 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 PPE for both the current and previous year are shown below and comes about due to changes to asset valuations, disposals, new acquisitions and enhancements.

c) Disposals

For 2017/18 there was a £12M loss (2016/17 - £6.9M gain) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, of which £3.5M (2016/17 - £4.8M) relates the Housing Revenue Account.

d) 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.

Movement in Property, Plant & Equipment (PPE) 2017/18

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2017	658,902	625,310	51,569	209,499	3,640	0	26,807	**1,575,726**	95,164
Additions	26,335	33,788	1,942	13,976	0	8	12,590	**88,639**	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	3,151	0	0	0	270	0	**3,421**	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,927)	(19,719)	(405)	0	0	(8)	0	**(27,059)**	(19,611)
Derecognition-Disposals	(5,403)	(15,846)	(5)	0	0	0	0	**(21,254)**	
Derecognitions- Fully Depreciated	0	0	420	0	0	0	0	**420**	
Reclassified outside PPE	0	(2)	0	0	0	0	0	**(2)**	
Other Reclassifications	(2,302)	23,327	0	4,927	6	2,761	(28,188)	**531**	
At 31 March 2018	**670,605**	**650,009**	**53,521**	**228,402**	**3,646**	**3,031**	**11,209**	**1,620,422**	**75,553**
Accumulated Depreciation and Impairment									
At 1 April 2017	(18,894)	(174,793)	(14,368)	(36,184)	(49)	0		**(244,288)**	(14,885)
Reclassifications								**0**	
Depreciation Charge	(19,264)	(14,537)	(3,751)	(4,436)	0	0		**(41,988)**	(2,877)
Depreciation written out to the (Surplus)/ Deficit on the Provision of Services	18,894	0	0	0	0	0		**18,894**	6,423
Derecognition-Disposals			(420)			0		**(420)**	
At 31 March 2018	**(19,264)**	**(189,330)**	**(18,539)**	**(40,620)**	**(49)**	**0**	**0**	**(267,802)**	**(11,339)**
Net Book Value									
At 31 March 2018	**651,341**	**460,679**	**34,982**	**187,782**	**3,597**	**3,031**	**11,209**	**1,352,620**	**64,214**
At 31 March 2017	**640,008**	**450,517**	**37,201**	**173,315**	**3,591**	**0**	**26,807**	**1,331,438**	**80,279**

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost			34,982	187,782	3,597		11,209	**237,569**
Valued at Fair Value in:								
2017/18	651,341	99,618				667		**751,626**
2016/17		2,098				2,364		**4,462**
2015/16		309,791						**309,791**
2014/15		27,109						**27,109**
2013/14		21,949						**21,949**
2012/13		15						**15**
2011/12		99						**99**
Net Book Value as at	**651,341**	**460,679**	**34,982**	**187,782**	**3,597**	**3,031**	**11,209**	**1,352,620**

Movement in Property, Plant & Equipment (PPE) 2016/17

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2016	597,018	618,956	49,471	199,559	3,628	935	16,073	**1,485,639**	99,295
Additions	50,946	5,780	2,345	9,940	(4)	0	11,169	**80,176**	
Donations								**0**	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		(1,617)				0		**(1,617)**	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	19,293	(469)						**18,824**	
Derecognition-Disposals	(7,094)	(1,526)						**(8,620)**	
Derecognitions- Fully Depreciated			(247)			(935)		**(1,182)**	
Other Reclassifications	(1,261)	4,186			16	0	(435)	**2,506**	
At 31 March 2017	**658,902**	**625,310**	**51,569**	**209,499**	**3,640**	**0**	**26,807**	**1,575,726**	**99,295**
Accumulated Depreciation and Impairment									
At 1 April 2016	(19,832)	(160,503)	(11,125)	(31,899)	(49)	(935)		**(224,343)**	(16,184)
Reclassifications								**0**	
Depreciation Charge	(18,894)	(14,290)	(3,490)	(4,285)		0		**(40,959)**	(2,832)
Depreciation written out to the (Surplus)/ Deficit on the Provision of Services	19,832							**19,832**	
Derecognition-Disposals			247			935		**1,182**	
At 31 March 2017	**(18,894)**	**(174,793)**	**(14,368)**	**(36,184)**	**(49)**	**0**	**0**	**(244,288)**	**(19,016)**
Net Book Value									
At 31 March 2017	**640,008**	**450,517**	**37,201**	**173,315**	**3,591**	**0**	**26,807**	**1,331,438**	**80,279**
At 31 March 2016	**577,186**	**458,453**	**38,346**	**167,660**	**3,579**	**0**	**16,073**	**1,261,296**	**83,111**

Capital Commitments

At 31 March 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years budgeted to cost £20.4M. Similar commitments at 31 March 2017 were £15.7M. The major commitments are:

	2016/17	2017/18
	£000	£000
HRA - Modern Facilities	2,639	0
HRA - Safe Wind and Weather Tight	2,527	10,626
HRA - Estate Regeneration & New Build	0	687
Southampton New Arts Centre (SNAC)	336	0
HRA - Well Maintained Communal Facilities	0	430
Enterprise Resource Platform	0	971
Springwell School Expansion	8,062	6,010
Schools Primary Review	441	0
Mayfield Park Play Area	250	0
Other Various Minor Commitments	1,408	1,725
Total	**15,663**	**20,450**

13. Heritage Assets

As set out in our Accounting Policies, Note 1k) (Accounting Policies), the Council's Heritage Assets are predominantly held in the Council's Museums.

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Works of Art	Historic Buildings and Ancient Monuments	Total Assets
	£000	£000	£000
Cost or Valuation			
1 April 2016	190,000	839	190,839
Additions		143	143
Revaluations			0
Transfers to Property, Plant & Equipment			0
31 March 2017	**190,000**	**982**	**190,982**
Accumulated Depreciation and Impairment			
1 April 2016		(736)	(736)
31 March 2017	**0**	**(736)**	**(736)**
Net Book Value			
31 March 2017	**190,000**	**246**	**190,246**
31 March 2016	**190,000**	**103**	**190,103**

	Works of Art	Historic Buildings and Ancient Monuments	Total Assets
	£000	£000	£000
Cost or Valuation			
1 April 2017	190,000	982	190,982
Additions		3	3
Adj for depreciation previously written out		(707)	(707)
31 March 2018	**190,000**	**278**	**190,278**
Accumulated Depreciation and Impairment			
1 April 2017	0	(736)	(736)
Adj for depreciation previously written out		707	707
31 March 2018	**0**	**(29)**	**(29)**
Net Book Value			
31 March 2018	**190,000**	**249**	**190,249**
31 March 2017	**190,000**	**246**	**190,246**

14. 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:

2016/17 £000		2017/18 £000
(8,182)	Rental Income	(9,280)
2,501	Operating Expenditure	1,825
(5,681)	**Net (Income)/ Expenditure**	**(7,455)**
(4,028)	Net (Gains)/ Losses from fair value adjustments	(2,408)
(9,709)	**Total Net (Income) / Expenditure**	**(9,863)**

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:

	2016/17 £000	2017/18 £000
Balance at start of year	**95,179**	**120,824**
Additions:		
Purchases	29,686	0
Subsequent Expenditure	2	0
Disposals	(5,565)	0
Net gains / (losses) from fair value adjustments	4,028	2,408
Transfers		
(to) / from Property, Plant and Equipment	(2,506)	1,835
Balance at End of Year	**120,824**	**125,067**

The fair value hierarchy is based on the relative reliability and relevance of the information used in the valuation. Investment properties are valued on an income approach that is based on capitalisation of current rental income and taking into account anticipated uplifts at the next rent review, lease expiry or break option. This uplift and the discount rate are derived from rates implied by market transactions of other property. The transactions from which the uplifts and discount rates are derived are not sufficiently similar for direct comparison to be made and adjustments have to be made to the observable data of comparable transactions. We therefore take the view that the inputs are unobservable i.e. level 3 for the purposes of fair value hierarchy classification.

15. 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 licences 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).

Purchased Software	31 March 2017	31 March 2018
	£000	£000
Gross carrying amount	7,926	10,450
Accumulated amortisation	(3,397)	(4,160)
Net Carrying Amount at Start of the Year	**4,529**	**6,290**
Purchases	2,524	453
Amortisation for the period	(763)	(1,181)
Impairment in Year		(9)
Net Carrying Amount at End of the Year	**6,290**	**5,553**

16. Assets Held for Sale (AHFS)

Surplus Assets that have been marketed for sale and are expected to be disposed of within the next 12 months, however due the time in obtaining planning permission and other conditions some assets will remain as AHFS for longer than a year:

	2016/17	2017/18
	£000	£000
Balance at Start of Year	**2,639**	**2,364**
Revaluation Gains	1,399	0
Assets Sold	(1,674)	0
Transfers to Surplus assets	0	(2,364)
Other movements		
Balance at End of Year	**2,364**	**0**

17. 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 similar contracts), and investment transactions are classified as financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. It 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 Lloyds bank,
- Finance leases on land and buildings,
- Private Finance Initiative contracts detailed in Note 32 (PFI and Similar Contracts), and
- Trade payables for goods and services received.

Transferred debt from Hampshire County Council is no longer considered to be a financial instrument, as it arises from local government reorganisation rather than a contractual agreement.

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council. It is represented by cash equity instruments or a contractual right to receive cash or another financial asset or an obligation to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. 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,
- Lease receivables and
- Trade receivables for goods and services delivered (these have been measured at cost on the Balance Sheet).

Available for sale financial assets (those that are quoted in an active market or do not have fixed or determinable payments) comprising:

- Property funds managed by CCLA fund managers
- Certificates of deposit and covered bonds issued by banks and building societies,
- Treasury bills and gilts issued by the UK Government, and
- Bonds issued by multilateral development banks and companies,

Unquoted Equity Investments held at cost because it is impracticable to determine fair value, comprising:

- Equity investments in UK Municipal Bonds Agency
- Solent Credit Union.

Balances in money market funds and call accounts at 31 March 2018 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:

Financial Liabilities	Long Term 31 March 2017 £000	Long Term 31 March 2018 £000	Short Term 31 March 2017 £000	Short Term 31 March 2018 £000	Total 31 March 2017 £000	Total 31 March 2018 £000
Loans at amortised cost:						
- Principal sum borrowed	(208,795)	(197,344)	(50,861)	(53,469)	(259,656)	(250,813)
- Accrued interest			(1,015)	(1,935)	(1,015)	(1,935)
Total Borrowing	**(208,795)**	**(197,344)**	**(51,876)**	**(55,404)**	**(260,671)**	**(252,748)**
Loans at amortised cost:						
- Bank Overdraft			(4,152)	(391)	(4,152)	(391)
Total Cash Overdrawn	**0**	**0**	**(4,152)**	**(391)**	**(4,152)**	**(391)**
Liabilities at amortised cost:						
- Finance leases	(1)				(1)	0
- PFI arrangements	(60,421)	(56,878)			(60,421)	(56,878)
Total Long-term Creditors	**(60,422)**	**(56,878)**	**0**	**0**	**(60,422)**	**(56,878)**
Liabilities at amortised cost:						
- Deferred Liabilities*	(14,553)		(364)		(14,917)	0
Total Other Long-term Liabilities	**(14,553)**	**0**	**(364)**	**0**	**(14,917)**	**0**
Liabilities at amortised cost:						
- Finance leases			0	0	0	0
- PFI arrangements			(1,841)	(1,962)	(1,841)	(1,962)
- Trade payables			(19,515)	(23,650)	(19,515)	(23,650)
Included in Creditors	**0**	**0**	**(21,356)**	**(25,612)**	**(21,356)**	**(25,612)**
Total Financial Liabilities	**(283,770)**	**(254,222)**	**(77,748)**	**(81,407)**	**(361,518)**	**(335,629)**

transferred debt is not considered to be a financial instrument from 2017/18.

Financial Assets	Long Term 31 March 2017 £000	Long Term 31 March 2018 £000	Short Term 31 March 2017 £000	Short Term 31 March 2018 £000	Total 31 March 2017 £000	Total 31 March 2018 £000
Loans and receivables:						
- Principal at amortised cost			0	10,000	0	10,000
Available for sale investments:						
- Principal at amortised cost	27,620	34,645	7,481	3,000	35,101	37,645
- Accrued interest		0	578	578	578	578
- EIR adjustments	104	(275)	30	299	134	24
- Fair value adjustments	375	569	0	(78)	375	491
Total Investments	**28,099**	**34,939**	**8,089**	**13,799**	**36,188**	**48,738**
Loans and receivables:						
- Cash			102	93	102	93
- Cash equivalent at amortised cost			22,874	25,474	22,874	25,474
- Accrued interest			23	0	23	0
Total Cash and Cash Equivalents	**0**	**0**	**22,999**	**25,567**	**22,999**	**25,567**
Loans and receivables:						
- Trade receivables			11,106	13,328	11,106	13,328
- Loans made for service purposes	75	51			75	51
Included in Debtors	**75**	**51**	**11,106**	**13,328**	**11,181**	**13,379**
Total Financial Assets	**28,174**	**34,990**	**42,194**	**52,694**	**70,368**	**87,684**

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 2018/19.

c) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Council had no financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

d) 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:

	2016/17	2017/18			
		Financial Liabilities	Financial Assets		
	Total £000	Amortised cost £000	Loans and Receivables £000	Available-for-sale Assets £000	Total £000
Interest expense	14,443	13,155			13,155
Losses on derecognition	136	(135)			(135)
Interest Payable and Similar Charges	**14,579**	**13,020**	**0**	**0**	**13,020**
Interest income	(994)		(1,565)		(1,565)
Gains on derecognition	(89)	(89)			(89)
Interest and Investment Income	**(1,083)**	**(89)**	**(1,565)**	**0**	**(1,654)**
Gains on revaluation	884			(116)	(116)
Losses on revaluation	0				0
Amounts recycled to the I&E Account after impairment	884			(116)	(116)
Impact of revaluation in Other Comprehensive Income					
Net Gain / (Loss) for the Year	**14,380**	**12,931**	**(1,565)**	**(116)**	**11,250**

Financial Instruments – Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market place.

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 2018, using the following methods and assumptions:

- The fair value of loans from the PWLB have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower’s contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair value of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA- rated corporate bond yield.

- The Fair value of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2018.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

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

Balance Sheet 31 March 2017 £000	Fair Value 31 March 2017 £000		Fair Value Level	Balance Sheet 31 March 2018 £000	Fair Value 31 March 2018 £000
		Financial Liabilities held at amortised cost			
(220,300)	(274,104)	Public Works Loans	2	(208,813)	(261,871)
(9,000)	(14,001)	LOBO Loans	2	(9,000)	(12,959)
(14,917)	(16,601)	Transferred Debt Liabilities*			
(62,263)	(103,751)	PFI/Finance Lease Liabilities	2	(56,878)	(98,439)
(306,480)	**(408,457)**			**(274,691)**	**(373,269)**
		Liabilities for which Fair Value is not disclosed**			
(31,371)		Short Term borrowing		(34,935)	
(4,152)		Bank Overdraft		(391)	
(19,515)		Trade Payables (Creditors)		(25,612)	
(55,038)				**(60,938)**	
(361,518)		**Total Financial Liabilities**		**(335,629)**	

transferred debt is not considered to be a financial instrument from 2017/18.

***** the fair value of short term liabilities including trade payables is assumed to approximate to the carrying amount.***

The fair value of financial asset held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Balance Sheet 31 March 2017 £000	Fair Value 31 March 2017 £000		Fair Value Level	Balance Sheet 31 March 2018 £000	Fair Value 31 March 2018 £000
		Financial Assets held at Fair Value			
13,882	13,882	Money Market Funds	1	18,624	18,624
16,646	16,646	Bond, Equity and Property Funds	1	27,031	27,031
19,382	19,382	Corporate, Covered and Government Bonds	1	11,445	11,445
49,910	**49,910**			**57,100**	**57,100**
		Assets for which Fair Value is not disclosed*			
		Recorded on balance sheet as:			
75		Long Term Debtors		51	
140		Short Term investments		10,217	
20		Shares in unlisted companies**		45	
9,117		Cash and Cash Equivalents		6,943	
11,106		Trade Receivables (Debtors)		13,328	
20,458				**30,584**	
70,368		**Total Financial Assets**		**87,684**	

****the fair value of short term assets including trade receivables is assumed to approximate to the carrying amount.***

***The Council holds shares in the UK Municipal Bond Agency which are carried at cost of £20k because their fair value cannot be measured reliably. This is because the company has no established trading history having only been formed in 2015, and there are no similar companies whose shares are traded and which might provide comparable market data.*

e) Financial Instruments – Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities (both revised in December 2017).

In lines with 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 Ministry of Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy, together with its Treasury Management Practices seek to achieve a suitable balance between risk and return or costs.

The main risks covered are:

- Credit Risk – The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the other Council.
- Liquidity Risk – The possibility that the Council might not have the cash available to make contracted payments on time.
- Market Risk – The possibility that an unplanned 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-, the UK Government and other local authorities and organisations without credit ratings upon which the Council will receive independent investment advice. 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.

A maximum limit of £10M can be invested with a single counterparty (other than the UK Government) subject to this being no more than 10% of total investments. For unsecured investments in banks, building societies and companies, a smaller limit of £5M applies and in the case of money market funds being no more than 0.5% of any one individual fund. The Council also sets a total group investment limit for institutions that are part of the same banking group. A limit is also set for investments which 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 of £74.3M 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 31 March 2018 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Full Council on 15 February 2017. The Treasury Strategy can be seen as Item 73 on the Council Meeting Agenda found via the following web link:

Prudential Limits and Treasury Management Strategy 2017/18 to 2020/21

The Credit quality of Council's investments is enhanced by collateral held - £7.6M in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2018 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

	Long Term		Short Term	
Credit Rating	2017	2018	2017	2018
	£000	£000	£000	£000
AAA	8,308	7,863	4,636	149
AA+	3,125		138	13,359
AA			61	6,911
AA-			8,278	11,203
A+			5,645	7,453
A			9,015	
A-			3,175	
Shares in unlisted companies	20	45		
Unrated pooled funds	16,646	27,031	140	291
Total Investments	**28,099**	**34,939**	**31,088**	**39,366**

The above analysis shows that all deposits outstanding as at 31 March 2018 met the Council's minimum credit rating criteria of A- or above.

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 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 NDR payments), are excluded from this disclosure note, as they have not arisen from contractual trading activities.

Trade Debtors and Impairment Allowance

	Outstanding 31 March 2017	Outstanding 31 March 2018
	£000	£000
Trade Debtors	11,106	**13,328**
Trade Debtors Impairment Allowance	(2,238)	**(3,200)**

2016/17		2017/18
£000		£000
	Trade debtors, analysed by age	
10,666	Less than two months	6,651
82	Two to six months	2,943
96	Six months to one year	1,570
262	More than one year	2,164
11,106		**13,328**

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, this is managed by maintaining a spread of fixed rate loans and ensuring that no more than 45% of the Council's borrowing matures in any one financial year.

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 principal borrowed as at 31 March 2018 was as follows:

Outstanding 31 March 2017	% of Total Debt Portfolio	Total Borrowing	Outstanding 31 March 2018	% of Total Debt Portfolio
£000	**%**	**Source of Loan**	**£000**	**%**
(220,300)	85	Public Works Loan Board	(208,813)	83
(39,356)	15	Other Financial Institutions	(42,000)	17
(259,656)	**100**		**(250,813)**	**100**
		Analysis of Loans by Maturity		
(41,861)	16	Less than 1 Year	(44,469)	18
(11,505)	4	Between 1 and 2 years	(11,469)	4
(17,645)	7	Between 2 and 5 years	(47,028)	19
(40,798)	16	Between 5 and 10 years	0	0
	0	Between 20 and 25 years	(10,000)	4
(10,000)	4	Between 25 and 30 years	(5,000)	2
(5,000)	2	Between 30 and 35 years	(33,500)	13
(42,000)	16	Between 35 and 40 years	(50,600)	20
(54,850)	21	Between 40 and 45 years	(39,747)	16
(26,997)	10	Over 45 years	0	
(9,000)	4	Uncertain Date**	(9,000)	4
(259,656)	**100**		**(250,813)**	**100**

**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.*

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

Loans and Other Long term Liabilities Outstanding (Nominal Value)

Source	Outstanding 31 March 2017 £000	Outstanding 31 March 2018 £000
Public Works Loan Board	(220,300)	(208,813)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(30,356)	(33,000)
Deferred Liabilities*	(14,917)	
PFI / Finance Lease Liabilities	(62,262)	(58,840)
Total	**(336,835)**	**(309,653)**

transferred debt is not considered to be a financial instrument from 2017/18.

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.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. . At 31 March 2018 £274M (109%) of net principal borrowed (i.e. debt net of investments) was exposed to fixed rates and £23M net investments to variable rates.

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

	£000
Increase in interest payable on variable rate borrowings	680
Increase in interest payable on variable rate investments	(345)
Impact on the Provision of Services (Surplus / Deficit)	**335**
Share of overall impact debited/credited to HRA	326
Decrease in fair value of available for sale financial assets	0
Impact on Other Comprehensive Income and Expenditure	**0**
Decrease in fair value of fixed rate borrowings/liabilities *(no impact on Comprehensive Income and Expenditure)*	(44,330)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

The Council has £9M (2017: £9M) of "Lender's option, borrower's option" (LOBO) loans with maturity dates between 2035 and 2042 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. In the current low interest rate environment, the likelihood of lender increasing the rate is low; however the likelihood will increase in later years should market interest rates rise.

Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk was limited by the Council's maximum exposure to property investments. As at 31 March 2018 the Authority had £27M invested in the Local Authority Property Fund which was valued at a slight capital gain of £31,000 A 5% fall in commercial property prices would result in a £1.35M charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

18. Debtors

a) Long Term Debtors

This is made up of the following:

- 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, there is a residual balance of £8k (2016/17 £8k)
- 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, the balance is currently £43k (£67k, 2016/17)

  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.

b) Short Term Debtors

The Short Term Debtor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2018. Inter-Portfolio Debtors and Creditors cancel each other out when the Balance Sheet is produced.

Debtors

31 March 2017		31 March 2018
£000		£000
5,634	Central Government	4,540
940	Other Local Authorities	581
209	NHS Bodies	0
53,048	Other Entities and Individuals	66,019
(19,045)	Debtors Impairment Allowance	(22,057)
40,786	**Total Debtors**	**49,083**

19. 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.

Although the balance shown below suggests that the bank accounts were overdrawn by over £0.40M, the Council's actual bank account balance at the Bank was a credit balance of £0.27M at 31 March 2018. 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 because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

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

31 March 2017 £000		31 March 2018 £000
(4,152)	Bank Accounts	(391)
(4,152)		(391)
13,882	Money Market Funds	18,624
9,015	Call Accounts	6,850
102	Petty Cash	93
22,999		25,567
18,847		**25,176**

20. Creditors

The Creditor balances represent the estimated outstanding liabilities as at 31 March 2018.

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

Creditors

31 March 2017 £000		31 March 2018 £000
19,311	Central Government	26,156
2,919	Other Local Authorities	1,227
954	NHS Bodies	694
53,743	Other Entities and Individuals	63,466
76,927	**Total Creditors**	**91,543**

21. 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:

	Balance at 31 March 2017	Additional Provisions Made in Year	Amounts Used in Year	Balance at 31 March 2018
	£000	£000	£000	£000
General Fund				
NDR Appeals Provision	9,224	411		9,635
General Insurance Funds	2,062		(68)	1,994
Itchen Bridge Repairs	610		(610)	0
Other Provisions	1,910		(959)	951
Total	**13,806**	**411**	**(1,637)**	**12,580**

The Provisions are estimated to be utilised as follows:

	Short Term			Total Long Term	Balance at 31 March 2018
	Due within 1 Year	Due between 2 to 5 years	Over 5 years		
	£000	£000	£000	£000	£000
General Fund					
NDR Appeals Provision	5,562	4,073	0	4,073	9,635
General Insurance Funds	750	1,244	0	1,244	1,994
Other Provisions	951			0	951
Total	**7,263**	**5,317**	**0**	**5,317**	**12,580**

a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are now liable for successful appeals against business rates charged to businesses in year and earlier years. Therefore, the Council's share of the provision (49%) has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2018.

The estimate is a percentage of the Gross rate yield after reliefs per the NDR (based on prior years' refund levels, and a review of the current Valuation Office Agency (VOA) list of appeal outstanding and their analysis of previous appeals).

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 together with all motor claims below £25,000. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured, vehicle numbers), claims experience and outstanding liabilities.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2018 amounted to £2.0M. Additionally, a further £2.7M is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation. The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc. 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 decision of the Courts.

The fund position is fluid which reflects the ongoing process of claims being settled and new claims being received. The insurance funds are however monitored on a monthly basis to ensure that overall provision remains adequate. In addition, consideration is taken of any external factors that might affect the adequacy of the Council's self-insurance fund for example changes to the discount rate which is the rate used to calculate personal injury compensation awards.

Other Provisions

All other provisions are individually immaterial.

22. 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.

2016/17 £000		2017/18 £000
(344,272)	Balance Brought Forward	(338,442)
(1,399)	Upward revaluations of assets	(6,493)
1,617	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	3,071
218	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(3,422)
3,731	Difference between fair value depreciation and historical cost depreciation	3,747
1,881	Accumulated Revaluations on Disposals	4,539
(338,442)	**Balance Carried Forward**	**(333,578)**

b) 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. 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 10 (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.

2016/17 £000		2017/18 £000
(774,153)	Balance Brought Forward	(826,932)
	Capital Financing	
(9,217)	Usable Capital Receipts	(5,896)
(24,275)	Capital Grants & Contributions	(20,257)
(18,894)	HRA Financing from the Major Repairs Reserve	(19,264)
(9,674)	Revenue Contributions	(11,760)
	Donated Asset	(30,144)
	Other Movements	
8,079	Revenue Expenditure Funded from Capital under Statute	3,426
(4,028)	Net gains/losses from fair value adjustments on Investment Properties	(2,408)
403	Deferred Considerations	0
763	Amortisation of Intangibles	1,181
2,303	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	50,162
15,859	Disposals	21,254
(3,731)	Historic Cost Depreciation Adjustment	(3,747)
(1,881)	Accumulated Revaluations on Disposals	(4,539)
(8,487)	Provision for the Financing of Capital Investment	(11,083)
1	Other adjustments	
(826,932)	**Balance Carried Forward**	**(860,007)**

c) 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.

2016/17		2017/18
£000		£000
366,840	Balance Brought Forward	424,960
45,230	Remeasurement of the net defined benefit liability/(asset)	24,770
37,790	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	39,030
(24,900)	Employer's pension contributions and direct payments to pensioners payable in the year.	(24,470)
424,960	**Balance Carried Forward**	**464,290**

d) Collection Fund Adjustment Account

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

2016/17		2017/18
£000		£000
(5,675)	Balance Brought Forward	(6,324)
(1,458)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,248
809	Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	1,290
(6,324)	**Balance Carried Forward**	**(3,786)**

e) 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.

2016/17		2017/18
£000		£000
1,372	Balance Brought Forward	2,052
(1,372)	Settlement or cancellation of accrual made at the end of the preceding year	(2,052)
2,052	Amounts accrued at the end of the current year	1,999
680	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(53)
2,052	**Balance Carried Forward**	**1,999**

f) Deferred Capital Receipts Reserve

Deferred Capital Receipts Reserve holds contracted capital receipts that have yet to be receipted.

2016/17		2017/18
£000		£000
(2,762)	Balance Brought Forward	0
	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
2,762	Transfer to the Capital Receipts Reserve upon receipt of cash	0
0	**Balance Carried Forward**	**0**

23. Notes to Cash Flow Statement

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

2016/17		2017/18
£000		£000
47,634	**Net Surplus or (Deficit) on the Provision of Services**	**26,545**
	Adjust net surplus or deficit on the provision of services for non cash movements	
40,959	Depreciation	41,988
(38,656)	Movement on assets charged to revenue	8,174
763	Amortisation	1,181
(688)	Adjustments for effective interest rates	(433)
403	Net PFI Debtor Adjustments	0
(11,613)	Increase/(Decrease) in Interest Creditors	564
(2,332)	Increase/(Decrease) in Creditors	16,424
198	(Increase)/Decrease in Interest and Dividend Debtors	0
981	(Increase)/Decrease in Debtors	(7,607)
34	(Increase)/Decrease in Inventories	(192)
12,890	Pension Liability	14,560
(3,615)	Contributions to/(from) Provisions	(1,226)
15,859	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	21,254
(4,028)	Movement in Investment Property Values	(2,408)
0	Other Items	0
11,155		**92,279**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(25,510)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(27,800)
(22,730)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(9,260)
(2,762)	Deferred capital receipt - transfer to the Capital Receipts Reserve upon receipt of cash	0
(217)	Allowable deduction arising from disposal	(158)
(51,219)		**(37,218)**
7,570	**Net Cash Flows from Operating Activities**	**81,606**

b) Operating Activities – Interest

2016/17		2017/18
£000		£000
	Operating activities within the cashflow statement include the following cash flows relating to interest	
593	Interest Received	1,132
(26,192)	Interest Paid	(12,456)

c) Cash Flows from Investing Activities

2016/17 £000		2017/18 £000
	Cash Flows from Investing Activities	
(109,853)	Property, Plant and Equipment Purchased	(91,755)
(17,451)	Purchase of short term investments	(20,025)
22,742	Proceeds from the sale of property plant and equipment, investment property and intangible assets	8,720
30,386	Proceeds from short-term and long-term investments	8,024
29,737	Other Receipts from Investing Activities - Capital Grants & Contributions Received	31,269
(44,439)	**Total Cash Flows from Investing Activities**	**(63,767)**

d) Cash Flows from Financing Activities

2016/17 £000		2017/18 £000
	Cash Flows from Financing Activities	
38,900	Cash receipts of short and long term borrowing	33,000
648	Billing Authorities - Council Tax and NNDR adjustments	763
(17,264)	Repayment of Short-Term and Long-Term Borrowing	(41,851)
(2,532)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,422)
19,752	**Total Cash Flows from Financing Activities**	**(11,510)**

e) Make-up of Cash and Cash Equivalents

2016/17 £000		2017/18 £000
	Makeup of Cash and Cash Equivalents	
102	Cash and Bank Balances	93
22,897	Cash Investments - regarded as cash equivalents	25,474
(4,152)	Bank Overdraft	(391)
18,847		**25,176**

24. 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 NDR 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 NDR taxpayers by billing authorities (net of the cost of collection allowance) belongs proportionately to the billing authority (49%), Government (50%) and Hampshire Fire and Rescue Authority (1%). There will therefore be a debtor/creditor position between the billing authority, the Government and HFRA to be recognised since the cash paid in year will not be its share of the cash collected from NDR Taxpayers.

25. Members' Allowances

The total of members' allowances paid in was £759K (2016/17 was £702K) as detailed in the table below.

	31 March 2017 £000	31 March 2018 £000
Salaries	551	567
Allowances	147	146
Expenses	4	46
Total	**702**	**759**

26. Officers' Remuneration

The number of employees (including Senior Officers) whose remuneration, including redundancy payments but excluding pension contributions, was £50,000 or more is shown in the table below.

Band £		Number of Employees 2016/17			2017/18		
		Schools	Other	Total	Schools	Other	Total
50,000 -	54,999	48	48	96	45	52	97
55,000 -	59,999	30	25	55	28	17	45
60,000 -	64,999	23	11	34	22	19	41
65,000 -	69,999	14	8	22	14	1	15
70,000 -	74,999	6	8	14	6	6	12
75,000 -	79,999	5	3	8	3	3	6
80,000 -	84,999	4	5	9	6	4	10
85,000 -	89,999	2	3	5	3	1	4
90,000 -	94,999	0	3	3	0	3	3
95,000 -	99,999	1	2	3	2	2	4
100,000 -	104,999	2	2	4	0	3	3
105,000 -	109,999	0	1	1	1	0	1
110,000 -	114,999	0	1	1	0	1	1
115,000 -	119,999	0	0	0	0	0	0
120,000 -	124,999	0	1	1	0	0	0
125,000 -	129,999	0	1	1	0	0	0
130,000 -	134,999	0	1	1	0	0	0
135,000 -	139,999	0	0	0	0	1	1
140,000 -	144,999	0	0	0	0	0	0
145,000 -	149,999	1	0	1	0	1	1
150,000 -	154,999	0	1	1	0	0	0
155,000 -	159,999	0	1	1	0	0	0
160,000 -	164,999	0	0	0	0	0	0
165,000 -	169,999	0	0	0	0	0	0
170,000 -	174,999	0	0	0	0	0	0
175,000 -	179,999	0	0	0	0	0	0
180,000 -	184,999	0	0	0	0	1	1
		136	**125**	**261**	**130**	**115**	**245**

a) Senior Officers' 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 the Accounts and Audit (England) Regulations 2015. 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 2016/17.

2017/18

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2017/18	Pensions contributions (see Note 4)	Total Remuneration including pension contributions 2017/18
	£	£	£	£	£	£	£
Chief Executive until 31/03/2018 - Dawn Baxendale	181,977				181,977	25,659	207,636
Chief Strategy Officer - Suki Sitaram	145,016				145,016	20,447	165,463
Chief Operations Officer - Richard Crouch	138,414				138,414	19,516	157,930
Service Director Children & Families from 01/12/2017 - Hilary Brooks (see Note 1)	38,867				38,867	5,480	44,347
Acting Director of Adults Social Services - Carole Binns	88,531				88,531	12,483	101,014
Joint Director of Public Health - Jason Horsley (see Note 2)	103,059				103,059	14,531	117,590
Service Director Legal & Governance - Richard Ivory	111,175	1,313			112,488	15,676	128,164
Service Director Finance & Commercialisation - Mel Creighton	103,487				103,487	14,592	118,079
	910,526	**1,313**	**-**	**-**	**911,839**	**128,384**	**1,040,223**

Note 1
Between 01/04/2017 and 30/11/2017 this role was undertaken by Hilary Brooks via an external company. Payment for this period was £128,886 excluding VAT.

Note 2
This role is jointly funded by Southampton City Council and Portsmouth City Council. Although all costs are shown here, 50% is recovered from Portsmouth City Council.

Note 3
There were no bonuses paid.

Note 4
In 2017/18 the employer's contribution rate for the Local Government Pension Scheme was 14.1%.

2016/17

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2016/17	Pensions contributions (see Note 7)	Total Remuneration including pension contributions 2016/17
	£	£	£	£	£	£	£
Chief Executive							
- Dawn Baxendale	168,454	-	-	-	168,454	22,068	190,521
Chief Strategy Officer							
- Suki Sitaram	123,078	84	-	-	123,162	16,123	139,285
Chief Operations Officer until 31/12/2016							
- Mark Heath (see note 1)	101,016	-	30,848	-	131,863	268,092	399,955
Chief Operations Officer from 01/11/2016							
- Richard Crouch	55,009	-	-	-	55,009	7,206	62,215
Service Director Children & Families until 18/11/2016							
- Kim Drake (see note 2)	99,215	54	-	-	99,269	9,454	108,723
Acting Director of Adult Social Services from 01/10/2016							
- Carole Binns (see note 3)	44,199	-	-	-	44,199	5,790	49,989
Acting Director of Public Health until 31/03/2017							
- Bob Coates	128,646	-	-	-	128,646	15,899	144,544
Joint Director of Public Health from 09/01/2017							
- Jason Horsley (see note 4)	23,315	-	-	-	23,315	3,054	26,370
Service Director Legal & Governance							
- Richard Ivory	110,074	1,888	-	-	111,962	14,420	126,382
Service Director Finance & Commercialisation							
- Mel Creighton	103,141	204	-	-	103,345	13,511	116,857
	956,147	**2,231**	**30,848**	**-**	**989,225**	**375,617**	**1,364,842**

Note 1

Pension contributions include £255,121 in respect of early retirement.

Note 2

Between 05/01/2017 and 31/03/2017 this role was undertaken by Hilary Brooks via an external company. Payment for this period was £38,546 excluding VAT.

Note 3

Between 01/04/2016 and 30/09/2016 this role was undertaken by Derek Law via an external company. Payment for this period was £136,559 excluding VAT.

Note 4

This role is jointly funded by Southampton City Council and Portsmouth City Council. Although all of the costs are shown here, 50% is recovered from Portsmouth City Council.

Note 5

Between 01/04/2016 and 31/03/2017 the role of Interim Transformation & Implementation Director was undertaken by Stephen Giacchino via an external company. Payment for this period was £167,147 excluding VAT.

Note 6

There were no bonuses paid.

Note 7

In 2016/17 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £3.9M (£5.7M 2016/17) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

Exit Package Cost Band (including special payments)	Number of compulsory Redundancies		Number of Other Departures agreed		Total Number of packages by Cost Band		Total Cost of Exit Packages in each Band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17 £000	2017/18 £000
£0-£20,000	38	20	58	42	96	62	977	453
£20,001-£40,000	8	2	30	10	38	12	1,002	315
£40,001-£60,000	4	3	6	6	10	9	490	402
£60,001-£80,000	5	1	6	2	11	3	776	198
£80,001-£100,000	1	0	2	2	3	2	264	177
£100,001-£150,000	2	2	7	4	9	6	1,107	723
£150,000+	1	0	4	0	5	0	1,043	0
Total	**59**	**28**	**113**	**66**	**172**	**94**	**5,659**	**2,268**

27. External Audit Costs

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

2016/17 £000		2017/18 £000
143	Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	143
19	Fees payable to Ernst & Young in respect of grant claims and returns for the year	19
8	Fees payable to Fiander Tovell in respect of grant claims and returns for the year	3
	Audit fee refund	(21)
	Variation fees payable to Ernst & Young for 2016/17 Audit	4
170		**148**

28. Dedicated Schools Grants

The Council's expenditure on schools is grant funded, provided by the Department for Education (DfE) and is mainly 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 or the year are as follows:

Details of the Deployment of DSG Receivable for 2017/18 are as Follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2017/18 before Academy recoupment			173,984
Academy figure recouped for 2017/18			(46,350)
Total DSG after Academy Recoupment for 2017/18			**127,634**
Plus: Brought forward from 2016/17			**796**
Agreed initial budgeted distribution in 2017/18	**14,927**	**113,503**	**128,430**
In year adjustments			0
Final Budgeted Distribution for 2017/18	**14,927**	**113,503**	**128,430**
Less: Actual central expenditure	(15,178)		(15,178)
Less: Actual ISB deployed to schools		(114,345)	(114,345)
Carry Forward to 2018/19	**(251)**	**(842)**	**(1,093)**

29. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions with related parties. For the City Council a "Related Party" is considered to be:

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

During the year major transactions with related parties arose with; Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 (Pension Schemes accounted for as a Defined Contribution) and Note 34 (Defined Benefit Pension Schemes); Southampton Clinical Commissioning Group as disclosed in Note 39 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. The payment of precepts to the Hampshire Police and Crime Commissioner and Hampshire Fire Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis.

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 former Chief Executive's husband is Executive Director - Assets for Stone Water Housing Association. The Council made revenue payments (Supporting People Grant) of approximately £95k to Stone Water Housing. The former Chief Executive was not involved in the decision making process for these transactions.
- One councillor is a trustee of Southampton Advice and Representation Centre (SARC) which received a grant of £150k from the Council. The councillor was not involved in the awarding of the grant.

Amounts Due to or from Related Parties

2016/17	Money Owed to SCC	2017/18
£000		£000
5,220	HM Revenues & Customs (VAT)	4,506
546	Hampshire County Council	
5,766	**Balance Carried forward**	**4,506**
	* Non material balances removed from previous years figures	

As at 31 March 2018, significant monies outstanding from related parties were:

There are no doubtful debts included within these figures.

In contrast the Council owed money in respect of:

2016/17	Money Owed by SCC	2017/18
£000		£000
13,845	Ministry of Housing, Communities & Local Government	14,121
2,901	HM Revenue & Customs (PAYE & National Insurance)	3,362
810	Department for Work & Pensions (DWP)	7,473
1,619	Hampshire County Council	173
3,842	Hampshire County Council (Local Government Pensions)	1,229
851	NHS Southampton Clinical Commissioning Group	434
23,868	**Balance Carried forward**	**26,792**
	* Non material balances removed from previous years figures	

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

CAPITAL EXPENDITURE AND FINANCING	2016/17 £000	2017/18 £000
Opening Capital Financing Requirement	**435,745**	**485,808**
Capital Investment		
Intangible assets	2,524	453
Property Plant & Equipment	80,319	88,639
Revenue Expenditure Funded from Capital under Statute	8,079	3,426
Heritage Assets	0	3
Investment Properties	29,688	0
Financial Instruments	0	25
Sources of Finance		0
Capital Receipts	(9,217)	(5,896)
Government grants & other contributions	(24,275)	(20,257)
HRA Depreciation (formerly Major Repairs Allowance)	(18,894)	(19,264)
Direct Revenue Financing	(9,674)	(11,760)
Donated Asset	0	(30,144)
MRP	(8,487)	(11,083)
Use of Capital Receipts to Repay Loans		
HRA Depreciation - Non Dwellings		
Closing Capital Financing Requirement	**485,808**	**479,950**
Previous Year Adjustment - Grants and Conts		
Increase in underlying need to borrow (unsupported by Government financial assistance)	58,550	5,225
MRP	(8,487)	(11,083)
Increase / (Decrease) in Capital Financing Requirement	**50,063**	**(5,858)**

31. Leases

a) Council as a Lessor

Operating Leases

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

- the provision of community services, such as tourism services and community centres;
- economic development purposes to provide suitable affordable accommodation for local businesses;
- Investment purposes.

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

	31 March 2017 Restated £000	31 March 2018 £000
Not later than one year	7,595	7,481
Later than one year and not later than five years	23,557	22,152
Later than five years	517,382	527,380
	548,534	**557,013**

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.

32. 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.

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 1980's it became evident that Hampshire was facing a waste disposal crisis. Landfill space was rapidly running out, incinerators built 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 the Code.

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 replaced 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 is also 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 manages 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 service concession arrangements that are included within Fixed Asset Balances are as follows:

	PFI - Schools	Hampshire Waste Contract	PFI - Street Lighting	Total
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2017	58,379	10,966	25,819	95,164
Additions				0
Disposals				0
Revaluations	(19,611)			(19,611)
Impairments				0
At 31 March 2018	**38,768**	**10,966**	**25,819**	**75,553**
Depreciation & Impairment				
At 1 April 2017	(9,288)	(2,577)	(3,020)	(14,885)
Depreciation Charge for the Year	(1,372)	(644)	(861)	(2,877)
Disposals				0
Revaluations	6,423			6,423
Impairments				0
At 31 March 2018	**(4,237)**	**(3,221)**	**(3,881)**	**(11,339)**
Balance Sheet amount at 31 March 2018	**34,531**	**7,745**	**21,938**	**64,214**
Balance Sheet amount at 31 March 2017	**49,091**	**8,389**	**22,799**	**80,279**

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

	PFI - Schools	Hampshire Waste Contract	PFI - Street Lighting	Total
	£000	£000	£000	£000
Balance 1 April 2017	31,452	7,917	22,892	62,261
New Schemes in 2017/18	0	0	0	0
Repayments	(689)	(1,222)	(1,510)	(3,421)
Balance 31 March 2018	**30,763**	**6,695**	**21,382**	**58,840**
Due within 1 Year				
Balance 1 April 2017	689	853	299	1,841
Repayments	(689)	(853)	(299)	(1,841)
Due within 1 Year	822	846	294	1,962
Balance 31 March 2018	**822**	**846**	**294**	**1,962**
Long Term Creditor Balance 31 March 2018	**29,941**	**5,849**	**21,088**	**56,878**

The repayment and finance interest charge profiles of the Hampshire Waste Contract and Street Lighting liabilities have been amended, with adjustments made in 2017/18.

The Future Obligations in respect of the three on Balance Sheet PFI / service concession arrangements are as follows:

	PFI - Schools			Hampshire Waste			PFI - Street Lighting			Total
	Liability	Interest	Service Charges	Liability	Interest	Service Charges	Liability	Interest	Service Charges	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	822	2,614	3,257	846	1,205	5,651	294	2,553	1,207	**18,449**
within 2 to 5 years	6,449	9,345	12,180	4,179	3,149	24,812	1,875	9,760	5,160	**76,909**
within 6 to 10 years	11,405	8,161	19,242	1,670	454	16,951	4,651	10,416	7,268	**80,218**
within 11 to 15 years	12,087	2,377	15,029				9,032	6,573	8,296	**53,394**
within 16 to 20 years							5,530	853	3,638	**10,021**
Balance 31 March 2018	**30,763**	**22,497**	**49,708**	**6,695**	**4,808**	**47,414**	**21,382**	**30,155**	**25,569**	**238,991**

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

	BUPA Care Homes		
	Northlands	Oak Lodge	Total
	£000	£000	£000
within 1 year	2,267	1,516	3,783
within 2 to 5 years	9,068	6,065	15,133
within 6 to 10 years	11,335	7,582	18,917
within 11 to 15 years	1,519	7,582	9,101
within 16 to 20 years		2,805	2,805
Balance 31 March 2018	**24,189**	**25,550**	**49,739**

Payments for the year in respect of PFI and service concession arrangements were as follows:

	Liability	Interest	Service Charges	Total
	£000	£000	£000	£000
PFI Schools	689	2,673	3,179	6,541
Hampshire Waste	1,222	897	5,455	7,574
PFI Street Lighting	1,510	1,314	1,175	3,999
BUPA Care Homes				
Northlands			2,208	2,208
Oak Lodge			1,426	1,426
Totals	**3,421**	**4,884**	**13,443**	**21,748**

33.Pension Schemes Accounted for as Defined Contribution

Schemes

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. However, the scheme is unfunded and it is not possible to identify the Council's share of the underlying liabilities. The scheme is therefore accounted for as a defined contribution scheme and the Department for Education (DfE) uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is not able to identify its proportion of the total contributions into the Teacher's Pension Scheme with sufficient reliability for accounting purposes.

In 2017/18 the Council paid £7.5M to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay (2016/17 £7.6M and 16.4%).

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 detailed in Note 34.

NHS Staff Pension Scheme

Former NHS employees that work for Southampton City Council are permitted to maintain their membership of the NHS Pension Scheme. The Scheme provides these employees with specified 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 an unfunded defined benefit scheme. However it is not possible to identify the Council's share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £0.023M to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.4% pensionable pay (2016/17 £0.058M and 14.3%).

34. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

As part of the terms and conditions of the employment of its Officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS) which is administered locally by Hampshire County Council - this is a funded defined benefit pension scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets.

The Council also makes arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The Hampshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Hampshire County Council. Policy is determined In accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Director of Corporate Resources of Hampshire County Council and JPM Investment Fund Managers.

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The City Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirement to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

b) Transactions Relating to Post-employment Benefits

In 2017/18 the Council paid an employer's contribution of £24.5M (2016/17 - £24.9M) into Hampshire County Council's Pension Fund. The employer's rate for 2017/18 was 14.1% 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 adjusted for Schools transfers and inflation.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £23.25M. The weighted average duration of the defined benefit obligation for the scheme members is 19.2 years.

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 and Housing Revenue Account via the Movement in Reserves Statement (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.

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Service cost comprising:						
Current Service Cost	23,150	26,970	0	0	23,150	26,970
Past Service Cost	2,590	1,330	0	0	2,590	1,330
(Gain)/loss from settlements						
Financing and Investment Income and Expenditure Expenditure						
Net interest expense	10,870	9,780	1,180	950	12,050	10,730
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**36,610**	**38,080**	**1,180**	**950**	**37,790**	**39,030**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	(125,720)	(3,110)	0	0	(125,720)	(3,110)
Actuarial gains and losses arising on changes in demographic assumptions	(10,360)	0	(920)	0	(11,280)	0
Actuarial gains and losses arising on changes in financial assumptions	204,480	20,740	3,220	310	207,700	21,050
Other experience and actuarial adjustments	(26,170)	6,470	700	360	(25,470)	6,830
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	42,230	24,100	3,000	670	45,230	24,770
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(36,610)	(38,080)	(1,180)	(950)	(37,790)	(39,030)
Actual amount charged against the General Fund Balance for pensions in the year						
Employers Contributions payable to scheme	22,530	22,170			22,530	22,170
Retirement benefits payable to pensioners			2,370	2,300	2,370	2,300

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2018 are shown in the following table. The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £464.3M (2016/17 £425.0M) 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. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension		Discretionary Benefits		Total	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	1,158,160	1,220,730	37,650	36,970	1,195,810	1,257,700
Fair value of plan assets	(770,850)	(793,410)			(770,850)	(793,410)
Sub-total	387,310	427,320	37,650	36,970	424,960	464,290
Other movements in the liability (asset)						
Net liability arising from defined benefit obligation	**387,310**	**427,320**	**37,650**	**36,970**	**424,960**	**464,290**

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2016. 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 2018.

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits		Total Funded and Unfunded Liabilities	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	956,240	1,158,160	35,840	37,650	992,080	1,195,810
Current service cost	23,150	26,970	0	0	23,150	26,970
Interest cost	32,110	29,820	1,180	950	33,290	30,770
Contributions from scheme participants	6,310	6,090	0	0	6,310	6,090
Remeasurement (gains) and losses:			0	0	0	0
Actuarial gains/losses arising from changes in demographic assumptions	(10,360)	0	(920)	0	(11,280)	0
Actuarial gains/losses arising from changes in financial assumptions	204,480	20,740	3,220	310	207,700	21,050
Other	(26,170)	6,470	700	360	(25,470)	6,830
Past service cost	2,590	1,330	0	0	2,590	1,330
Losses/(gains) on curtailment (where relevant)	0	0	0	0	0	0
Liabilities assumed on entity combinations	0	0	0	0	0	0
Benefits paid	(30,190)	(28,850)	(2,370)	(2,300)	(32,560)	(31,150)
Liabilities extinguished on settlements (where relevant)			0	0	0	0
Closing balance at 31 March	**1,158,160**	**1,220,730**	**37,650**	**36,970**	**1,195,810**	**1,257,700**

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000	£000	£000
Opending fair value of scheme assets	625,240	770,850	0	0	625,240	770,850
Interest income	21,240	20,040	0	0	21,240	20,040
Remeasurement gain/(loss)	125,720	3,110	0	0	125,720	3,110
The return on plan assets, excluding the amount included in the net interest expense			0	0	0	0
Other			0	0	0	0
The effect of changes in foreign exchange rates			0	0	0	0
Contributions from employer	22,530	22,170	2,370	2,300	24,900	24,470
Contributions from employees into the scheme	6,310	6,090	0	0	6,310	6,090
Benefits paid	(30,190)	(28,850)	(2,370)	(2,300)	(32,560)	(31,150)
Other	0	0	0	0	0	0
Closing fair value of scheme assets	**770,850**	**793,410**	**0**	**0**	**770,850**	**793,410**

e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Hewitt, and independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 1 April 2016. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17	2017/18	2016/17	2017/18
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	24.0	24.1	24.0	24.1
Women	27.0	27.2	27.0	27.2
Longevity at 65 for future pensionsers:				
Men	26.0	26.2	-	-
Women	29.3	29.4	-	-
RPI inflation	3.1%	3.2%	3.1%	3.2%
CPI inflation	2.0%	2.1%	2.0%	2.1%
Rate of increase in salaries	3.5%	3.6%	-	-
Rate of increase in pensions	2.0%	2.1%	2.0%	2.1%
Rate for discounting scheme liabilities	2.6%	2.6%	2.6%	2.6%

f) Pension Scheme Assets

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.

	2016/17 % Quoted	2016/17 % Unquoted	2016/17 % Total	2017/18 % Quoted	2017/18 % Unquoted	2017/18 % Total
Equities	56.80	3.50	60.30	58.50	4.10	62.60
Property	0.50	6.00	6.50	0.70	6.30	7.00
Government Bonds	25.00	0.20	25.20	23.50	0.20	23.70
Corpoarte Bonds	1.40	-	1.40	1.00	-	1.00
Cash	3.40	-	3.40	2.60	-	2.60
Other	-	3.20	3.20	0.20	2.90	3.10
Total assets	**87.10**	**12.90**	**100.00**	**86.50**	**13.50**	**100.00**

g) Sensitivity analysis

The effect of an increase or decrease in the assumptions used to calculate the net pension liability is set out below.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	**Decrease in Assumption £000**
Longevity (increase or decrease in 1 year)	35,900	(35,730)
Rate of increase in salaries (increase or decrease by 1%)	4,470	(4,430)
Rate of increase in pensions (increase or decrease by 1%)	19,140	(18,820)
Rates for discounting scheme liabilities (increase or decrease by 1%)	(23,200)	23,650

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 Director of Corporate Resources, The Castle, Winchester, Hampshire, SO23 8UB.

35. 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) Municipal Mutual Insurance – Scheme of Arrangement

Prior to 1992 the Council was insured by Municipal Mutual Insurance (MMI). MMI ceased accepting new business or to renew general insurance business in September 1992 following which a Scheme of Arrangement (SoA), under Section 425 of the Companies Act 1985, was enacted. The SoA, formally triggered by the Directors of MMI in November 2012, was established as a better alternative to an insolvent liquidation, in the event that MMI could not achieve a solvent run-off. From that date control of MMI passed to the scheme administrator, Ernst & Young LLP, who became responsible for the management of the company's business affairs and assets.

An initial levy of 15% of previously paid claims, less the first £50k, was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. To date total sum of £346k has been paid to MMI in respect of the levy payments made by Southampton City Council. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

An earmarked Insurance reserve, with a balance of £350k, is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review.

As at 31st March 2018, the Council's outstanding potential liability under the SoA stood at £1.4M.

36. 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 2017/18 there were no material transactions that required the production of group accounts but it should be noted that the Council does have the following relationships:

Capita Southampton Ltd (CSL)

In 2016 the Council formed a company with its strategic partner Capita to provide the majority of services delivered previously by Capita as part of a fixed charging mechanism. The key arrangements for the company are as follows:

- Southampton City Council holds 20% of the equity shares in the company;
- There are 7 directors, of which 3 are Council directors;
- Quorum at meetings is 2 directors from both the Council and Capita;
- Decisions are made by majority vote;
- The company does not hold any assets; and
- Whilst the purpose of the company is transparency of costs, any efficiency savings generated accrue 50:50 to both parties in the first two years, with 100% accruing to the Council there after.

A review of CSL indicates an associate, which would require the company to be accounted for in group accounts using the equity method, i.e. showing an investment at the initial cost of the investment, plus increases due to year-end share in the net assets of the company. There are no net assets associated with this company and the initial investment was £20.

PSP Southampton LLP

In 2014 the Council entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

The aims and aspirations of the Partnership are as follows:

- Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes.
- A partnership sharing agreement is drawn up for each specific opportunity that developed through the LLP and will be dependent on the nature of the activity to be undertaken.

A review of PSP indicates a joint venture, which would require the arrangement to be accounted as for an associate. The initial investment in the partnership was £1 and the Council's share of the estimated net assets of the company at 31 March 2018 was £683k.

Having given due consideration to the qualitative and quantitative aspects of materiality, the Council concludes that the preparation of group accounts is not material to the "true and fair view" of the financial position, financial performance and the cash flows of the authority and to the understanding of the users.

37. Capital and Revenue Grants & Contributions, Receipts in Advance

a) 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.

2016/17		2017/18
£000		£000
(25,028)	Balance Brought Forward	(23,731)
(15,677)	Amounts Received in Year	(16,042)
16,974	Amounts Applied to Finance Capital in year	12,573
(23,731)	**Balance Carried forward**	**(27,200)**

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

2016/17		2017/18	
£000		£000	£000
	Grants		
	Department for Education		
(50)	Framework Academies	(124)	
(5,743)	Basic Need Grant	(3,594)	
0	Targeted Capital Fund	(4,573)	
(492)	Schools Devolved Formula Grant	(563)	
(1,602)	Capital Maintenance Grant	(3,328)	
	Donated Asset - Bitterne Park School	(30,144)	
(927)	Other	(357)	
(8,814)			(42,683)
(5,009)	Ministry of Housing, Communities and Local Government		(1,004)
(17)	Department for Environment, Food and Rural Affairs		(123)
(6)	Heritage Lottery Fund		0
(4,251)	Department for Transport		(4,585)
(1,350)	Homes & Communities Agency		(563)
0	Arts Council		(2,293)
0	Other		(48)
(19,447)			**(51,299)**
(6,062)	**Contributions**		(6,645)
(25,509)	**Total**		**(57,944)**
(18,079)	**Credited to Capital Grants and Contributions CIES**		**(54,950)**
(7,430)	**Credited to Cost of Services**		**(2,994)**
(25,509)	**Total**		**(57,944)**

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

2016/17 £000		2017/18 £000
	General Government Grants	
(32,539)	Revenue Support Grant	(23,248)
(1,604)	Housing and Council Tax Benefit Admin Grant	(1,369)
(6,074)	MHCLG - New Homes Bonus Scheme	(5,898)
(1,651)	Education Services Grant	(1,185)
(1,702)	Section 31 Grants	(3,120)
	Additional and Improved Better Care Fund	(5,585)
	Adult Social Care Support Grant	(1,114)
(1,105)	Other	(1,684)
(44,675)		**(43,203)**
	Credited to Services	
(126,971)	Dedicated Schools Grant (DSG)	(127,634)
(17,929)	Public Health Grant	(17,344)
(107,789)	Housing Benefit Grant	(91,495)
(9,343)	Pupil Premium	(9,013)
(5,859)	Private Finance Initative (PFI)	(5,859)
(48)	Local Sustainable Transport Fund	0
(6,968)	Other Grants	(11,188)
(274,907)		**(262,533)**

38. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1 April 1997 and the Magistrates Courts, which is being repaid over 50 years at £364K per annum.

31 March 2017 £000		31 March 2018 £000
15,281	Balance Brought Forward	14,917
0	Principal raised in year	0
(364)	Principal written down	(364)
14,917		**14,553**

39. Pooled Budgets

Pooled budget arrangements are made in accordance with Section 75 (S75) of the National Health Services Act 2006 which allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities (LA) and other agencies in order to improve and co-ordinate services. These arrangements are accounted for as joint operations.

Better Care Southampton

Southampton City Council (SCC) has entered into pooled budget arrangements with NHS Southampton City Clinical Commissioning Group (CCG) with the aim of focussing services and activities for client groups, allowing the organisations to act in a more cohesive way. The governance and operation of the partnership arrangements are overseen by the Commissioning Partnership Board.

Together the City Council and CCG have identified service areas where closer integrated working and pooled budgets would lead to benefits for the population. These are:

Locality Based Hospital Unit (LBHU) pooled budget: hosted by the City Council; to commission residential, domiciliary care and continuing care services for former residents of the LBHU in Southampton.

Reablement & Rehabilitation (R&R) pooled budget: hosted by the CCG; services commissioned under this scheme include CCG contracts with NHS Providers, Independent Sector Providers and local authority in-house provision (some of which were previously S256 agreements).

2016/17					2017/18			
LBHU		R&R			LBHU		R&R	
£000	%	£000	%	**Better Care Fund**	£000	%	£000	%
				Funding - Contributions / Grants				
(9)		0		Brought Forward	0		0	
(1,672)	49%	(5,841)	20%	Southampton City Council	(1,446)	49%	(4,590)	30%
(1,740)	51%	(23,221)	80%	Southampton Clinical Commissioning Group	(1,505)	51%	(10,900)	70%
(3,421)		**(29,062)**			**(2,951)**		**(15,490)**	
3,421		29,062		**Expenditure**	2,943		15,490	
0		**0**		**Carried Forward**	**(8)**		**0**	

40. 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. The funds are not owned by the Council and have not been included in the Council's Balance Sheet. The funds are used in accordance with the aims of the particular charity or trust.

	Income £000	Expenditure £000	Assets £000	Purpose
Aldridge Bequest	(8)	0	**(216)**	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	(0)	0	**(171)**	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	2	**(46)**	Works of art
LC Smith Bequest	(0)	0	**(34)**	Merchants Navy's Memorial maintenance help in Holyrood Church
Minor Trust Funds consisting of:				
Ida Bany Bequest	(0)	0	**(14)**	Books about America
Cemeteries Legacy	(0)	17	**0**	Cemeteries maintenance help
De Gee	(0)	0	**(1)**	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	**(3)**	Merchants Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	(0)	0	**(4)**	Bitterne Park School special annual prizes
Trust Funds Total	**(9)**	**20**	**(489)**	
Wessex Slaughterhouse Board	(0)	0	**(93)**	Pensions to former employees
Total	**(9)**	**20**	**(582)**	

SECTION 6. Other Accounting Satements and Associated Notes

Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA. 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:

- Housing Revenue Account Income and Expenditure Statement
- Statement of Movement on the Housing Revenue Account

HRA Income and Expenditure Statement

2016/17 £000	Expenditure	Notes	2017/18 £000
12,722	Repairs and maintenance		12,642
23,290	Supervision and management		24,567
4,311	Rents, rates, taxes and other charges		4,450
(20,469)	Depreciation, impairment and revaluation (gains) of non-current assets		7,834
48	Debt management costs		84
454	Movement in the allowance for bad debts	1	1,205
20,356	**Total Expenditure**		**50,781**
	Income		
(72,497)	Dwellings rent		(71,434)
(1,163)	Non-dwelling rents		(1,089)
(6,356)	Charges for services & facilities		(6,422)
(877)	Contributions towards expenditure		(817)
(80,893)	**Total Income**		**(79,763)**
(60,537)	**Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement**		**(28,981)**
440	HRA services' share of Corporate and Democratic Core		518
(60,097)	**Net Expenditure/ (Income) for HRA Services**		**(28,463)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(4,786)	(Gain) or loss on the sale of HRA non-current assets		(3,290)
0	Capital Receipts not matched by Disposal of Assets		(251)
98	Investment Property Revaluation Movements		(159)
5,154	Interest payable and similar charges		5,370
(28)	Interest and investment income		(10)
1,343	Net interest on the net defined benefit liability		1,291
(1,793)	Capital grants and contributions receivable		(943)
(60,109)	**(Surplus) or Deficit for the Year on HRA Services**		**(26,454)**

Statement of Movement on the Housing Revenue Account

2016/17 £000		2017/18 £000	£000
(2,000)	Opening Balance		**(3,000)**
	Movement in Year		
(60,109)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(26,454)	
59,109	Adjustments between accounting basis and funding basis under statute	27,454	
(1,000)	Transfer to / (from) reserves		**1,000**
(3,000)	**Closing HRA Balance**		**(2,000)**

Note to Statement of Movement on the Housing Revenue Account

2016/17 £000		2017/18 £000
	Analysis of adjustments between accounting basis and funding basis under statute	
20,469	Depreciation, impairment and revaluation (gains) of non-current assets	(7,834)
5,592	Voluntary MRP	5,511
4,786	Gain or (loss) on the sale of HRA non-current assets	3,541
(13)	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(13)
(98)	Impairment and revaluation of investment properties	159
(1,437)	HRA share of contribution to or from the pension reserve	(1,752)
18,894	Transfer to Major Repairs Reserve	19,264
1,780	Capital grants and contributions applied	943
13	Capital grants and contributions unapplied	
9,123	Capital expenditure funded by the HRA	7,635
59,109	**Net Adjustment**	**27,454**

1. Council House Rents

At 31 March 2018, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 9.48% (31 March 2017 – 4.42%). The total arrears were £5.293M (31 March 2017 - £2.936M). Rents written off during the year amounted to £152,200 (last year £308,000). The staged implementation of Universal Credit has led to an increase in the arrears owed by tenants of £2.357M (80.3%) since 2016/17. While it is believed that this increase is a direct result of the built-in delay of 6 weeks before payment is made, and that while the level of arrears is substantially higher, the level of default will not increase proportionately. However, as historical collection data for arrears relating to Universal Credit is not available it has been felt prudent to increase the level of the provision in line with the increase in arrears until the future default profile becomes apparent.

2. Housing Stock

As at the 31st March 2018, the Council housing stock was made up of the following types of property:

Number of Properties Held

31 March 2017		31 March 2018
5,109	Houses	5,036
11,103	Flats	11,059
16	Bungalows	16
16,228		**16,111**

The Balance Sheet value of HRA assets was as follows:

Balance Sheet Value of HRA Assets

2016/17 £000		2017/18 £000
	Property Plant & Equipment	
640,008	Dwellings	651,341
7,229	Other Operational Property	7,595
	Assets Under Construction	6,279
647,237		**665,215**
	Other Property	
5,070	Investment Property	5,381
	Surplus Assets	167
5,070		5,548
652,307		**670,763**

The vacant possession value of Council Dwellings at 1 April 2017 was £1,907M (£1.824M as at 1 April 2016) 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 2018.

3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. There was £568,000 of impairment charges on the dwelling stock during the year.

2016/17	Depreciation	2017/18
£000		£000
19,832	Balance at 1 April	18,894
(19,832)	Depreciation written off in year	(18,894)
18,894	Depreciation during year	19,264
18,894	**Balance as at 31 March**	**19,264**

4. Capital Expenditure

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

2016/17	Capital Spending	2017/18
£000		£000
50,945	Housing Stock	26,335
250	Other Property	5,658
51,195	**Total Capital Expenditure**	**31,993**
	Capital Expenditure Source of Finance	
£000		£000
6,568	Capital Receipts	3,344
1,350	Grants	563
18,894	Transfer from Major Repairs Reserves	19,264
430	Contributions	380
9,123	Direct Revenue Funding	7,634
14,830	Unsupported Borrowing	808
51,195	**Total Financing**	**31,993**

5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts for 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. 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 are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2017/18 the Council received £4.42M from right to buy sales that can be utilised on new build affordable housing projects.

2016/17 £000		2017/18 £000
	Sale of Assets	
11,691	Council Housing	8,850
844	Land, Buildings & Equipment	251
12,535		**9,101**

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 council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund Balance Sheet is consolidated within the accounts.

Income and Expenditure for the Year Ended 31 March 2018

2016/17			2017/18
£000	**Council Tax**	**Notes**	**£000**
	Income		
(98,422)	Income due from Council Tax Payers		(105,146)
	Transfers (to)/ from the General Fund		
(200)	- Hardship Relief		(200)
0	- Local Council Tax Discount		0
(200)			(200)
(98,622)			**(105,346)**
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
873	- Southampton City Council		1,778
105	- Hampshire Police Authority		213
41	- Hampshire Fire & Rescue Authority		83
1,019			2,074
(97,603)	**Total Council Tax Income**		**(103,272)**
	Expenditure		
	Precepts		
81,011	- Southampton City Council Precept	4	88,480
9,702	- Hampshire Police & Crime Commissioner Precept	4	10,407
3,785	- Hampshire Fire & Rescue Authority Precept	4	4,016
94,498			**102,903**
	Bad and Doubtful Debts		
1,361	- Write Offs	6	1,513
48	- Provisions	6	312
1,409			**1,825**
95,907	**Total Council Tax Expenditure**		**104,728**
(1,696)	**Council Tax - Deficit / (Surplus) for the Year**		**1,456**
(2,146)	Council Tax - Deficit / (Surplus) Brought Forward		(3,842)
(3,842)	**Council Tax Deficit / (Surplus) Carried Forward**		**(2,386)**
	Business Rates		
	Income		
(105,693)	Income Collectable from Business Ratepayers		**(106,289)**
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
3,011	- Southampton City Council		2,323
3,073	- Central Government - MHCLG		2,370
61	- Hampshire Fire & Rescue Service		47
6,145			**4,740**
(99,548)	**Total Business Rates Income**		**(101,549)**
	Expenditure		
(218)	- Payment to MHCLG - Transitional Arrangements		3,018
48,449	- Payment to MHCLG - Business Rate Retention		48,892
47,480	- SCC Business Rates Retention		47,914
969	- HFRA Precept		978
1	- Interest on Overpayments		0
315	- Costs of Collection	5	311
96,996			**101,113**
	Bad and Doubtful Debts		
1,054	- Write Offs	6	625
1,404	- Provisions	6	1,605
1,746	- Appeals Provision	7	840
4,204			**3,070**
101,200	**Total Business Rates Expenditure**		**104,183**
1,652	**Business Rates (Surplus) / Deficit For the Year**		**2,634**
(7,827)	Business Rates - Deficit / (Surplus) Brought Forward		**(6,175)**
(6,175)	**Business Rates Deficit / (Surplus) Carried Forward**		**(3,541)**
(10,017)	**Total Collection Fund (Surplus) / Deficit**		**(5,927)**

1. Introduction

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and Non-domestic Rates (NDR) and its distribution to local Government bodies and the Government.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and NDR. The administration costs associated with the collection processes are charged to the General Fund.

Collection Fund surpluses and deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. For Southampton, Council Tax precepting bodies are the Police and Crime Commissioner for Hampshire and the Hampshire Fire and Rescue Authority.

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. The Southampton share is 49% with the remainder paid to Central Government (50%) and Hampshire Fire and Rescue Authority (1%). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

2. Council Tax Base

Council Tax derives from charges raised in according to the value of residential properties, which have been classified into 9 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council in the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

The Council Tax base for 2017/18 was 64,579 (62,366 in 2016/17). The tax base for 2017/18 was calculated as follows:

Council Tax Base

	Net Chargeable Dwellings	Relevant Proportion	Band D Equivalents
Band A Disabled	30	5/9	16
Band A	20,623	6/9	13,748
Band B	26,321	7/9	20,472
Band C	18,595	8/9	16,529
Band D	8,018	9/9	8,018
Band E	2,703	11/9	3,304
Band F	1,275	13/9	1,842
Band G	387	15/9	645
Band H	3	18/9	5
	77,955		**64,579**

Taking the total Band D equivalents of 64,579 and multiplying this by the standard Council Tax of £1,635.98 gives a total estimated income from taxpayers of £105.6M. 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 was 97.4%, giving a net Council Tax Base of 62,900. Multiplying this by the standard Council Tax of £1,635.98 gives the total precepts on the Collection Fund of £102.9M. (60,464 times by £1,562.88 - £94.5M 2016/17).

3. Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced from 1 April 2013 whereby Business Rates collected by Southampton City Council are shared between:

- Central Government (50%)
- Southampton City Council (49%)
- Hampshire Fire and Rescue Authority (1%)

Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities were estimated to receive their baseline funding amount. Tariffs due from authorities, payable to Central Government, are used to finance top-ups to those authorities who were not estimated to achieve their targeted baseline funding. Southampton was deemed to be a top-up authority.

In addition to the top-up, a 'safety net' figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of Business Rate income.

The Council in 2017/18 estimated NDR Income of approximately £97.8M (£96.9M – 2016/17), £48.9M (£48.4M - 2016/17) payable to Central Government, £47.9M (£47.5M – 2016/17) retained by the Council, and £1.0M (£1.0M – 2016/17) payable to Hampshire Fire and Rescue Authority. The Rateable Value on 31 March 2018 was £267.1M and the Business Rate Multiplier for the year 46.6p in the £, giving gross rates before reliefs of £121.0M.

4. Precepts

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

5. Allowance for NDR Collection

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

6. Impairment Allowance for Bad Debts

The contribution to the Council Tax Impairment Allowance was £1.5M (£1.4M in 2016/17). At 31 March 2018 the provision totalled £9.1M (SCC share £7.8M) against a liability of £12.5M (SCC share £10.7M)

(2016/17 £8.8M (SCC share £7.5M) against a liability of £11.9M (SCC share £10.2M).

The contribution to the NDR Impairment Allowance was £2.2M in (£2.5M in 2016/17) which includes a £2.8M specific provision (£1.7M – 2016/17). At 31 March 2018 the provision totalled £4.9M (SCC share £2.4M) against a liability of £7.6M (SCC share £3.7M).

(2016/17 £3.3M (SCC share £1.6M) against a liability of £5.6M (SCC share £2.7M).

7. NDR Appeals Provision

The contribution to/(from) the appeals provision was £0.8M (£1.7M) in 2016/17). At 31 March 2018 the provision totalled £19.7M (SCC share £9.6M)

(2016/17 £18.8M (SCC share £9.2M).

8. Collection Fund Balance

The total Collection Fund surplus carried forward for the year is (£5.9M). A year end surplus on Council Tax of (£2.4M) and (£3.5M) on NDR.

(2016/17 Surplus carried forward (£10.0M) – Council Tax surplus (£3.8M) – NDR surplus of (£6.2M))

Council Tax

The year end balance on the Council Tax element of the Collection Fund of £2.4M surplus 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 £2.1M and is shown as a revenue balance in the Balance Sheet. The remaining £0.3M attributable to the other preceptors is included within the adjustments required to derive the Council Tax Debtors and Creditors on an Agency Basis.

NDR

The year-end balance on the NDR element of the Collection Fund of £3.5M surplus can be apportioned to Central Government £1.8M (50%), Southampton City Council £1.7M (49%) and less than £0.1M to Hampshire Fire and Rescue Authority (1%). These amounts are included within the adjustments required to derive NDR Debtors and Creditors on an Agency Basis.

The movement on the Collection Fund Adjustment Account balance between 1 April 2017 and 31 March 2018 was a decrease of £2.5M – £1.2M due to Council Tax and £1.3M relating to NDR - giving a surplus balance of £3.8M being carried forward to 2018/19. The £2.5M has been credited to the Comprehensive Income and Expenditure Account, and reversed out in the Movement in Reserves Statement as part of the Adjustments between accounting basis and funding basis under regulations (note 10), to the Collection Fund Adjustment Account (Unusable Reserves Note 22 d)).

SECTION 7. 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. Budget

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

3. Capital Asset Charges

Charges to service revenue accounts to reflect the cost of Property Plant and Equipment used in the provision of services.

4. 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.

5. 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.

6. Capital Receipts

The proceeds from the sale of capital assets.

7. 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.

8. Consistency

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

9. 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.

10. Council Tax

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

11. Creditor

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

12. 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.

13. 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.

14. 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.

15. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

16. 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.

17. 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.

18. Financial Instrument

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

19. 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.

20. 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.

21. General Fund

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

22. 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.

23. 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.

24. Housing Revenue Account

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

25. Impairment

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

26. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

27. International Financial Reporting Standards (IFRS's)

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

28. Long Term Investments

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

29. 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.

30. 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.

31. 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.

32. Money Market Funds

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

33. Non Domestic Rates Retention

Business rate levied on companies, firms etc, collected by Local Authorities and paid to Central Government (50%), Southampton City Council (49%) and Hampshire Fire and Rescue Authority (1%)

34. Net Book Value

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

35. Net Expenditure

Total expenditure for a service less directly related income.

36. 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.

37. Non-Operational Assets

Property Plant and Equipment 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.

38. Operating Leases

A lease other than a finance lease (see 17).

39. Operational Assets

Property Plant and Equipment 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.

40. 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.

41. 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.

42. Property, Plant and Equipment

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

43. Public Works Loans Board (PWLB)

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.

44. 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.

45. 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.

46. Revenue Expenditure / Income

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

47. 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.

48. 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;
- Finished goods.

49. Supported Borrowing

Borrowing that is supported by Government financial assistance.

50. Unsupported Borrowing

Borrowing that is not supported by Government financial assistance.

51. Useful Life

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

SECTION 8. Annual Governance Statement

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 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

http://www.southampton.gov.uk/policies/code-corporate-governance-feb-2018_tcm63-396028.pdf

or can be obtained from the:

Service Director – Legal and Governance,
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 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

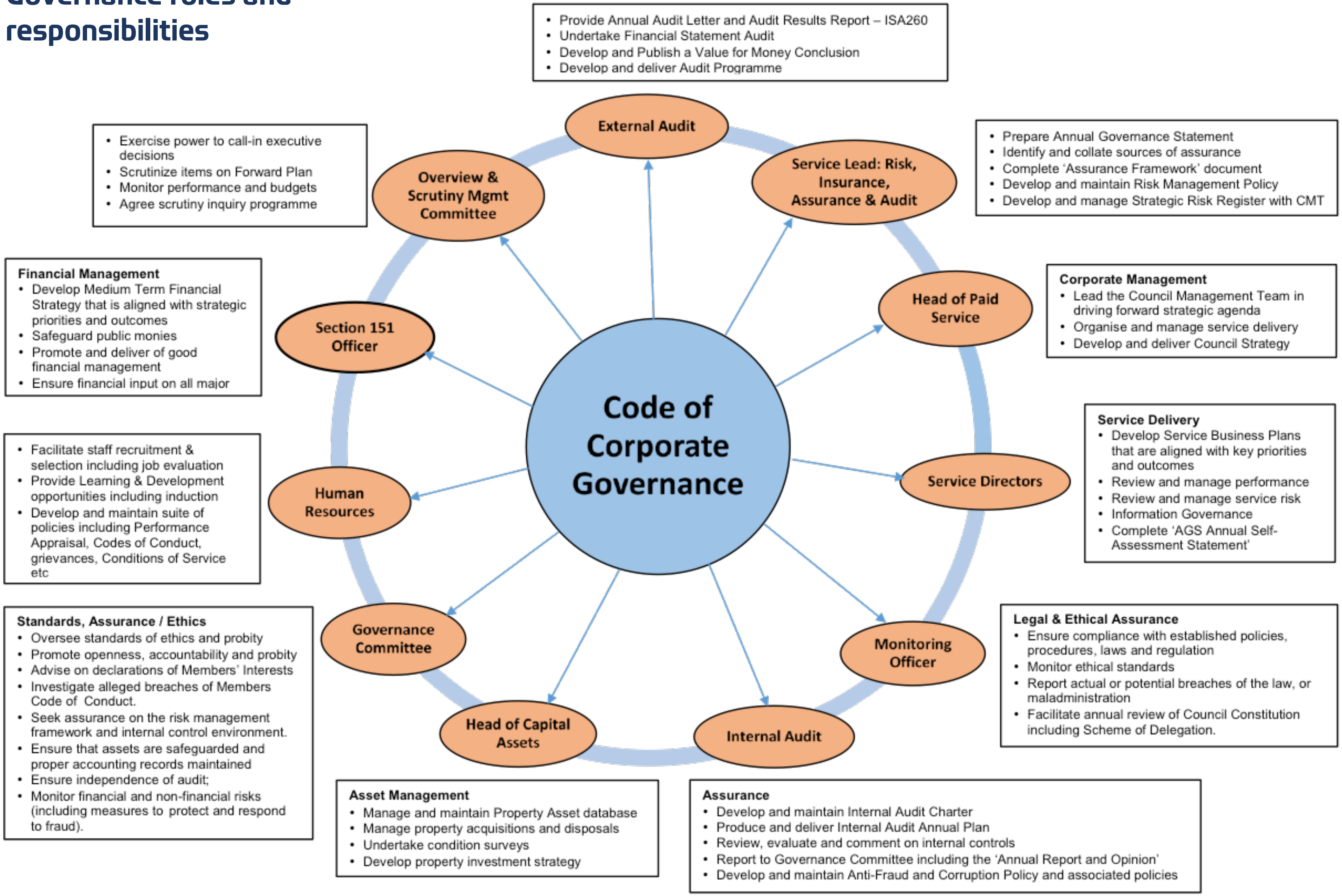
The governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. To demonstrate compliance with the principles of good corporate governance, the Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

The system of internal control 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 31st March 2018 and up to the date of approval of the statement of accounts.

Governance roles and responsibilities



The Governance Framework

The fundamental function of good governance is to ensure that the Council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles characterising good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are 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 is divided into 15 Articles which set out the basic rules governing the Council's business. The Constitution is published on the council's website at:

www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx

The Constitution includes both Officers' and Members' Codes of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Service Director: Legal and Governance is the Monitoring Officer and has responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A 'Whistleblowing Policy' (Duty to Act) is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the Council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are crime, fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an 'Anti-Fraud, Bribery and Corruption Policy which outlines the process to be followed where there is suspicion of financial irregularity. The Council also has in place an 'Anti-Money Laundering' policy which sets out both the expectations and responsibilities of both officers and Members. All such policies are subject to periodic review.

Investigations and special reviews into suspected fraud or irregularities are overseen by an Investigation Steering Panel, comprising the Monitoring Officer, Chief Internal Auditor, Section 151 Officer (Chief Finance Officer) and the Service Director Human Resources & Organisational Development.

Complaints are managed via a formal Corporate Complaints policy and procedure in place which is published on the Council's website and set out how a complaint will be dealt with. In accordance with legislation there is a separate Children and Families Complaints Policy in place. Complaints about Members are dealt with under the Members' Code of Conduct complaints procedure. All such policies are subject to periodic review.

B. Ensuring openness and comprehensive stakeholder engagement

The Council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought.

The Southampton City Council Strategy 2016-2020 ('Council Strategy') reflects feedback from residents, both from the 2015 Priorities Survey and the 2016 City Survey 2016. The Council Strategy sets out how the Council will work in order to deliver services in a modern, efficient and sustainable way that meets the needs of our residents.

The Council's website includes a 'Have your say' section which set out how residents and other stakeholders can voice their opinions and shape service delivery. It includes information on:

- Consultation
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the public consultation on budget proposals that helped to shape the final budget report for 2017-18. Information was made available in an easy to understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The 2016 City Survey, which asked residents about their views and opinions on a range of issues facing the city, was commissioned by Southampton Connect and the Police, Council and NHS, and was intended to capture and help understand the views of local residents. This survey is repeated every other year in order to understand trends and evaluate performance. The 2018 City Survey commenced on 2nd July.

The Council has established a 'People's Panel' which now has a membership of over 1,450. This Panel comprises a group of residents who take part in various forms of activity including surveys, quick polls, interviews and workshops. Their views are used to inform future decisions and services. Residents' views are also tracked over timer over time to see how changes in the city affect their opinions and experience of the city.

There is a strong focus on youth participation in the city via 'The Youth Forum Southampton' which provides opportunity for young people to influence how services are delivered, highlight issues that that need to be reviewed, and to help shape public services for the community. The Council has also relaunched three children in care councils for different age groups. The 'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020' explains how young people can get involved to help make Southampton a better place.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Southampton City Council Strategy 2016-2020 ('Council Strategy') is a key strategic document that sets out what the Council wants to achieve, what it will do, how it will work and how it will contribute to the Southampton City Strategy (2015-2025). The Council Strategy sets out the targets, commitments and outcomes that are expected to be achieved by 2020. It influences all other Council strategies and policies developed during this period, as well as the Council's spending decisions. The priority outcomes in the Council Strategy are:

- Southampton has strong and sustainable economic growth
- Children and young people get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is an attractive modern city where people are proud to live and work

Performance against the key indicators is actively monitored with performance reports published each quarter. We have been developing our approach to Outcomes Based Planning and Budgeting (OBPB) so that there is growing clarity between the outcomes that we want to achieve and how we prioritise resource allocation. Therefore we are now operating in a much clearer and streamlined strategic framework, to deliver outcomes set by elected Members. We now work to a suite of key strategies that drive our plans set within the framework of:

- Council Strategy;
- Medium Term Financial Strategy;
- Customer Strategy; and
- Workforce Strategy.

The 'golden thread' is further strengthen through changes to the performance management framework and annual performance reviews which make clear links between objectives set for staff and the council's priority outcomes.

The Southampton City Strategy (2015-2025) is a partnership strategy which sets out the vision for the whole city: 'Southampton a city of opportunity where everyone thrives'. This Strategy has been developed by Southampton Connect which is a strategic partnership in the city that seeks to address the key challenges facing the city in order to improve outcomes for all those who live, work and visit the city. This group, currently chaired by the Chief Executive of Southampton City Council (Chair changing to another Connect member organisation in Spring 2018) and including city leaders for health, business, education, police, fire and rescue and the voluntary sector, have come together to agree a 10 year city vision.

At a sub-regional level delivery of key outcomes and priorities is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the area to support the sustainable economic growth of the sub region. Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authority Leaders, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area. The Government's Industrial Strategy (Nov 2017) identifies LEPs as leads for the development of Local Industrial Strategies, identifying actions and resource requirements for enhanced local growth and productivity (where the area does not have a Mayoral Combined Authority) PUSH works collaboratively with Solent LEP to deliver its roles and objectives.

In 2016, Southampton City Council, Portsmouth City Council and Isle of Wight Council worked with wider Solent authorities and Solent Local Enterprise Partnership to negotiate a devolution deal with HM Government. Following a public consultation on the governance arrangements for the deal, a submission was made by the three authorities to the Secretary of State in the Autumn of 2016, requesting consideration of proposed arrangements to establish a Solent Mayoral Combined Authority. The outcome of this submission is awaited.

The Council's Medium Term Financial Strategy ('MTFS') is a core part of the Council's strategic framework and plays a pivotal role in translating the Council's strategic plans and ambitions into action. The MTFS focuses on determining the financial position for the next five years and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities. An updated MTFS for the period 2018/19 to 2021/22 was approved by Full Council in February 2018.

The objective of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's outcomes. The Strategy is based around 6 key aims:

- To provide financial parameters within which budget and service planning should take place;
- To ensure the council sets a balanced budget;
- To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources, ensuring services are defined on the basis of a clear alignment between priority and affordability;
- To ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- To plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priorities whilst gradually reducing the council's reliance on Central Government funding; and
- To ensure that the council's long term financial health and viability remain sound.

Development of the MTFS takes into account a number of other strategies including the Southampton Better Care Plan. The Better Care Plan identifies key areas where closer integration between health and social care will enable system wide efficiencies that benefit both parties and improve the experience and outcomes for the service users. The associated Better Care Fund, which commenced in 2015, pools and aligns funding for a significant number of services via a formal contract between the Council and Southampton City Clinical Commissioning Group. For the Council these efficiencies are included within the medium term financial forecast. In recognition of the pressures in dealing with adult social care demand, local authorities are able to levy a "social care precept" of up to 3% in council tax which must be spent exclusively on social care. The Government has also provided £1.5 billion nationally - by way of an Improved Better Care Fund grant - for local authorities to spend on adult social care. Taken together, these two measures are estimated to provide £3.5bn nationally by 2019/20 to address the demographic pressures facing the social care system. Governance across this work is via Cabinet member and senior officer representation on the Commissioning Partnership Board and strategic oversight from the Health and Wellbeing board.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council has in place a robust decision making process with all reports are subject to corporate clearance (Legal, Finance and Policy) prior to publication in accordance with the published procedures (which form part of the Council Constitution). All reports follow a standard template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered together with a details (including consultation carried out) section. The template also includes separate sections detailing any Financial (Resource), Legal, Risk Management and Policy implications. These consider the how proposals will be paid for, the statutory power to undertake the action and including reference to any legislation that affects the proposals, information on the risks that are being accepted as part of the decision and confirmation that the report proposals are in accordance with the Council's approved Policy Framework.

The Council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme, monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the Council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

All scrutiny meetings are held in public with opportunity for the public to ask questions or submit questions in writing to the committee or panels. Scrutiny inquiries can consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of Inquiry Panel members.

The Council has in place 'Outcome Plans' that are explicitly aligned with the Council's key outcomes and areas of focus as set out in the Council Strategy. These plans identify the key challenges and opportunities associated with the delivery of the respective key priority and outcomes and how they can be addressed. These plans reflect 'How we are performing' (against a base year 2015-2016) and 'How we will perform in 2019-2020' with a suite of key performance measures explicitly aligned with the individual key priority outcomes and the Council Strategy scorecard. Performance against these measures or indicators is subject to regular and robust review by both the Council Management Team and Members, and the measures themselves are regularly reviewed and amended as required to ensure that they remain appropriate in monitoring the key areas of focus. The outcome plans also outline the budget allocated to the delivery of services aligned to delivering the outcome.

Budget pressures arising from services are identified through regular monitoring of budgets and work plan with action plans to address any significant in year budget variances are agreed with the Council Management Team and subject to monthly progress / status reporting.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The Council has in place a Workforce Strategy which is intended to enable the Council to develop its current and future workforce with the right skills, competencies and behaviours to deliver services. This is managed by the Human Resources and Organisational Development service and covers pay and reward, recruitment, retention, performance management, and the training and development of the workforce.

The Workforce Strategy sits alongside the Customer Strategy and the Medium Term Financial Strategy and takes account of challenges in relation to the overall Council budget. It is used to inform resource allocation decisions, drive positive change and deliver agreed outcomes.

The vision is for the Council to be an employer of choice and be recognised as a 'Great Place to Work' where employees have pride in their work, the Council and the city. The success measures are defined in the document and will be delivered through:

- A skilled, agile, flexible and engaged workforce of high performing, professional staff guided in their work by our core behaviours and delivering the right services effectively and efficiently for a sustainable Council

- The Council recognising, developing and rewarding talent and proactively promoting learning and growth across all areas.

F. Managing risk and performance through robust internal control and strong public financial management

The Council has in place a 'Risk Management Policy 2017-2020' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. This policy is intended to support the application of sound risk management principles and practices across all service areas. A register of key Strategic Risks is in place and regularly reviewed by the Council Management Team, with Service Management Teams responsible for identifying and managing risks within their individual areas.

The Council's Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. This Committee receives periodic reports regarding risk management and would be asked to approve any significant changes to the Risk Management Policy. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance.

Performance against the key indicators in the Council Strategy is published on the council website for each quarterly period and is actively monitored and reported to both the Council's Management Team, Strategy Unit and the Overview and Scrutiny Management Committee. In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. 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. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. These outsourced contracts are managed by a Supplier Management Team which provides a senior management interface between the Council and our partnership service providers.

The Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2016)'. The CFO is professionally qualified and is a member of the Council Management Team and has direct access to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

The Council's assurance arrangements also conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (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).

G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The Council is committed to openness and transparency and publishing as much Council data as it can in order to increase accountability. The Council has established a 'Council Data' web page that enables the public to access a range of information that is published in accordance with the Local Government Transparency Code (2015).

The 'Council Data' web page includes information on council spending with a link to the Council's budget book which provides a comprehensive summary of the Council's 2016/17 Revenue Budget and details the assumptions made and risks considered in setting the budget. It also provides a link to the Statement of

Accounts which shows how public money has been used.

The Council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the Council and by Council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Governance.

The Council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and published on the Council's website.

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 Service Director – Strategic Finance & Commercialisation (Section 151 Officer), Chair of the Governance Committee, Chief Strategy Officer, Service Director – Legal & Governance (Monitoring Officer) and the Chief Internal Auditor.

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. In addition, where appropriate, the relevant Service Director being required to attend a meeting to update the Committee regarding progress and actions;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260. This year the external auditors have issued an 'except for' Value for money ('VFM') conclusion. This supports the findings of the 'review of effectiveness and is reflected in the 'significant governance issue' Item 9.
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment. The Chief Internal Auditor's opinion for 2017-18 was that only limited assurance can be provided that the framework of governance, risk management and control at Southampton City Council is effective. This is referred to further in the 'significant governance issues' (Item 7.) which includes the 'Planned Action'.
- The Internal Audit Charter 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 'Self-Assessment Statements' by Service Directors which cover the key processes and systems that comprise the council's governance arrangements and are 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, based on CIPFA/SOLACE 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 specifically the Strategic Risk Register;
- 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.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1	**Governance Issue**
	The general level of staff awareness of the existence and content of the 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is still inconsistent. This is notwithstanding that a suite of 'Essential Stuff' documents has been created which provide summarised versions of key policies that staff may need to have an awareness of. There are separate 'Essentials' documents in respect Anti-Fraud and Anti-Corruption, Anti-Money Laundering, Bribery Act and Whistleblowing'.
	Planned Action: It is intended create e-learning modules that staff have to complete so that managers can be assured that their staff are aware.
	Responsible Officer: Service Director, Human Resources & Organisational Development **Target for completion:** March 2019
2	**Governance Issue**
	Whilst the Workforce Strategy provides the framework in terms of the development the council's current and future workforce in terms of required skills and behaviours there is need for a robust and consistent approach to succession planning for key posts and/or a spread of skills to avoid over reliance on any particular individual.
	Planned Action: The Service Director, HR&OD to work with CMT to identify key posts or roles where succession planning may be required as part of the council's process for outcomes based planning and budgeting and business planning.
	Responsible Officer: Service Director, Human Resources & Organisational Development **Target for completion:** September 2018
3	**Governance Issue**
	The Anti-Fraud and Anti-Corruption Policy and Strategy needs to be reviewed and updated together with the Bribery Act Policy and Anti Money Laundering Policy.
	COMPLETED ACTION: Updated versions of the policies were reviewed and approved by the Governance Committee at the April 2018 meeting.
	Responsible Officer: Service Director Finance & Commercialisation
4	**Governance Issue**
	The capacity of officers to support and deliver a range of competing priorities will continue to be a challenge notwithstanding the implementation of the new operating model for the council and the associated organisational redesign programme. It is recognised that there will continue to be a range of competing priorities that will need to be managed such that the council is able to deliver better outcomes for our residents and to further improve customers' experiences.
	COMPLETED ACTION: A review of the number and type of activities and projects in place or planned, to support delivery of key priorities, has been undertaken. This review exercise, undertaken by the council's Project Management Office and in consultation with both the Council Management Team and the council's Cabinet Members, has resulted in a better understanding of capacity and has informed decisions around prioritisation and scheduling.
	Responsible Officer: Chief Strategy Officer

5	**Governance Issue**
	A new Performance Management Framework was approved and implemented in 2017 which was intended to provide a consistent framework for Annual Performance Reviews (APRs). There are however still some significant inconsistencies across service areas in terms of compliance with the APR process. The APR template was reviewed in early 2018 following feedback which suggested that the template and associated process could be much more straightforward to enable the emphasis to be on more meaningful dialogue rather than the process itself.
	Planned Action: A redesigned Annual Performance Review template has been issued and includes an on-line "button" to auto submit / record that APRs are completed. This is intended to help managers, with support from the HR team, to track an overall picture so that they are able to take appropriate action where this is not being done. HR Advisors will be asking for feedback on the new template and will be checking for overall compliance to ensure that APRs are being held at all levels.
	Responsible Officer: Service Director, Human Resources & Organisational Development **Target for completion:** March 2019 - in terms of an overall review of compliance
6	**Governance Issue**
	There are a range of controls in place to manage the risk of a cyber security incident and in the event of successful cyber-attack the council's Major Incident process would be followed. It is recognised however that there is a need to test the corporate response in the event of such an incident in order to identify any significant gaps or weaknesses.
	Planned Action: A draft 'Cyber Response Plan' is in development and will appear as an annex to the Corporate Business Continuity Plan. An appropriate desktop exercise to be identified and delivered in consultation with key stakeholders.
	Responsible Officer: Service Director, Digital and Business Operations **Target for completion:** Oct 2018
7	**Governance Issue**
	For 2017-18 the number of internal audit reviews where the overall level of assurance has been assessed as 'limited' (and in a small number of cases assessed as 'no assurance') has increased compared with 2016-17. It is considered that this reflects a change in the delivery of the internal audit function which is now provided by an in-house audit team including a shared Chief Internal Auditor with Portsmouth City Council. The service has been repositioned in terms of its visibility and profile within the organisation and has developed and delivered a more directed and focussed audit programme.
	Planned Action: Internal audit will undertake follow-up reviews of all 'limited' and 'no assurance' reports as part of the 2018-19 Internal Audit plan. This will not only assess the status and effectiveness of agreed actions relating to the individual audit reports but will also provide an overview in terms of overall management response to risk and controls. The foregoing will be reflected in the Internal Audit Progress Reports that are presented to the Governance Committee throughout the year and eventually in the Chief Internal Auditors Annual Report and Opinion.
	Responsible Officer: Service Director Finance & Commercialisation **Target for completion:** March 2019
8	**Governance Issue**
	Whilst the H&S policy, arrangements, safe working procedures (including H&S training), management training, provide the framework in terms of the requirement to identify and deliver training to ensure staff H&S competency, there is a further need for guidance around application of training against roles.
	Planned Action: Develop generic training matrices which may thereafter be amended and refined by service managers against local and specific need
	Responsible Officer: Service Director, Human Resources & Organisational Development **Target for completion:** August 2018

9	Governance Issue
	Whilst 'Contract Procedure Rules' are in place that require all council buying to be undertaken in line with legislation and to achieve best value, there is evidence of areas of non-compliance particularly in respect of those procurements where the Procurement Service Team has not been directly engaged in the process.
	Planned Action: The actions to address this issue are to be progressed via the council's Strategic Risk Register. This reflects the significance of the issue noting that the Strategic Risk Register identifies and captures the key strategic risks that need to be managed and is directly overseen by the Council Management Team. The Strategic Risk Register is reviewed and reported to the Council Management Team on a quarterly basis. This review process will consider and, where necessary, challenge the status of the mitigating actions.
	Responsible Officer: Service Director, Digital and Business Operations **Target for completion:** December 2018

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

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Richard Crouch

Interim Chief Executive

On behalf of Southampton City Council

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Councillor Christopher Hammond

Leader of the Council

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SOUTHAMPTON CITY COUNCIL

Opinion

We have audited the financial statements of Southampton City Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority Movement in Reserves Statement; Comprehensive Income and Expenditure Statement; Balance Sheet; Cash Flow Statement; related notes 1 to 40 and the Expenditure Funding Analysis; the Housing Revenue Account Income and Expenditure Statement; Statement of Movement on the Housing Revenue Account and related notes 1 to 5; and the Collection Fund and 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2018 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 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and the Comptroller and Auditor General’s AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

• the Section 151 Officer’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

• the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the following information published with the financial statements and our auditor’s report thereon: the Preface, Narrative Statement, Statement of Responsibilities, Glossary and Annual Governance Statement. The Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in use of resources

Basis for Qualified Conclusion

In August 2017, following concerns raised with us in relation to possible impropriety in procurement and contracting arrangements, investigations undertaken found:

- breaches of legislation as a result of non-compliance with the Council's procurement processes; and
- non-compliance with internal procurement rules for nominating subcontractors.

This issue is evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller & Auditor General in August 2017, with the exception of the matter(s) reported in the basis for qualified conclusion paragraph above, 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 2018.

Matters on which we report by exception

We report to you if:

- In our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 22, the Section 151 Officer 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in August 2017, as to whether Southampton City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Southampton City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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, Southampton City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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 National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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.

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.

Use of our report

This report is made solely to the members of Southampton City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Southampton City Council and the Southampton City Council members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson (Associate Partner)

Ernst & Young LLP (Local Auditor)

Southampton

31 July 2018

The maintenance and integrity of the Southampton City Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occured to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.